alBaraka

2011 ANNUAL REPORT

Your Partner Bank

"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 Al Baraka Banking Group

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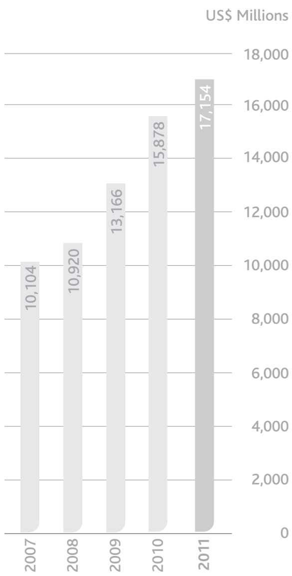
FINANCIAL HIGHLIGHTS

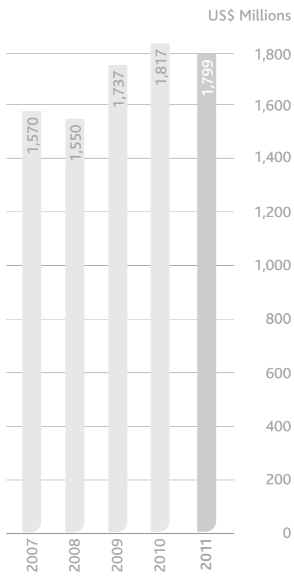
	2011	2010	2009	2008	2007
EARNINGS (US$ Millions)					
Total Operating Income	741	659	634	586	444
Net Operating Income	344	316	325	314	215
Net Income	212	193	167	201	201*
Net Income Attributable to Equity Shareholders of the Parent	118	106	92	114	144*
Basic and Diluted Earnings per Share - US Cents**	14	12	11	13	17*
FINANCIAL POSITION (US$ Millions)					
Total Assets	17,154	15,878	13,166	10,920	10,104
Total Financing and Investments	11,818	11,391	9,431	8,088	7,389
Total Customer Deposits	14,680	13,571	10,999	8,872	8,084
Total Owners' Equity	1,799	1,817	1,737	1,550	1,570
Equity Attributable to Parent's Shareholders	1,203	1,224	1,214	1,131	1,144
CAPITAL (US$ Millions)					
Authorised	1,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	869.6	790.5	744	697.5	651
PROFITABILITY RATIOS					
Return on Average Owner's Equity	12%	11%	10%	13%	14%*
Return on Average Parent's Shareholders' Equity	10%	9%	8%	10%	14%*
Return on Average Assets	1.3%	1.3%	1.4%	1.9%	2.3%*
Operating Expenses to Operating Income	54%	52%	49%	46%	52%
FINANCIAL POSITION RATIOS					
Owner's Equity to Total Assets	11%	11%	13%	14%	16%
Total Financing and Investments as a Multiple of Equity (times)	6.6	6.3	5.4	5.2	4.7
Liquid Assets to Total Assets	32%	27%	27%	27%	30%
Net Book Value per Share (US$) (times)**	1.40	1.42	1.40	1.30	1.32
OTHER INFORMATION					
Total Number of Employees	9,021	8,503	7,250	6,746	6,128
Total Number of Branches	399	370	289	283	243

* Net income for 2007 includes exceptional profit from deemed disposal of a stake in a subsidiary amounting to US$ 54 million.

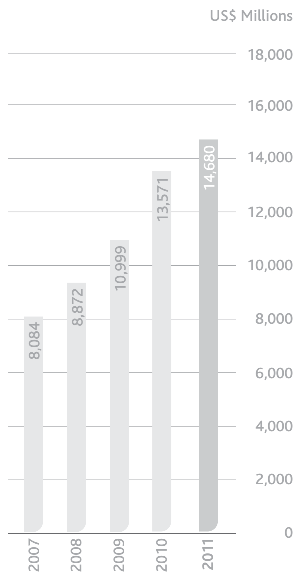
** Adjusted for treasury and bonus shares.



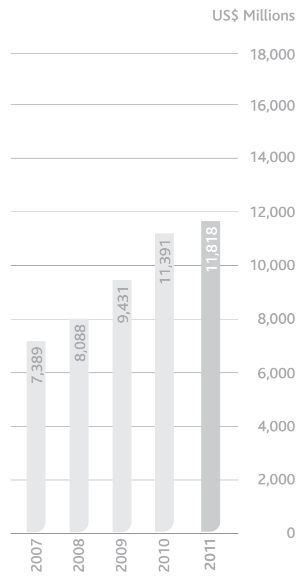
Total Assets



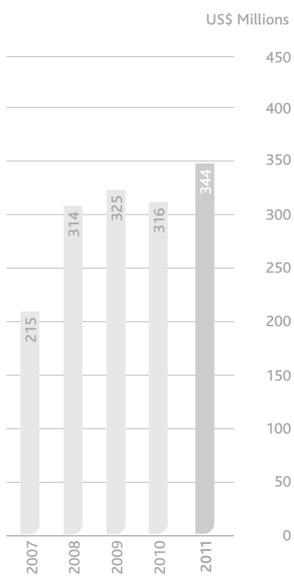
Total Owners' Equity



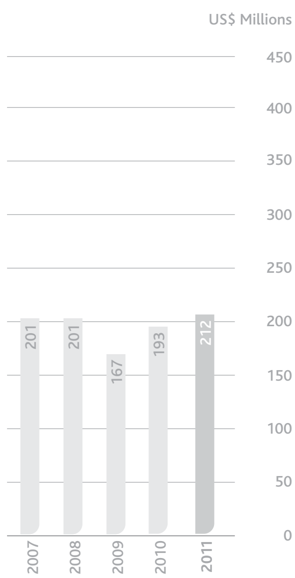
Total Customer Deposits



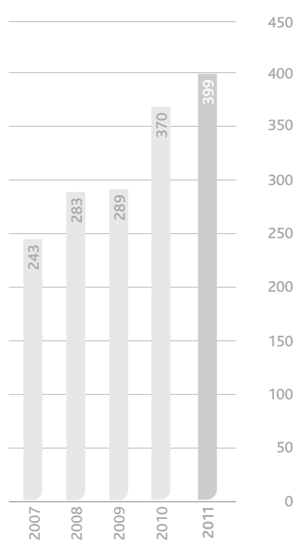
Total Financing and Investments



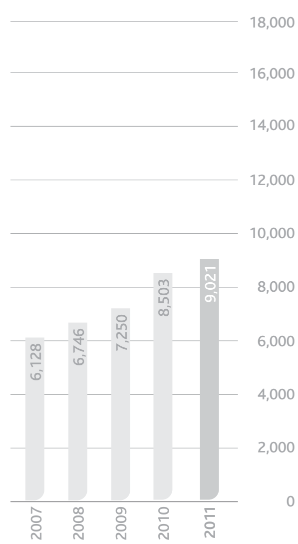
Net Operating Income



Net Income



Total Number of Branches



Total Number of Employees

PARTNERSHIP

OUR SHARED BELIEFS
CREATE STRONG
BONDS THAT FORM THE
BASIS OF LONG-TERM
RELATIONSHIPS WITH
CUSTOMERS AND STAFF.

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 14 countries, can claim to have a wide geographical spread extending from Indonesia to Algeria, servicing its customers through a network of 399 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.

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.

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

* In place of Mr. Samer Mohammed Farhoud with effect from 23 March 2011

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

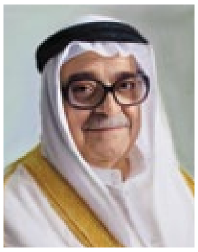
- **Mr. Saleh Al Yousef**
  Chairman
- **Dr. Anwar Ibrahim**
  Member
- **Mr. Ebrahim Fayez Al Shamsi**
  Member
- **Dr. Bassem Awadallah**
  Member

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

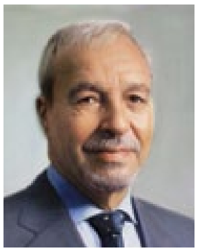
* In place of Mr. Samer Mohammed Farhoud with effect from 23 March 2011

BOARD OF DIRECTORS



Shaikh Saleh Abdullah Kamel
Chairman

Shaikh Saleh, a Saudi Arabian national, is a well-known and highly respected international businessman and a pioneer of Islamic banking. Shaikh Saleh Abdullah Kamel 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; Federation of GCC Chambers, the Islamic Chamber of Commerce and Industry and Dallah Al Baraka Holding Company E.C., Bahrain. 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. 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 in early 1980s. Mr. Saudi was 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. He also received an award from Georgetown University in Washington and in 1991 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 awarded by the President of Tunisia in 1996. He is currently the Executive Chairman of ASA Consultants W.L.L., Bahrain.

Mr. Abdulla Saleh Kamel
Vice Chairman

Mr. Abdulla Kamel, a Saudi Arabian national, is a respected Saudi businessman, educated in Economic Studies at the University of California, USA. Mr. Abdulla Kamel has held a number of executive positions over the years at Dallah Group. 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 held senior positions at Dallah Al Baraka Holding Company over the period 1995-1999. Mr. Abdulla Kamel is currently the Chairman of Aseer Company, Amlak Real Estate Development and Finance, Al Tawfeek Financial Group, Al Tawfeek Company for Investment Funds and Vice-Chairman of Bank Al-Jazira in Saudi Arabia and King Abdullah Economic City. He is also a Member of the Boards of Saudi Research & Marketing Group, Okaz Corporation for Journalism and Publishing and Emmar Al Madina Economic Corporation. Mr. Abdulla Kamel has been and remains very active in public activities through his membership in many international and local organisations and associations, such as Jeddah Chamber of Commerce (of which he is a past Member), Young Presidents' Organisation, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Currently he is the Chief Executive Officer of Dallah Al Baraka Group – a position that he has held since 1999.

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 extensive 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 had been Chairman of ABC Islamic Bank (E.C.), Bahrain and Chairman of ABC's Consultants Council, 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.

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 and Al Baraka Bank (Pakistan) Ltd., whilst holding directorships in Al Baraka Bank Sudan, Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia. He has over 35 years' international banking experience 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.

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 a Member of Parliament. 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. and was appointed Honorary President of the London-based organisation Accountability (Institute of Social and Ethical Accountability). Dr. Ibrahim 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, Albania and a number of other international companies.

Mr. Ebrahim Fayez Al Shamsi
Board Member

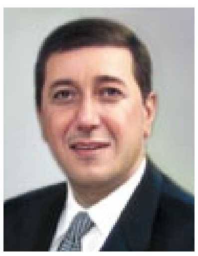
Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree. He brings with him over 40 years' varied experience in the financial services industry and in service of the U.A.E. Government. He is a former Chief Executive Officer of Emirates Islamic Bank, Dubai and has served as a Director of 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 at 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 20 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 Money Consumer Finance LLC and Emirates Islamic Financial Brokerage LLC and Board Member of Emirates NBD Capital Ltd and SHUAA Capital PSC.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Mr. Fadil, a UAE national, is an experienced banker with a Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA. 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, UAE, Bahrain Islamic Bank and Bosnia International Bank. He is a Board Member in Al Baraka Islamic Bank, Bahrain, Ajman Bank, Dubai Islamic Insurance Company and Gulfa Mineral Water.



Dr. Bassem Awadallah
Board Member

Dr. Awadallah, a Jordanian national, holds Ph.D. and M.Sc. degrees in Economics from the London School of Economics and Political Science, UK (1985 and 1988) and a Bachelor of Science in Foreign Service degree from Georgetown University, USA (1984). 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.

BOARD OF DIRECTORS (CONTINUED)

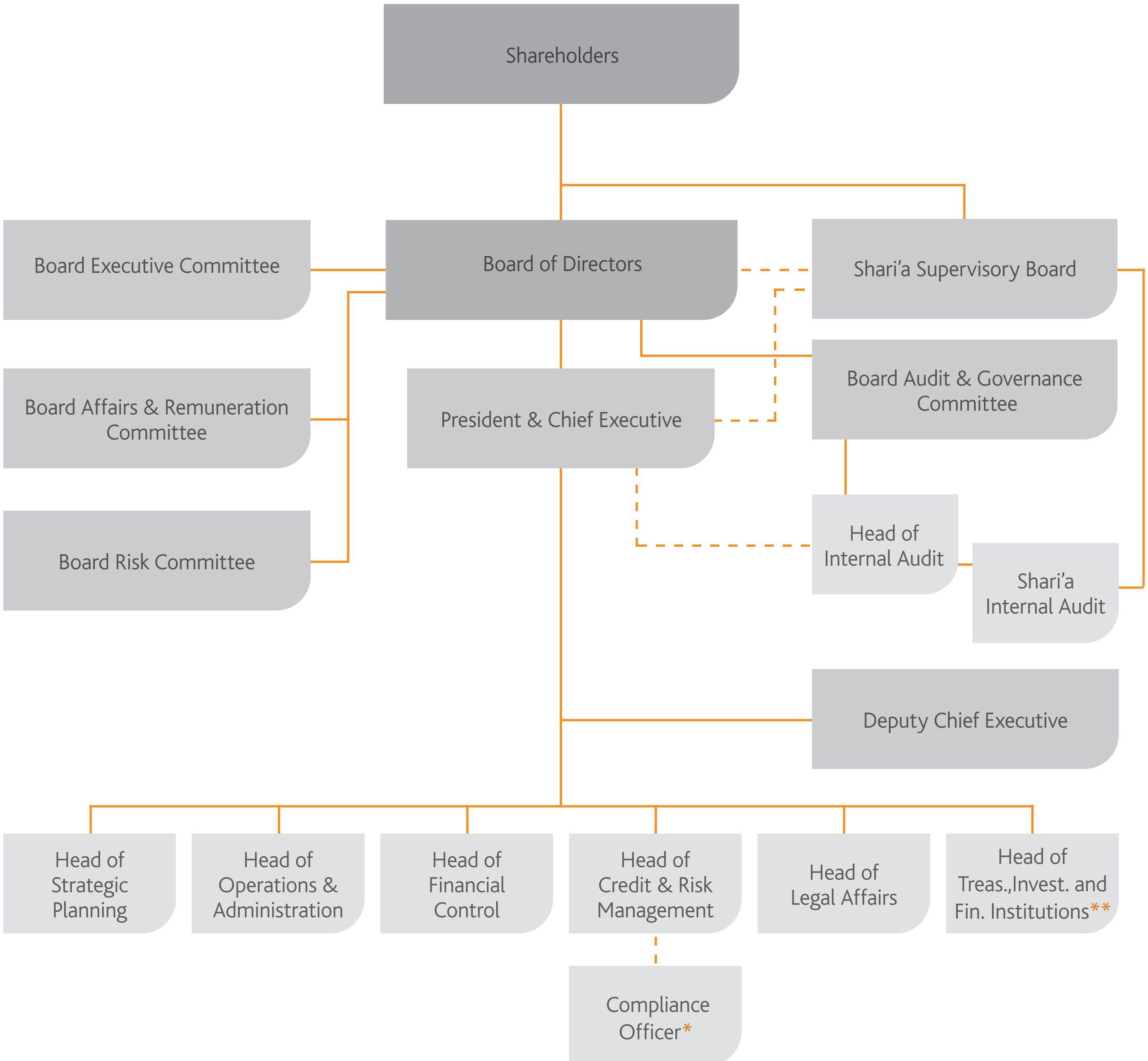
Mr. Mohyedin Saleh Kamel
Board Member

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 previously served as Deputy Chief Executive Officer for Projects at Arab Media Company (AMC). Mr. Mohyedin Kamel also served on the boards of many other companies and institutions, including the following: Chairman of the Board of Directors of Dallah Media Production Company; Managing Director of Sports Events International Company and member of the Board of Directors of: Arab Radio and Television Network (ART); Arab Digital Distribution Company; Arab Media Co; Arab Advertising and Distribution Company and Jordan Media City. He is currently Chairman of the Board of Directors of Al Rabie Saudi Food Co Ltd and a Board Member of Dallah Real Estate Consulting Company – Egypt, Almaza Real Estate Development Company – Egypt; Arab Company for Real Estate and Tourism Investment – Egypt, Jabal Omar Development Company, Halawani Brothers and Dallah Health Co; and a member of the Management Committee of Dallah Al Baraka Holding Co. He is also 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 as a Member of the Board of Directors of Al Baraka Banking Group in the Kingdom of Bahrain in March 2011. He holds a Bachelor's degree in Science 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 2007 and Deutsche Gulf Finance. Earlier, he was a treasurer in Al-Rajhi Bank between February 1995 and May 2008. He is also currently a Board Member at Resort Cement Co, Najran Cement Co and Bukhait Investments Group.

HEAD OFFICE ORGANISATION CHART



* *Direct reporting relationship to the President & Chief Executive*
** *Treasury & Investments and Financial Institutions were merged during the year*

EXECUTIVE MANAGEMENT

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

Master of Business Administration, University of Hull, U.K.

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 and Al Baraka Bank (Pakistan) Ltd., whilst holding directorships in Al Baraka Bank Sudan, Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia. He has over 35 years' international banking experience 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.

Mr. Othman Ahmed Sulieman
Deputy Chief Executive

B.Sc. (Honours) in Economics, University of Khartoum, Sudan

Mr. Sulieman occupied the effective position of deputy to the President & Chief Executive from ABG's inception, with the change in title to Deputy Chief Executive effective January 2007. He served as Chairman of Al Baraka Bank Sudan and as member of the boards of Al Wafaa Mauritanian Islamic Bank, Mauritania, Jordan Islamic Bank, Jordan, Al Baraka Bank Limited, South Africa, Egyptian Saudi Finance Bank, Egypt, Al Baraka Turk Participation Bank, Turkey, Al Baraka Bank Lebanon and Al Baraka Islamic Bank, Bahrain. His career with Dallah Al Baraka began in 1988 following more than 24 years in banking in Sudan, that led to his appointment as Chairman of the Board and General Manager of El Nilein Bank. From 1988 he served the Dallah Al Baraka Group, based in Jeddah, representing its interests worldwide. In the final 7 years prior to his appointment to ABG in 2002, he was responsible for all the Group's banking interests in Africa, in addition to lending his considerable experience on the boards of Group banks in Asia and Europe and of the parent company. Mr. Sulieman was responsible for Coordination and Planning in ABG, in addition to his overall executive responsibilities. After a long and fruitful service with Al Baraka, Mr. Othman retired from the services of the Group with effect from 1st January 2012.

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

FCCA – Fellow of the Chartered Association of Certified Accountants, U.K.

Has over 31 years of international banking experience, mainly in audit and as Head of Operations. 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 the Group's Head Office in Bahrain, in addition to the review of control of IT as well as its Shari'a aspects. 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. K. Krishnamoorthy
Senior Vice President
Head of Strategic Planning

ACA – Associate of the Institute of Chartered Accountants of India; B.Com., Osmania University, India

Has over 35 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 Arab Banking Corporation (B.S.C.)'s investment banking subsidiary, 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, and a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada. In 2004 he took up his position at ABG, initially as Head of Financial Control followed in mid-2006 as Senior Vice President - Head of Strategic Planning.

EXECUTIVE MANAGEMENT (CONTINUED)

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

Master of Business Administration, University of Hull, U.K.

Has over 38 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 Shamil Bank of Bahrain (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. Hamad Abdulla Ali Eqab
Senior Vice President
Head of Financial Control

Certified Public Accountant (CPA)

Has over 18 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 Deputy 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 to serving as Chairman of the Board Risk Committee of Banque Al Baraka D'Algérie and of the Audit Committee of Al Baraka Turk Participation Bank, and member of the Audit Committees of Jordan Islamic Bank and Banque Al Baraka D'Algérie.

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

**M.A. (Econ.) University of Budapest; Banking Certificate – The Institute of Canadian Bankers;
Advanced Management Program – INSEAD France**

Has over 36 years of international banking experience involving credit, risk management, commercial banking and trade finance. He commenced his banking career with Bank of Montreal, Canada in international banking and was later its Middle East Representative, initially 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 administration, economics, legal and credit review. He was also a member of the Group Risk Committee. His most recent position with GIB was as Executive Vice President, Head of International Banking with responsibility for commercial banking business outside the GCC. Mr. Szalay has been a member of ABG's Executive Management team since September 2006.

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

LLB, Faculty of Law - University of Khartoum

Has over 28 years' professional experience as a judge, practicing advocate and legal consultant serving a wide spectrum of local, regional and international clientele. After 20 years of practice in these 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, followed in 2007 by his move to ABG as First Vice President - Head of Legal Affairs & Compliance, from which position he was promoted to the position of Senior Vice President. He also serves as Secretary to the Board of Directors of ABG.

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

Master of Business Administration - University of Hull, UK

Has over 26 years of banking experience in Treasury and Operations. He commenced his banking career at United Gulf Bank as an Operations Clerk in 1983. In 1988, he joined Shamil Bank 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 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.

DIRECTORS' REPORT

DIRECTORS' REPORT

Global and Regional Economies

Last year we noted that the whole developed world had begun speaking of a new 'age of austerity' and warning of 'the largest synchronised budget contraction in more than 40 years'. We did not know what effect these actions would have on global demand, and thus growth, but hoped that it would be at worst a new global slowdown and not renewed recession. When we consider the relative strength with which the economies of the world seemed to bounce back from the 2009 recession, with global production growing by 5.0% in 2010 (as opposed to a -1.2% fall the previous year), it is then all the more disappointing that the recovery should appear to have run out of steam quite so quickly. In 2011 global growth retreated to 3.8%, with most of that growth coming from China, India and the developing countries, as the OECD countries contributed a mere 1.9% growth between them, with only a handful showing growth of 5.0% or more.

The prognosis for 2012 is also bleak, as global growth is forecasted to decline even further to 3.4%, with OECD growth at 1.6%, the eurozone's at a virtual standstill at 0.2% and even China's and India's falling back to 8.1% and 6.3% respectively. Several countries are at risk of falling back into recession.

Although there continues to be much discussion as to the varied reasons behind the softness of this recovery, it seems clear that confidence, or rather the lack of it, plays a large part. Many large corporations in the major economies are holding significant cash reserves but are unwilling to invest at this time as they fear another recession, while consumers are spending less as the bite of the austerity measures, enacted to address the burden of debt and budget deficits run up by their governments in response to the recession in the first place, begin to be felt. Those countries that have tried quantitative easing, increased infrastructure spending or other measures to pump liquidity into their markets can do little more than wait for that liquidity to feed into the system or else to repeat the exercise.

One thing is certain: in time confidence will return and with it investment, production, trade and economic progress. Contributing to the process of recovery will be those economies which have not been as badly affected by the new slowdown and which will therefore continue to invest in infrastructure development and continue to buy goods and services from others. Amongst these are some of the regional economies in which ABG has a stake and will therefore be playing its part.

Of the countries in which ABG's subsidiaries operate, one stands out in terms of economic growth in 2011: Turkey, whose economy grew by 7.8% through the maintenance of a low interest rate environment. South Africa, despite the pressure on the Rand, managed to turn in a still creditable 3.1% rate of growth. Pakistan recorded a significantly reduced GDP growth rate of 2.4% in the aftermath of disastrous floods and resulting energy shortages due to damaged or destroyed generating plant. Jordan and Lebanon also experienced reduced growth rates, of 2.5% and 1.5% respectively, a reflection of reduced inter-Arab trade flows following the events of the so-called 'Arab Spring'. Egypt, Tunisia and Syria all suffered a severe curtailment of economic activity as the civil disturbances, in some cases leading to revolution, disrupted economic activity at least for part of the year, with growth ranging between -2.0% and 1.8% in their cases. Algeria's economic growth, though down on previous years, remained moderately healthy at 2.9%, while Sudan, negatively affected by the secession of the southern part of the country to form the new state of South Sudan, suffered a -0.2% drop in GDP as the value of its currency plummeted against hard currencies leading to a steep rise in import prices.

Again, we have to say we cannot predict the future but, as ever, we continue to view it with cautious optimism, while at the same time remain determined to protect our shareholders' investment through good stewardship and vigilance towards liquidity, credit quality and corporate governance.

2011 Review

The Group's total income from jointly financed accounts and investments, together with its share as Mudarib, was $335.0 million, some 12% above that for 2010. Income from self financed contracts and investments and Mudarib share from managing off-balance sheet equity of investment account-holders was however 20% higher at $183.3 million. Including other operating income and revenues from banking services, the Group's total operating income was $740.9 million, 13% higher than that for 2010. Higher operating expenses of $396.7 million therefore resulted in the net income before provisions and taxation reaching $344.2 million compared with $316.3 million in 2010. After allocating prudential provisions and taxation, the net income of the Group for the year was $212.3 million, a rise of 10% compared with the $193.2 million earned in 2010.

An 8% growth in the customer deposit base, which rose to $14.7 billion, together with other liabilities, funded an expansion of the Group's banking assets in all categories other than the Mudaraba and Musharaka portfolios, and in its cash and balances with banks which ended the year 21% higher at $4.6 billion. The Group's total assets consequently rose to $17.2 billion, an 8% increase over 2010.

(All figures in US dollars unless otherwise stated)

We were pleased to note that, notwithstanding the decline in economic activity in many countries in which our units operate, in addition to a decline in some cases in the values of their local currencies relative to the US dollar with the resultant impact on their performance when stated in our base currency, most of them were able to report a positive result.

In light of the Group's performance in 2011, the Board of Directors has recommended a cash dividend distribution to the shareholders of 3.5% of the paid up capital, amounting to $30.43 million, after a transfer of $11.84 million to the legal reserve and the remaining net income of $76.10 million being allocated to retained earnings. The Board has also recommended a bonus dividend of 1 share for every 6 shares held, to be allocated from Retained Earnings and amounting to $144.93 million. The Board has further recommended a remuneration distribution of $0.75 million, to be charged to expenses 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 2011. Details of shares held by Directors and members of the Executive Management are provided in the Notes to the Consolidated Financial Statements.

Looking Ahead...

ABG has emerged from 2011 with sound liquidity and a healthy core business. Although the events of 2011 have left their mark on local economies, we remain optimistic over our plans for ABG's continuing growth and expansion through pursuance of our medium term strategic objectives:

- **Planned geographical expansion:** We remain committed to the markets in which we operate - strengthening our niche presence in each and thereby replicating our successes - while at the same time continuing our search for expansion opportunities outside our established markets. We have plans in place to increase our branch network throughout the Group during 2012, albeit conservatively. The merger of the branch operations of Al Baraka Islamic Bank in Pakistan with Emirates Global Islamic Bank created one of the largest Islamic banks in Pakistan which, under its new name of Al Baraka Bank (Pakistan) Limited, is well on its way toward achieving business growth. The Group will continue to observe events in Libya with the intention of obtaining official approvals to open a representative office there.
- **Increased profitability:** In 2011, though a difficult year, we continued to strengthen our internal and external operation and business capabilities in order to achieve sustainable, increasing profitability.
- **Product innovation:** With our subsidiaries continuously introducing innovative new products and meeting customers' needs, we are confident that we will remain in the forefront of cutting edge product development.
- **Advanced IT systems and processes:** State-of-the-art systems have been implemented in most operating units, designed to meet the Group's demands into the next decade and achieve optimum management efficiency and customer satisfaction.
- **Continuous strengthening of the risk management and corporate governance culture:** Our risk management processes and corporate governance practices are continuously being reviewed and upgraded to ensure that they remain at the level of best industry practice.

We will continue to pursue our strategy of ensuring a strong liquidity base throughout the Group and maintaining a cautious approach to financing and cost discipline, whilst keeping faith with our retail and SME business model that has served us so well all these years.

It is with regret we advise that Mr. Othman Ahmed Sulieman, our erstwhile Deputy Chief Executive, who retired from the Group on January 1st, 2012 sadly passed away shortly afterwards. On behalf of the Board of Directors, Executive Management and all Al Baraka employees worldwide, I should like to record with gratitude our great appreciation for the eminent service and valuable contribution to the Group by Mr. Othman Ahmed Sulieman. He will be much missed by all who knew him. May Allah grant him peace and serenity.

In conclusion, I should like as always 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 and all of our subsidiaries' regulatory authorities for their support and guidance during 2011.

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

(All figures in US dollars unless otherwise stated)

PRESIDENT & CHIEF EXECUTIVE'S REPORT

PRESIDENT & CHIEF EXECUTIVE'S REPORT

Management Discussion and Analysis

Despite the recent turmoil in some of the Group's countries of operations, with consequential interruption to business activities there, 2011 saw a further expansion in the Group's operational base as its total assets rose by 8%. While Mudaraba financing outstanding was 49% lower than, and Musharaka 2% below, 2010 levels, Ijarah Muntahia Bittamleek rose (by 28%), as did the investments (by 55%) and the values of property, equipment and other assets, reflecting the Group's ongoing infrastructure programme, along with its liquid resources. This growth was naturally a corollary of similar growth in liabilities, as customer deposits including equity of investment account-holders (IAH) increased by 8% and other liabilities rose by 38%.

The expansion in both assets and customer deposits was essentially a broad-based one, with most subsidiaries reporting healthy increases, many of them in double digits.

At Al Baraka Turkey total assets rose by 2% in US dollar terms (24% in Turkish Lira terms) reflecting the fall in the value of the Lira over the year, despite the bank expanding its Murabaha business and Non-trading investments. Jordan Islamic Bank's assets rose 11% on the back of 6% growth in its financings and investments portfolios, mainly on account of growth in Mudaraba and Ijarah Muntahia Bittamleek financings. Al Baraka Egypt's assets expanded by 5% mainly on account of growth in non-trading investments. Al Baraka Algeria's assets rose by 9%, despite Central Bank curbs on personal finance, as growth in its Ijarah Muntahia Bittamleek and Istisna'a portfolios compensated for the drop in Salam and Murabaha. Al Baraka Bahrain's 22% increase in assets arose chiefly from Murabaha, cash and banks' balances and Ijarah Muntahia Bittamleek growth, while its own Pakistan subsidiary saw 14% asset growth as its financings and investments expanded by 23%, as a significant 63% increase in non-trading investments more than compensated for a fall in its Ijarah business. Al Baraka Tunisia meanwhile experienced 2% overall decline in the wake of the revolution as its financings and investments portfolios fell by 12% overall.

The South African unit's assets rose by some 15% in local currency but, due to a substantial fall in the Rand against the US dollar, this was translated into a fall of 6% - nevertheless there was good growth witnessed in Musharaka and Murabaha. Lebanon reported a 20% overall asset rise, mainly from expanding cash and banks' balances, Mudaraba and Murabaha portfolios and investment in properties. Sudan's 16% rise in total assets reflected a rise in non-trading investments, Musharaka and Murabaha. Al Baraka Syria managed almost to quadruple its assets in its first full year of operations, reflecting similar expansion in its financings and investments, mainly due to demand for its Murabaha and Mudaraba products.

Of the financing and investment portfolios, the largest increase in both absolute and relative terms was seen firstly in non-trading investments (which rose by 61%) and then in the Ijarah Muntahia Bittamleek portfolio.

(All figures in US dollars unless otherwise stated)

Growth was funded by an 8% increase in the Group's customer deposits including equity of investment account-holders (IAH), which rose to $14.68 billion. IAH itself grew by 2% to $10.47 billion and equalled 71% of total customer deposits including IAH. Aggregate off-balance sheet IAH grew by 15% to $523 million, while contingencies and commitments grew by 6% to $4.70 billion.

Total operating income of the Group rose by 13% to $741 million. This result was affected by an estimated 4.8% as a result of the adverse movement of our subsidiaries' respective local currencies against the US dollar. Total operating expenses, on the other hand, increased by 16% mainly on account of increases in staff and other operating costs in support of the Group's branch network expansion, fully fledged operations in Syria and the first full year of operations in Pakistan post merger. The net operating income therefore increased by 9% to $344 million. Provisions of $51 million represented a reduction of 15% on those of 2010, while the taxation charge was increased by 28% to $81 million. The net income was therefore $212 million, a 10% increase over 2010.

In 2011 the Group received an award – for the second year in succession – at the Success in Digital Investor Relations conference held in Dubai for the best corporate website among companies listed on the Bahrain Bourse, following a technical evaluation by investors and analysts.

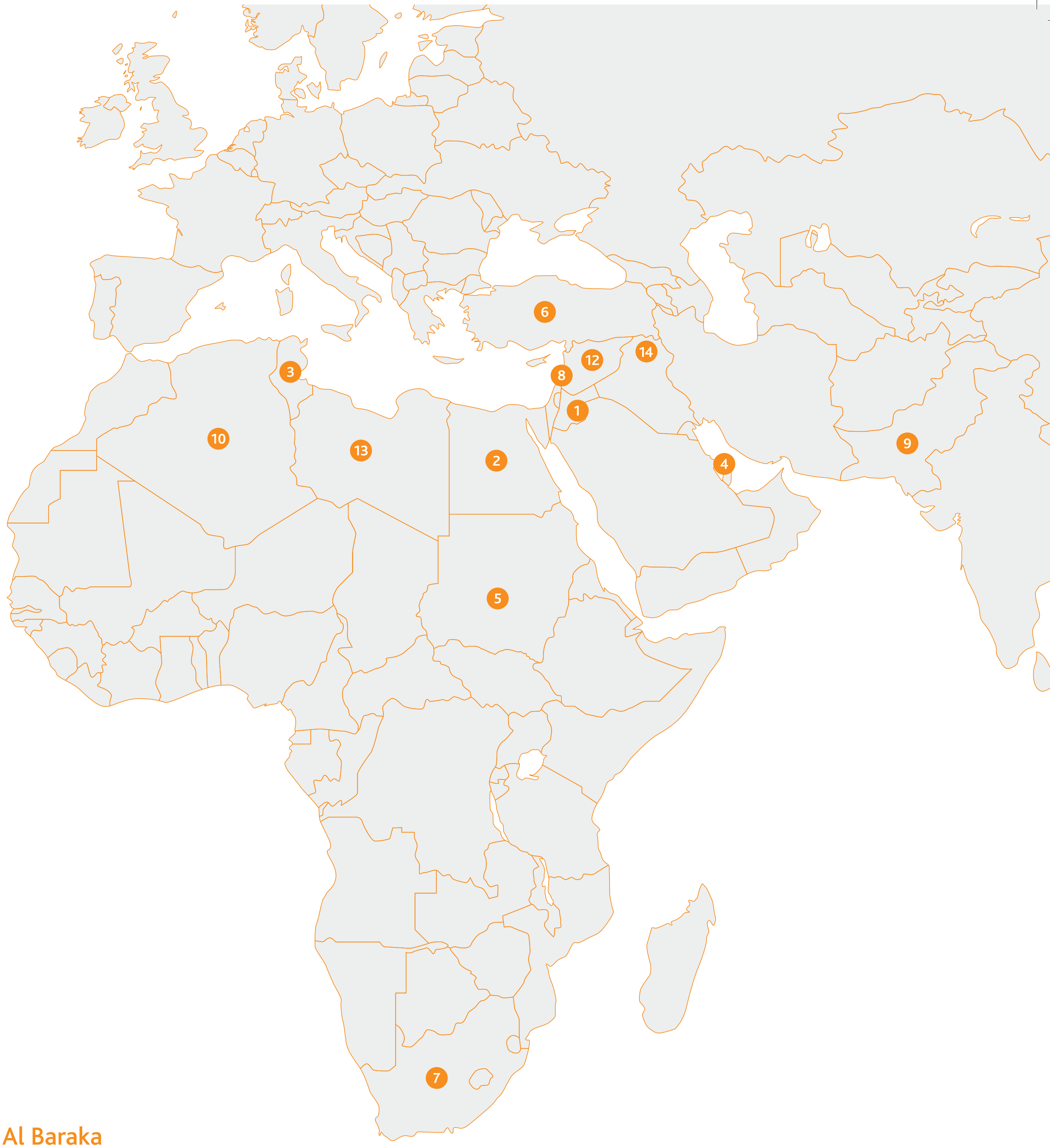
As mentioned by the Chairman in the Directors' Report, we must sadly record that Mr. Othman Ahmed Sulieman, Deputy Chief Executive, who retired from the services of ABG on 1st January 2012, passed away suddenly on 6th January 2012. The whole Group owes an enormous debt of gratitude to Mr. Othman Ahmed Sulieman whose contribution, from the inception of the Group, was invaluable. He will be much missed and we commend him to the merciful care of Almighty Allah.

Review of Units

The following is a brief review of each of our subsidiaries, their activities and performance over the past year. 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)



Al Baraka Global Network

1.	Jordan	1978	
2.	Egypt	1980	
3.	Tunisia	1983	
4.	Bahrain	1984	
5.	Sudan	1984	
6.	Turkey	1985	
7.	South Africa	1989	
8.	Lebanon	1991	
9.	Pakistan	1991	
10.	Algeria	1991	
11.	Indonesia	2008	Representative office
12.	Syria	2009	
13.	Libya		Representative office (under formation)
14.	Iraq	2011	Branch of Al Baraka Türk Participation Bank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PRESIDENT & CHIEF EXECUTIVE'S REPORT (CONTINUED)

Al Baraka Türk Participation Bank

Founded 1985

In 2011 the Turkish economy remained strong, recording a GDP growth rate of 7.8% compared with 8.9% in 2010. Inflation was slightly up at 6.5% compared with 6.4% the previous year. However, the continuing strong economic performance has primarily been fuelled by the low interest rate environment which has been maintained even in the teeth of threatening inflation – as a result the current account deficit has surged to -10.3% of GDP from -6.6% the year before, a worrying deterioration from the -2.0% seen in 2009 which itself was the result of a successful policy of downward management applied over several years. In spite of intervention by the Central Bank in the foreign exchange markets to minimise the volatility of the Turkish Lira, the Lira had fallen by some 20% over the year. However, fears of contagion from the euro zone crisis and global economic slowdown have so far proved unfounded.

In the face of these uncertainties, Al Baraka Turkey nevertheless managed to maintain its expansionary momentum, reporting asset growth of 24% over 2010. However, the decline in the value of the Turkish Lira over the year translated into a minimal 2% increase in the bank's total assets in US dollar terms, to $5.54 billion. Thus, total financings and investments grew by 16% in Lira terms but fell by 5% in dollar terms to $4.13 billion. The small increase in the US dollar asset base was led by a 34% expansion in cash and banks' balances, against reductions in the size of the Murabaha, Musharaka and Ijarah Muntahia Bittamleek portfolios.

Total income from jointly financed accounts and investments fell in 2011, by 3% to $308 million. After distribution to the equity of investment account-holders of their share of the income, amounting to $218 million, the bank's share as fund owner and Mudarib of $90 million was 2% higher than that for 2010. Income from the bank's self-funded activities grew by 27% to $151 million. With the inclusion of revenues from banking services and other operating income, the total operating income, although in Turkish Lira terms rising by 25%, in US dollar terms was 13% higher than in 2010 at $317 million. Operating expenses also grew in US dollar terms, by 25% to $159 million, partly attributable to higher staff expenses but mainly to a 58% increase in other operating expenses. After accounting for provisions - slightly lower than the previous year - and taxation charge, the net profit realised was $96 million, 2% above that of 2010.

The branch network continued its steady growth rate with the addition of 13 new branches including 1 branch in Erbil, Iraq - bringing the network up to 122 branches - and 14 more ATMs. Al Baraka Turkey continues to expand its range of products and services in order to meet customer demand and needs. Participation accounts are offered in a variety of different types, offering the customer a selection of profit rates in relation to different maturities. Having become an authorised agent and member of the Turkish private pension system, it now offers customers a variety of non-interest bearing pension funds as well as Shari'a compliant life insurance. In the credit card arena it has created a card especially for the use of Hajj and Umrah pilgrims, providing electronic access to their bank accounts whilst on Pilgrimage and has also commenced the introduction to the market of credit cards payable by instalments.

Other products under development include Silver current accounts and Gold participation accounts carrying additional benefits to holders, export credit agency programmes and precious metals credits and trading accounts. It also intends to initiate mobile banking, introduce a Platinum card and set up an investment fund. It will continue to expand its network, aiming to open 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 121 branches throughout Turkey and 1 branch in Iraq, 51 of which are in Istanbul and 71 in the leading industrial and commercial cities.

UNIT HEAD: **Mr. Fahrettin Yahsi**
TITLE: **General Manager & Board Member**

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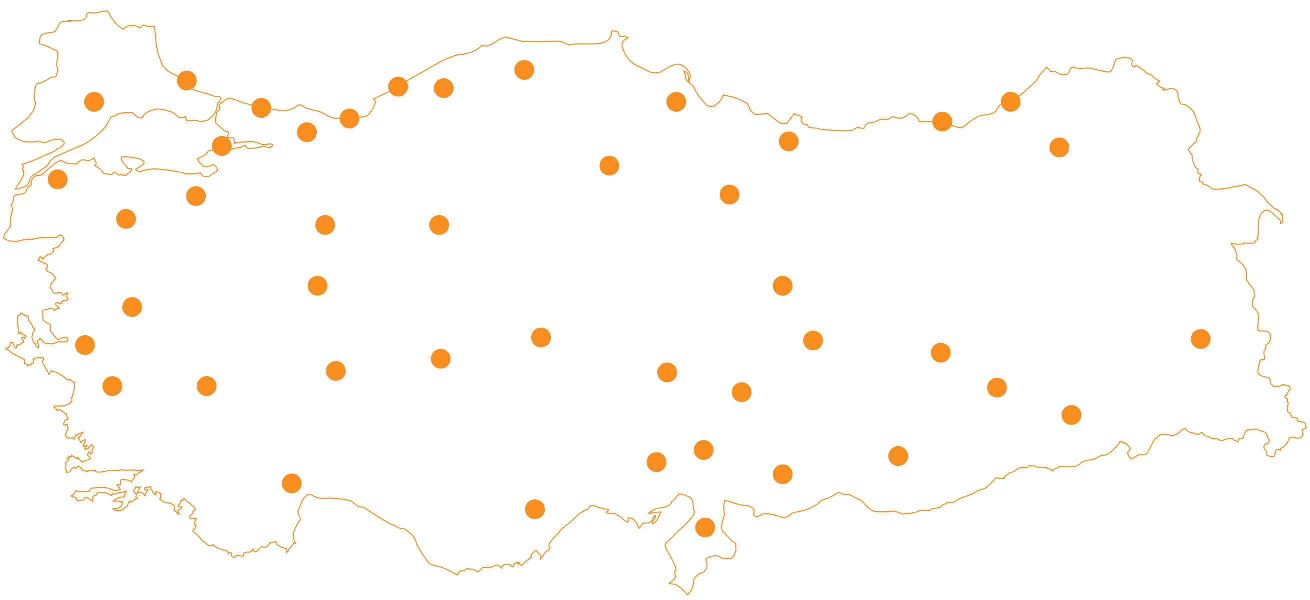

Jordan Islamic Bank
Founded 1978

In 2011 the Jordanian economy, impacted by higher international prices, reduced trade flows between Jordan and several of the so-called 'Arab Spring' countries – Syria in particular – and a fall in tourism revenues and inward investment, grew only slightly from 2.3% in 2010 to an estimated 2.5%. The rate of inflation, which reached 6.1% in 2010, was roughly stable and is estimated to have ended the year at about 5.0%. The current account deficit and high level of public debt remain of concern, having increased to an estimated -6.7% from -4.9% of GDP in 2010.

However, the business of Jordan Islamic Bank (Al Baraka Jordan) was not overly affected by these developments, apart from the problem of having to place its excess liquidity in the market as it adopted a more cautious stance towards risk. Total assets at the bank increased by 11% over 2010 to reach $4.09 billion. Financings and investments grew by 6% to $2.19 billion, represented mainly by new Mudaraba business and a healthy increase in Ijarah Muntahia Bittamleek with a moderate increase in the Murabaha portfolio which is the largest constituent part. The growth was in turn funded by a 12% increase in customer deposits including equity of investment account-holders, which reached $3.70 billion in total.

The bank's total income from jointly financed contracts and investments rose 9% to $155 million. After accounting for the investment account-holders for their share, which was 16% higher at $76 million, the balance earned by the bank including its share as Mudarib was 3% higher than in 2010 at $79 million. The income earned from its own sales and investments (including a $7 million profit from the sale of the bank's Visa rights in August) added $8 million, Mudarib share from the off-balance sheet investment account-holders, revenue from banking services and other operating income contributed a further $34 million. Total operating income therefore grew by 11% to $113 million. Net operating income was 4% higher at $60 million, despite a 20% increase in total operating expenses emanating from substantial staff costs escalation due to a recent change in employees' pay scales. After allocations for provisions and taxation, the resultant net profit was $42 million, 3% higher than the result for 2010.

Al Baraka Jordan expanded its branch network during the year by 2 new branches and 1 new cash office, bringing the total to 75 branches and cash offices. It also added 22 machines to its ATM network, which now numbers 107. Over the next 5 years it intends to further expand these networks, opening 3 more branches and 2 more cash offices in 2012 in step with its goal of reaching 96 branches and cash offices by 2016.

Al Baraka Jordan is continually expanding its already extensive product range and is currently planning the launch of a number of new credit products, aimed at financing customers' students' tuition fees, Hajj and Umrah associated costs and medical treatment. It also expects to open soon a new Contact Centre to assist customers and market the bank's products and services.

(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 75 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**

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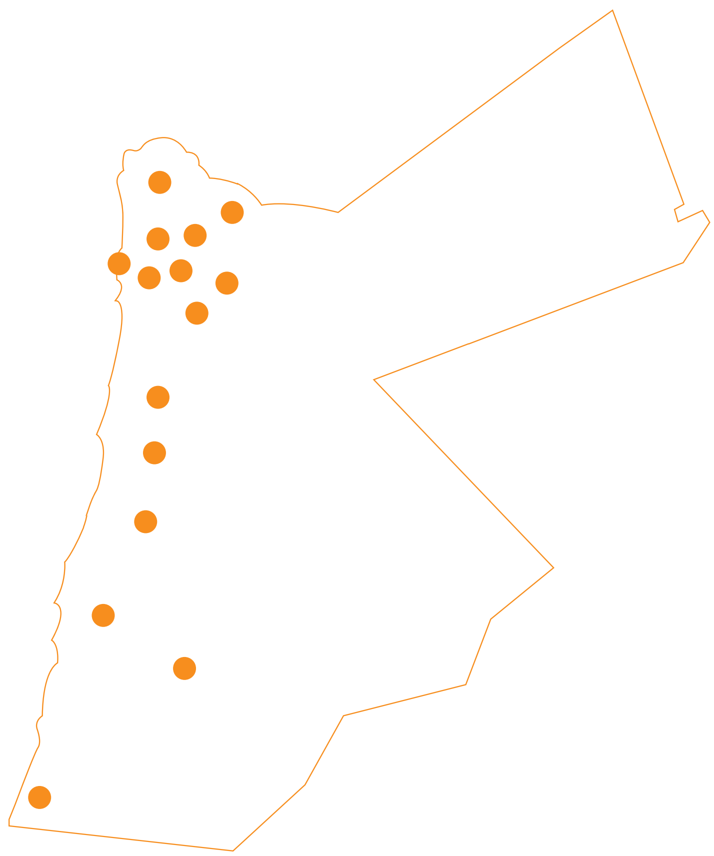
jordanislamicbank.com



Al Baraka Bank Egypt

Founded 1980

The events of February 2011 and the unrest which followed it had a clear impact on the Egyptian economy, as evidenced by a GDP growth rate estimated at a mere 1.8% compared with 5.1% in 2010. However it appears that inflation was well contained, at an estimated 10.2% year on year, compared with the rate of 10.7% the previous year. There was a steady decline in the Central Bank's foreign exchange reserves, though, from $36 billion held in December 2010 to $20 billion in November 2011, as reserves were utilised to support the Egyptian pound in the foreign exchange markets and to combat inflation. The current account deficit, moreover, grew from a moderate -0.2% of GDP in 2010 to around -2.1% of GDP while the government's budget deficit also expanded from -8.0% to an estimated -10.0%, exacerbated by a significant drop in inward remittances from expatriate Egyptians.

The downgrading of Egypt's credit rating by several of the international rating agencies resulted in a drop in foreign direct investment and foreign trade as well as higher insurance costs. The efforts of the Ministry of Finance to cover the budget deficit through the issuance of volumes of debt instruments led to a rise in interest rates on treasury bills. However, base interest rates for overnight lending and deposits were maintained unchanged by the Central Bank right up till November 2011, when they were increased in an effort to support the weakening Egyptian pound and to avoid further negative impact on the economy; notwithstanding these efforts the heightened state of uncertainty and anxiety has impacted on all aspects of commercial life.

Al Baraka Egypt responded to the challenges presented by taking a number of pre-emptive measures to minimise any disruption to its operations, liaising with its larger customers and assisting them in operating as normally as possible and to service their debts and commercial obligations. Despite the turmoil, the bank's asset base expanded by 9% in Egyptian pound terms and 5% in the US dollar equivalent, reaching $2.5 billion. Total financings and investments rose by 4% to $2.1 billion, mostly as a result of a greater than two fold increase in non-trading investments as funds were reallocated from government Mudaraba to government non-trading investments. Murabaha and non-trading investments formed the major portion of the portfolio, accounting for 94%. The increase in assets was funded in part by a 4% overall increase in customer deposits including equity of investment account-holders.

The bank's total income from joint financings and investments rose by 21% to $201 million, of which the investors' share amounted to $130 million. The bank's share, including its share as Mudarib, amounted to $71 million, some 42% more than in 2010.

Including its income from fees and commissions, and other operating income, the total operating income increased by 32% to $85 million. Total operating expenses increased by some 14%, to $33 million as a 27% increase in staff costs due to an overall increase in salaries in the Egyptian market, partly in response to rising inflation, was compounded by a 2% rise in other operating expenses. Net operating income therefore increased by 46% to $52 million. However, provisioning rose significantly in response to the difficult times and this, in addition to a significantly higher taxation charge, resulted in a lower profit in comparison with that of 2010, causing the bank to conclude the year with a result of $18 million.

The bank opened one new branch during the year, in Orabi, bringing the total network to 26 branches and foreign exchange bureaus, while its ATM network was expanded to 21 from 20 the year before. Its newly launched Al Baraka Islamic Sukuk, a 10-year Egyptian pound issue offering a choice of yield payment intervals ranging from quarterly to final maturity date, was well received in the market, raising EGP125 million within 3 months. It has almost completed its preparations for the launch of its Internet and mobile banking services, only awaiting the full implementation of the second phase of its new core banking system. It also plans to announce the launch of an Islamic credit card in the next few months. During the year it achieved full compliance with the requirements of Basel II, in addition to strengthening its Anti Money Laundering and 'Know your Customer' systems and procedures.

Al Baraka Egypt once again demonstrated its commitment to society by funding the establishment of a surgical unit specialising in brain, nerve and spinal column procedures at Al Shams University Hospital, an intensive care unit at the University of Cairo Hospital and a kidney dialysis unit at Mansoura University Hospital, along with contributions of foodstuff and basic commodities to the needy to mark the Holy month of Ramadan.

The bank again increased its issued share capital in 2011, by EGP80.3 million, by transferring an equivalent amount from dividends. It plans to raise its paid up capital to the authorised capital limit of EGP1 billion by 2013. Under its rolling strategic 5-year expansion plan, it intends to open a further 13 branches and foreign exchange bureaus to create a network of 39 by 2016. It plans to build on the credit card to be launched shortly - the Al Baraka Bronze Card – with the forthcoming launch of the Al Baraka Gold and Silver Cards.

(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 21 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 22 branches and 4 foreign exchange offices, spread across the major Egyptian cities.

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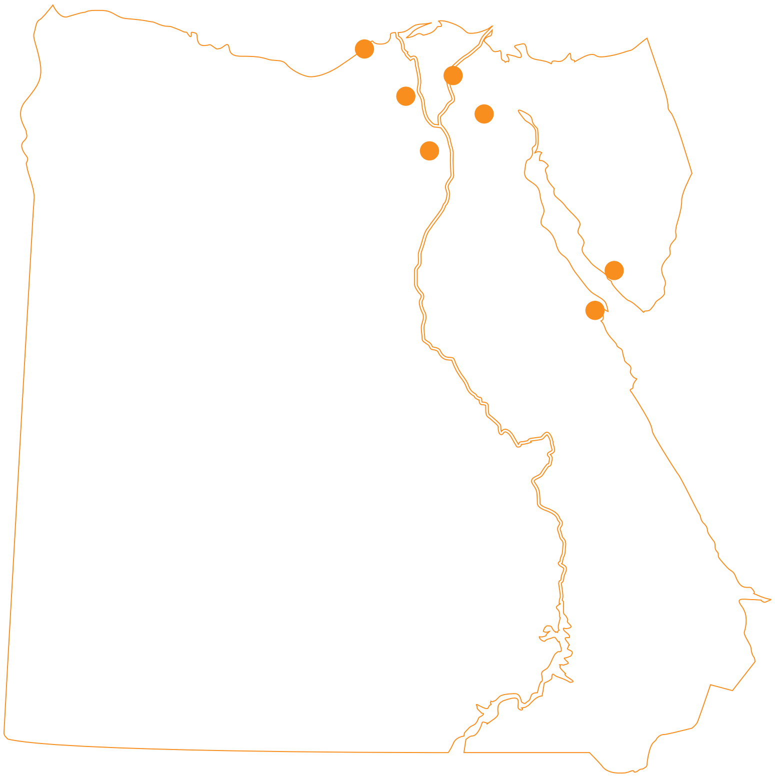

Banque Al Baraka D'Algerie S.P.A.

Founded 1991

Algeria enjoyed a GDP growth rate estimated at 2.9% in 2011, compared with 3.3% in 2010. The rate of inflation remained largely unchanged at 4.5%. The current account surplus rose from 7.9% of GDP to an estimated 13.7% of GDP.

Algeria's total oil and gas revenues continued to grow, increasing by an estimated 20% in 2011. With its huge reserves and ongoing hydrocarbon revenues, the government is maintaining its long term strategy of investing in projects benefiting the Algerian people and in particular reducing unemployment. Inward overseas investment also expanded, evidencing the country's continuing stability. Projects being planned include a second gas pipeline between Algeria and Italy, a joint venture with Qatar to build a number of large steel plants with an annual 5 million tonnes capacity, and a major new car factory. The government has also relaxed certain aspects of its recently introduced regulations, permitting an increase to 40% in the proportion of the foreign currency proceeds of non-oil and mining exports which the exporters may retain and allowing manufacturing companies to utilise payment mechanisms other than letters of credit for their essential imports. On the banking front, the Central Bank has now permitted interbank foreign exchange trading irrespective of whether the funds are those of the banks or emanating from hard currency customer deposits. It has also increased market liquidity through open market bond purchases. While permitting interest rates to fall, it has however at the same time increased the banks' capital adequacy ratio requirement to 21%.

At Al Baraka Algeria, total assets rose by 9% to $1.8 billion, with increases in cash and banks' balances, Ijarah Muntahia Bittamleek and Istisna'a balances compensating for the reduced balances in the Murabaha, Musharaka and Salam portfolios. The 4% growth in total financings and investments and 19% increase in liquid assets were funded by a 12% increase in customer current and other accounts to $661 million and a 15% rise in the equity of investment account-holders' to $707 million.

The bank's joint income from sales receivables and jointly financed contracts and investments fell by 5% to an aggregate $59 million. After accounting for the investors' share of this income, the bank's own share including its share as Mudarib amounted to $37 million, 17% less than the previous year. However, income from banking services and other operating income each rose by 22% to $54 million and $20 million respectively, so that the bank's total operating income for the year increased by 6% to $111 million. Increased staff and other costs contributed to a 12% rise in total operating expenses to $33 million, producing a net operating profit of $77 million, 3% higher than the previous year. Following lower loss provisions but increased taxation charges, the net profit arrived at was $52 million, 18% higher than in 2010.

Al Baraka Algeria's branch network expanded in 2011 from 21 to 25 branches. Its successful micro finance facility product is meanwhile being extended throughout the country via its branch network. Once full installation and implementation of its core banking system is complete, it plans to introduce a variety of e-banking services to its customers, in addition to insurance products for the first time. Under its rolling 5-year strategic plan the bank intends to expand its network to 50 by 2016, with 4 earmarked for 2012.

(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 an 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 25 branches.

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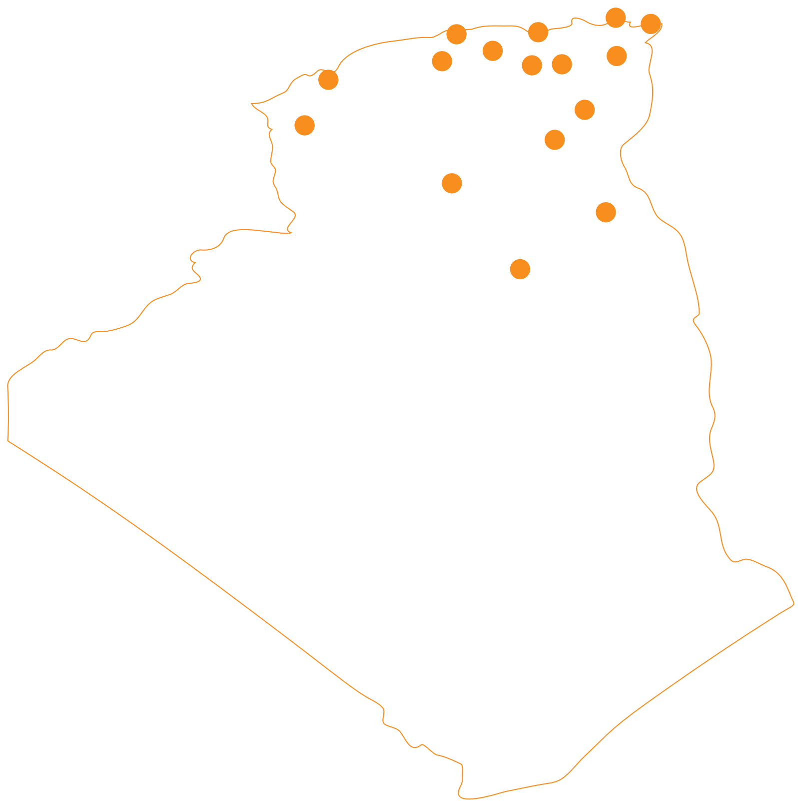

PRESIDENT & CHIEF EXECUTIVE'S REPORT (CONTINUED)

Al Baraka Islamic Bank B.S.C.

Founded 1984 – Bahrain

The Bahrain economy suffered a sharp drop in its growth rate in 2011, from 4.1% recorded in 2010 to an estimated 1.5% in 2011. The rate of inflation however remained low at around 1.0%, down from 2.0% the previous year. In the wake of recent civil disturbances, the government remains committed to seeking greater stability and security for the country primarily through economic growth. Efforts continue to reduce the extent of dependency on the oil and gas sector and to bring down the country's unemployment rate by encouraging greater direct overseas investment, particularly in the financial services industry which benefits from a sound grounding of legal and regulatory infrastructure second to none in the region. It is noteworthy that the banking sector in Bahrain was not directly impacted by the events, with banks being able to operate normally and transact business without interruption.

Al Baraka Bahrain operates in Bahrain under a retail banking licence from the Central Bank. It was one of the first Islamic banks to be established in the Kingdom, in 1984. In 2011 Al Baraka Bahrain's total Bahrain-based assets expanded by 22% to reach $844 million. Total financings and investments rose by 15% to $701 million, of which Murabaha, Mudaraba, Musharaka, Ijarah Muntahia Bittamleek and Ijarah receivables accounted for the majority, offsetting decreases in non-trading investments and trading securities. Cash and banks' balances also expanded, more than doubling to $125 million. Total customer deposits (including IAH) rose by 10% to $573 million.

Joint income from jointly financed contracts and investments rose by 16% to $22 million and, after accounting to the investors for their share, the bank's share of income from this source including its fee as Mudarib rose by 22% to $11 million. The bank's income from own sales and investments however fell to less than $1 million, compared with $12 million in 2010 (of which the major part was attributable to $9.8 million of profit from the merger of its Pakistan branches with those of EGIB) as the substantially increased income from non-trading investments was nevertheless insufficient to compensate for lower income from Mudaraba financing and investments. Thus operating income for the year was 32% lower than in 2010, at $18 million. Operating expenses increased slightly by 4% to $18 million, leading to a small operating loss which, after including a net provision recovery, resulted in a marginal net profit.

Under its new strategic plan for Bahrain expansion, the bank opened one new branch in 2011, increasing the network to 6 branches. Another branch is expected to be opened in 2012, when the installation of 4 new ATMs is also planned. The bank's Taqseet (repayment by instalments) card, offering multiple Murabaha finance transactions through a single card, first introduced in 2010, continues to be well received. It is currently implementing mobile and e-banking services, with SMS services slated to be introduced during the next year. It is also planning to introduce prepaid cards in coordination with a strategic partner and, in the insurance field, to offer Takaful insurance products to its customers soon.

(All figures in US dollars unless otherwise stated)

Al Baraka Islamic Bank B.S.C.

Al Baraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as a retail and investment Islamic bank. It obtained a commercial banking license in Pakistan in 1991. The bank operates 6 branches in Bahrain and 89 branches in Pakistan.

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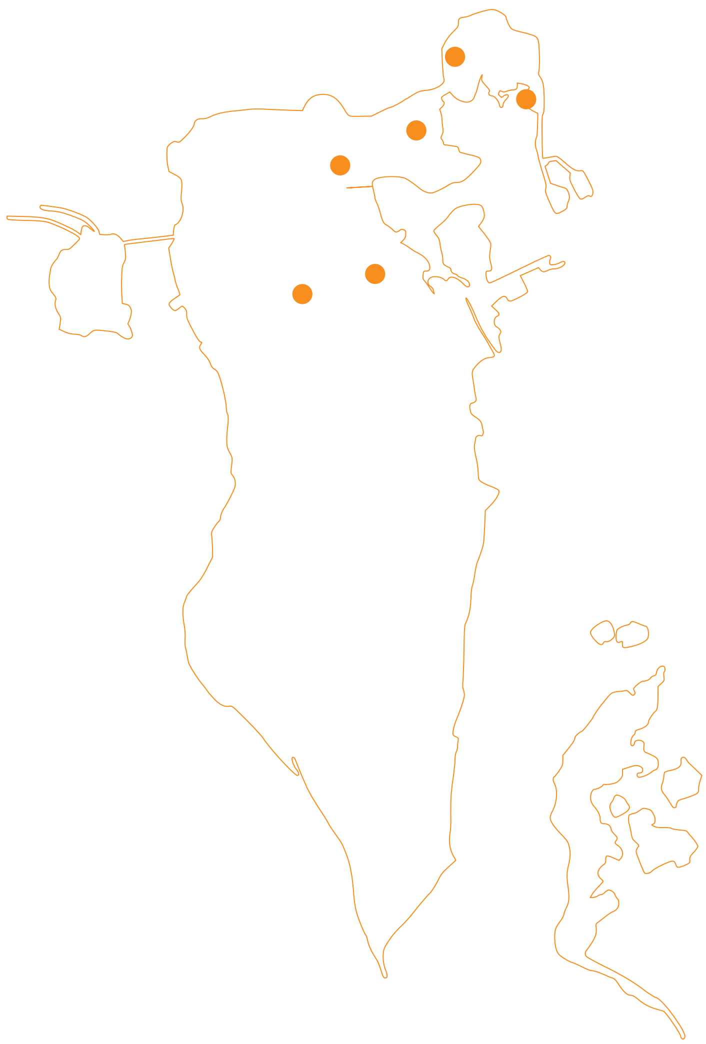

PRESIDENT & CHIEF EXECUTIVE'S REPORT (CONTINUED)

Al Baraka Islamic Bank B.S.C. (CONTINUED)

Al Baraka Bank (Pakistan) Limited

Founded 2010

The Pakistan economy grew in 2011 by only around 2.4% compared with the stronger 3.8% growth exhibited the year before, as the country continued to try to deal with the aftermath of the devastating floods of 2010 and the power shortages that were the direct consequence of them. The acute energy crisis, which has led to riots in major cities by a frustrated populace and has particularly affected the manufacturing industries, reflects the failure of the government to achieve the rates of growth necessary to bring unemployment down. Although the key textiles industry, which accounts for 60% of the country's exports, hit record revenues in the past fiscal year to June on the back of increased demand from OECD countries for cheaper garments, overall the future is uncertain. Inflation remains stubbornly high at an estimated 11.9% although it is an improvement over 2010's 15.5%.

In an effort to stimulate the economy, the State Bank of Pakistan has steadily reduced its discount rate over the last year, so that three-month rates now currently stand about 2% lower than at the end of 2010, although government 10-year bonds now pay 13.4% compared with 10.66% a year ago. The current account deficit has meanwhile risen to -1.3% of GDP from -0.9% at the close of 2010.

The bank that is now known as Al Baraka Bank (Pakistan) Limited (Al Baraka Pakistan) first opened for business in 1991, with branches under the name of Al Baraka Islamic Bank B.S.C., Bahrain (Al Baraka Bahrain), registered as a foreign bank under a commercial banking licence granted by the State Bank of Pakistan. In October 2010 the Pakistan branches of Al Baraka Bahrain were sold and merged with those of Emirates Global Islamic Bank (EGIB) and a majority 64.64% stake in the merged entity was then purchased by Al Baraka Bahrain, creating one of the largest Islamic banks in Pakistan. The merged entity consolidated EGIB's 60 branches with Al Baraka Bahrain's existing 29 and added a further 34 ATM units to the existing network. The acquisition of EGIB and merger of its Pakistan branches represented an important part of the Group's plans for expansion, in addition to demonstrating its ongoing commitment to the Pakistan market.

Al Baraka Pakistan's assets grew in 2011 by 19% in Pakistan Rupee terms but by 14% in US dollar terms due to the change in exchange rates over the period. Total financings and investments increased by 23% to $611 million primarily due to a substantial increase in the bank's non-trading investments portfolio which expanded by 63% to $298 million, while the Murabaha portfolio remained stable and smaller increases in the Musharaka and Salam largely compensated for a 15% decline in the Ijarah Muntahia Bittamleek portfolio. This overall expansion was in turn funded by a 16% increase in customer deposits including IAH which itself rose by 15% to $610 million.

The merger of the much larger EGIB's 60 branches with Al Baraka Bahrain's 29 in the last quarter of 2010 means that the 2011 performance of the new entity is not directly comparable with that of 2010. However, as a consequence of this, total operating income was 84% higher at $26 million. The major contributors were the Murabaha, Musharaka, non-trading investments and Ijarah Muntahia Bittamleek portfolios, which produced $14 million. To this was added $6 million from own account non-trading investments which when added to other income produced a total operating income of $26 million. Operating expenses were 151% higher at $21 million, leaving a net operating income of $4 million. After provisions and taxation charge, the net profit for the year was $2 million.

The branch network at the end of the year was a total of 89 branches. Under its ambitious strategic plan, it plans to open a further 126 branches over the next 5 years, with 20 alone slated for 2012. The WAN (Wide Area Network) system connecting the branches to Head Office was restructured so that all branches are now synchronised on a single network. A detailed post-merger integration plan has meanwhile been completed and is due for implementation over 2012. Meanwhile, as the new bank focuses on updating and developing its range of Shari'a compliant products, it plans the launch of a new visa debit card for use at Point of Sale terminals and ATM machines globally, in addition to interbank funds transfer facilities permitting customers to transfer funds between banks of their choice around the country. These new products will be introduced as soon as migration to the new core banking system has been fully implemented.

Al Baraka Pakistan's social contribution includes supporting the Rising Sun Institute, which provides education, speech therapy and vocational training to more than 400 children with autism or cerebral palsy along with the CARE Foundation, which provides education and rehabilitation to underprivileged children, in addition to partnering Afzal Memorial Thalassemia Foundation in its effort to rid the country of this debilitating blood disorder and sponsoring the rehabilitation of the disabled and contributing towards children's education through The Citizen's Foundation.

(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 89 branches.

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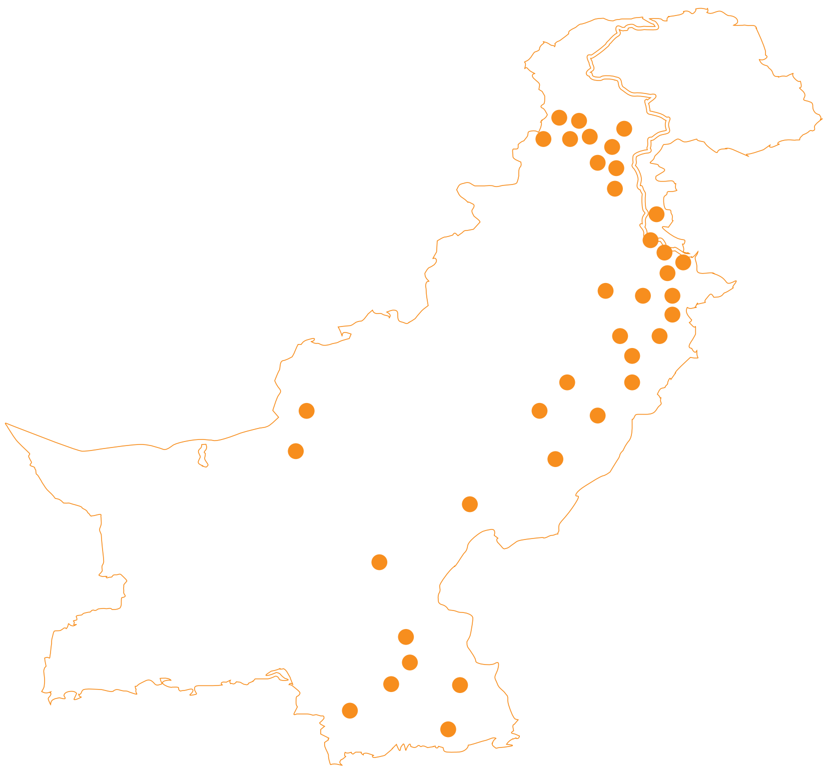

Al Baraka Bank Tunisia

Founded 1983

Following the people's revolution of January 2011, it remains to be seen whether the new government will continue to implement the policies of economic reform that were being followed by the last government and, indeed, to renew efforts to reduce unemployment and increase economic activity among small and medium sized businesses. Meanwhile, business has by and large reverted to normal, although the disruption did have an impact on the economy, as did the overthrow of the government in neighbouring Libya, an important trading partner.

It is estimated that the economy contracted by over 3.0% in the first quarter when the people's protests were at their peak, but picked up thereafter, so that current estimates are that is experienced zero overall growth for 2011, compared with 3.1% in 2010. The tourism industry was hit particularly hard as revenues halved in the absence of tourists, mainly European but also from the Arab world. Consumer prices are not reported as having greatly increased and the rate of inflation is estimated to have been around 3.5% compared with 2010's 4.1%.

After falling initially during the first three quarters of the year, Al Baraka Tunisia's total assets grew in the final quarter so that it ended the year down by 2% at $545 million as financings and investments declined somewhat to $350 million, mostly on the back of the Mudaraba portfolio which fell by 49%. Murabaha outstanding at the end of the year were 8% higher at $266 million. The assets were funded primarily by $443 million of customer deposits (including IAH) which however fell by 2%. The joint income from sales receivables and jointly financed contracts and investments reached $19 million, resulting in a net return to the bank from this source of $13 million. Other sources of income contributed $6 million, mostly from Mudarib fees in respect of off-balance sheet IAH and banking services, so that the total operating income ended the year at $19 million, similar to 2010. Operating expenses, however, rose by 28% to $10 million and, after provision and taxation, the bank reported a net profit of $8 million, 26% lower than the previous year.

Looking to the future, Al Baraka Tunisia's strategy will be to leverage on its new state-of-the-art core banking systems in order to enhance the banking services offered to its customers, including e-banking. It also plans to launch a Gold Master Card. Its network will be expanded from the current 8 branches to 13 by 2016, in addition to the installation of ATMs at each of the new branches. A business centre at the main branch will be unveiled in 2012, to focus on the needs of businessmen and enterprises.

(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. The bank operates 8 branches.

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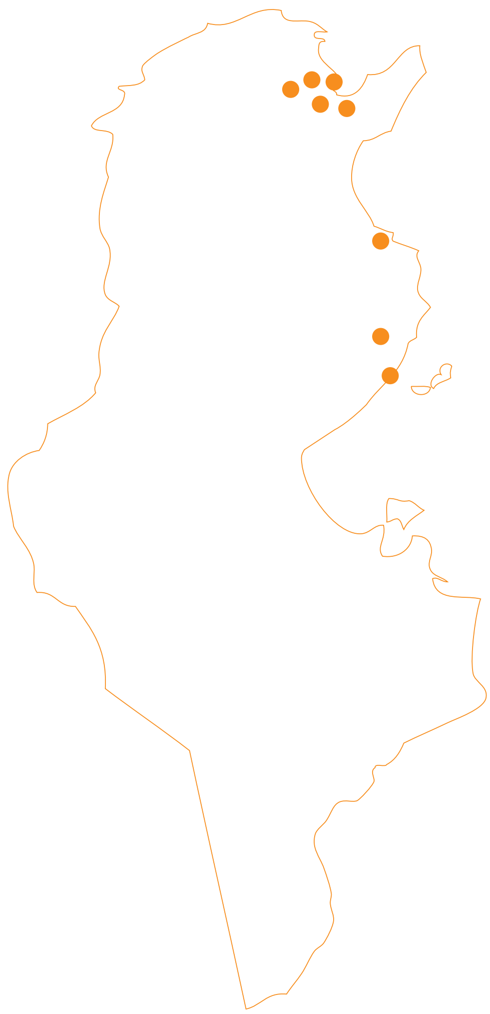

Al Baraka Bank Limited

Founded 1989 – South Africa

The South African economy grew by an estimated 3.1% in 2011, a relatively good performance compared with the 2.8% growth recorded in 2010. The decline of the Rand, though, which continued steadily through most of the year before beginning to recover in the fourth quarter, together with the increased price of imported crude oil, led to an estimated 5.1% increase in inflation over the year, compared with 3.5% inflation in 2010. The current account deficit was estimated at -4.1% in 2011. The Reserve Bank of South Africa has announced that Basel III is being adopted effective 1st January 2012. The impact on banks generally is expected to be an increase in liquidity and capital requirements; however it is not expected to materially affect Al Baraka South Africa.

In 2011 Al Baraka South Africa's total assets increased by 15% in Rand terms but declined by 6% when translated into US dollars. The increase in assets in local currency reflected 18% growth in financings and investments, chiefly in Musharaka and Murabaha, although this translated into a 3% decline in US dollar terms. The increase in local currency assets was funded on the back of a capital injection of R105 million and 12% growth in customer deposits including IAH in Rand terms (8% decline in US dollars).

Although in Rand terms total operating income rose by 16% and in US dollar terms it rose by 18% to $17 million, reflecting mainly a 14% increase in the bank's share of its jointly financed portfolios after distribution to the IAH investors and increased revenues from banking services. Total operating expenses also increased in US dollar terms, by 9% to a little under $14 million. Net operating income was $4 million which, after accounting for provisions and taxation, resulted in a net profit for the year of $3 million or 71% higher than the 2010 result.

Following full implementation of the new Misys Islamic Equation banking system in 2010, the bank was able to commence offering e-banking products to its customers, particularly individuals, which were well received among its customers. Other recently introduced products include the selling of foreign exchange; a Hajj investment account which earns profit annually and is eligible for an annual draw for a return air ticket, and a diminishing Musharaka property financing facility. Other products in course of development and likely to be launched in the near term include a retail furnishing finance facility, an Ijarah product and a cheque account. The bank expects that its application to the authorities for a full foreign exchange licence will be granted shortly, enabling it to start trading in 2012. It plans to expand its presence in the Gauteng region in 2012 by opening an office geared to the needs of professionals and, under its rolling 5-year strategic plan, to open a further 3 new branches in the following 4 years to bring the network up to 14 branches by 2016.

Al Baraka Bank Limited

Al Baraka Bank Limited was established in 1989 and operates as a commercial Islamic bank. The bank has 4 corporate offices and 6 retail branches.

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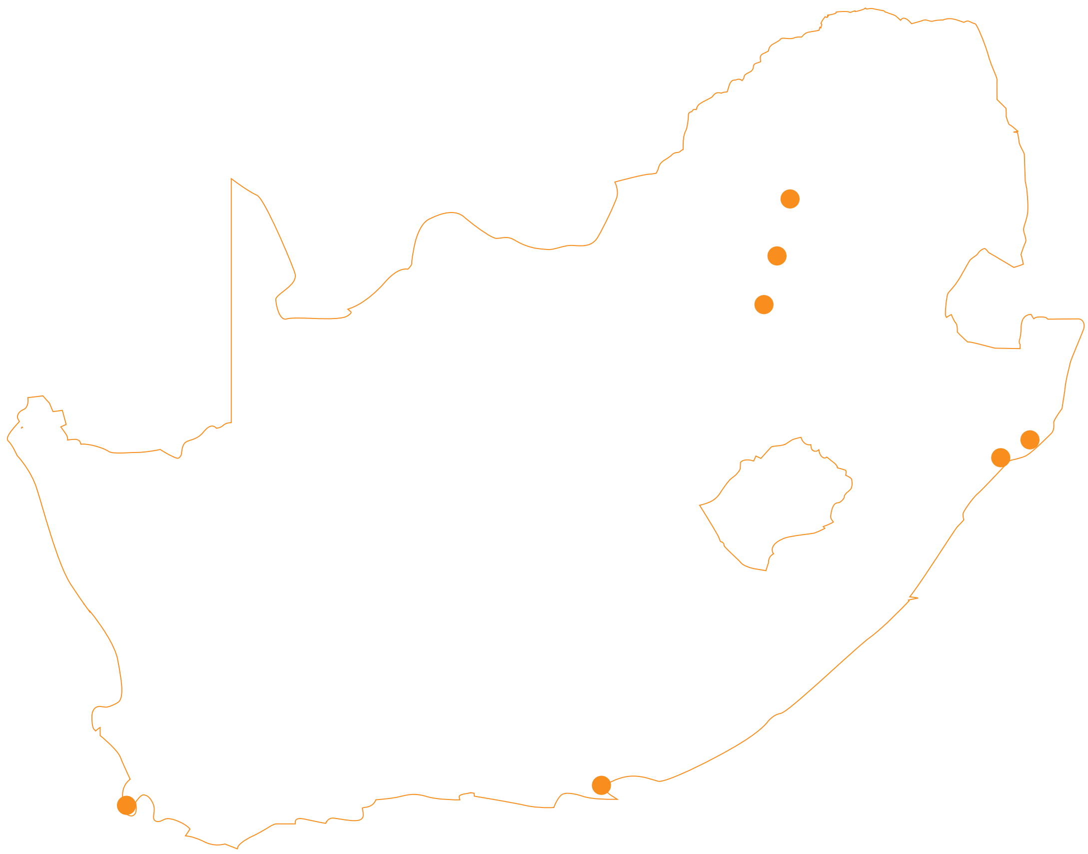

PRESIDENT & CHIEF EXECUTIVE'S REPORT (CONTINUED)

Al Baraka Bank Sudan

Founded 1984

The secession of South Sudan in July from the rest of the country had a number of consequences in the north. Geographically, 26% of the land area was in the south and the north now no longer has any land borders with Uganda, Kenya and the Congo while the borders with Ethiopia and Central African Republic have shrunk; 22% of Sudan's population resided in the south. Economically, there has been a significant division of natural resources, especially in crude oil deposits: whereas exploitation of Sudan's oil reserves hitherto accounted for 50% of the state's total revenues, 70% of the budget and 95% of foreign exchange earnings, the split has resulted in an estimated 75% fall in Sudan's oil revenues. With distribution between the south and north markedly favouring the south, the result has been a sharp drop in growth and a fall in the value of the Sudanese pound, GDP is estimated to have fallen in 2011 by -0.2%. and a drop in Sudan's money supply of some 2 billion Sudanese pounds. These worsening economic conditions have led to a surge in inflation, driven chiefly by high import costs, such that the annualised rate surged from 15.4% in 2010 to 21.0% by September 2011 and was projected to reach 22.0% by the end of the year, although the costs of some basic foodstuffs have more than doubled over the same period.

Although drilling operations are currently under way in north Sudan and it is hoped that these will lead to the identification of new oil reserves in economic quantities, it will take some time for the lost revenues to be replaced from this source. The government is therefore seeking to encourage non-oil production through increased privatisation of state-owned companies and support for non-oil mining industries such as gold mining and the development of known chromium reserves, in addition to the cotton, Arabic gum and livestock exporting industries. It is also seeking to reduce imports of certain non-essential goods by increasing duties thereon. It is hoped that these measures will lead to tangible improvement over the next 5 years.

Negotiations continue between Sudan and South Sudan, with the intention of regulating commerce between the two states. It will be necessary to determine the throughput fees to be paid by the latter to the former for the transport of crude oil through the former's territory and for the use of its ports. It is currently estimated that these fees could aggregate some $1.8 billion a year, which would go some way to relieving the north of the effect of the sudden loss of revenues that followed the secession.

The Central Bank has also been overseeing the development and upgrading of the payment and settlement system – introducing real time settlement for the first time – in addition to a number of corporate governance measures and the introduction of a new bank audit system. The Central Bank is taking steps to enhance the inter-bank market and has also activated open market operations to manage liquidity. It is raising the minimum paid-up capital of banks to SP100 million from the current SP80 million.

The separation of South Sudan did not have a significant direct impact on the activities of Al Baraka Sudan as all of its operations are in the north. However the Sudanese pound depreciated by over 6% vis-à-vis the US dollar on the official market which did have some negative effect on the bank's performance. Its total assets grew in 2011 by 24% in Sudanese pound terms and by 16% in US dollar terms, as did its customers deposits. Total financings and investments grew by 21% in Sudanese pounds and by 13% in US dollars. The major increase in financings and investments came from the non-trading investments, Musharaka and Murabaha, while the Mudaraba financing reached maturity and was fully repaid. Non-trading investments formed 59% of total financings and investments, while Murabaha formed 31%. The growth was funded by a 17% increase in customer deposits including IAH which itself grew by 21%.

Notwithstanding minimal growth in the Murabaha portfolio revenue and mostly on account of a 40% increase in income from non-trading investments, the total income from jointly financed contracts and investments was 19% higher than for 2010, at $24 million. After accounting to the investors for their share, the bank's income from this source (including income as Mudarib) rose by 21% to $20 million. Increased income from banking services and other sources produced a total operating income of $30 million, 14% up on 2010. Operating expenses were unchanged at $20 million, leaving a net operating profit of $10 million and, in light of prudential provisions (compared with a net provision write back in 2010) and higher taxation, a net profit for the year of $7 million has been generated.

Al Baraka Sudan's branch network was unchanged at 25 branches at the end of the year. Under its rolling 5-year strategic expansion plan it intends to increase the branch network by 6 to 31, beginning with 2 new offices in 2012. Over the course of the next year or two it also intends to launch a number of products to add to its quite extensive range: finance facilities aimed at assisting professionals and craftsmen, export finance and finance for the mining sector, Internet banking and SMS notification service, telephone bill payments and the purchase of electricity through mobile, ATM and POS (Point of Sale) methodologies to name but a few. It recently launched Ijarah Muntahia Bittamleek and Parallel Salam as 2 additional product offerings, along with Taqseet (instalment repayment), real estate finance and Takaful products. Establishment of a Call Centre is budgeted for 2012.

As part of its contribution to the social environment, the bank provides finance for productive projects initiated by women through its Zahra ladies branch, supports several social programmes under the sponsorship of the Sudanese Bank Union, supports health centres and hospitals and provides assistance for medical treatment to the poor and needy. It also provides educational support through the Al Baraka School and Ministry of Education courses, the Ahfad University for women, fees for training for university students, assistance for research and support for cultural and sports associations.

(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.

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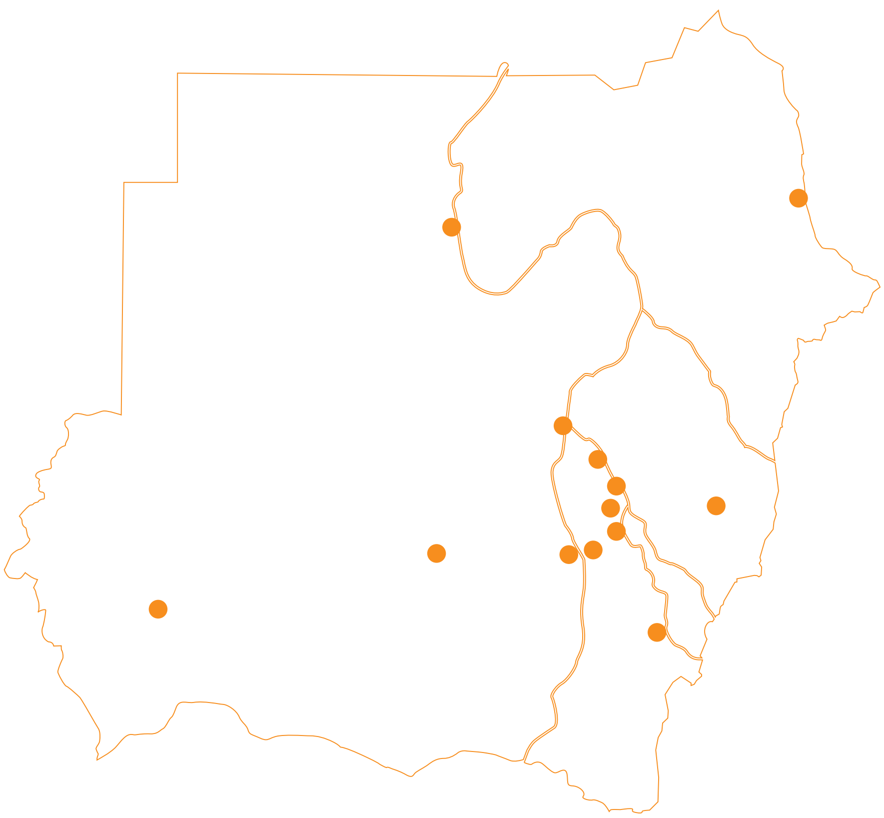

Al Baraka Bank Lebanon S.A.L

Founded 1991

The Lebanese economy is closely tied in with that of Syria and has naturally therefore been affected by recent events and especially the impact of civil disruption and international sanctions on the Syrian economy. The negative impact on tourism and trade has been reflected in the rate of GDP growth which is estimated to have achieved only 1.5% in 2011, compared with 7.5% in 2010. The rate of inflation reached an estimated 5.7%, up from 2010's 5.1%. The current account deficit, moreover, is thought to have increased from -10.9% of GDP in 2010 to -14.7% of GDP in 2011.

The Central Bank (BDL) is closely monitoring the situation and has taken steps to ensure that all Lebanese banks remain highly liquid and adequately capitalised in compliance with Basel III capital adequacy standards. On the other hand, the effect on Al Baraka Lebanon has been very limited, with growth in both customer deposits and financing and investments, an increase in underlying income trends and a reduction in operating expenses.

During the year the bank increased its assets by 20% to $240 million, of which total financings and investments grew by 11% to $136 million, evenly spread across most categories although investment in properties increased by 52%. The increase was funded by a 28% growth in customer deposits, including IAH.

The total operating income, compared with 2010, was 21% lower at $6 million, due partly to a fall in the bank's share of income from the jointly financed portfolio and its Mudaraba financing business, and partly to the absence of non-recurring income from investments in property which it earned in the previous year. Operating expenses were 5% lower at a little under $8 million, leaving an operating loss of under $2 million which, after the application of provisions, resulted in a net loss of a little over $2 million compared with 2010's net loss of $0.9 million.

Al Baraka Lebanon offers a wide range of products and services to its customers, from house, car, school and university fees, Hajj and Umrah financing facilities to a variety of current and investment accounts and several different credit, debit and charge cards. In 2012 it plans to introduce a new facility to finance the purchase of environmentally friendly electric generating systems and a new current account entitling the customer to a basket of bank services free of charge in return for a monthly fee. It will also be launching a new Platinum Charge card and a Hajj prepaid card. The bank's medium term network expansion strategy aims at increasing the number of branches from the present 7 offices to 12 by 2016, also expanding its ATM network at the same time.

(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 license until 2004 when an Islamic Banking Law was instituted and the Bank obtained an Islamic banking license. Its activities comprise retail and commercial banking in accordance with Islamic Shari'a principles. The Bank operates 7 branches.

UNIT HEAD: **Mr. Mutasim Mahmassani**
TITLE: **Board Member & General Manager**

ADDRESS: **2nd Floor, Center Verdan 2000,**
Rashid Karameh Street,
Verdan, Beirut,
Lebanon

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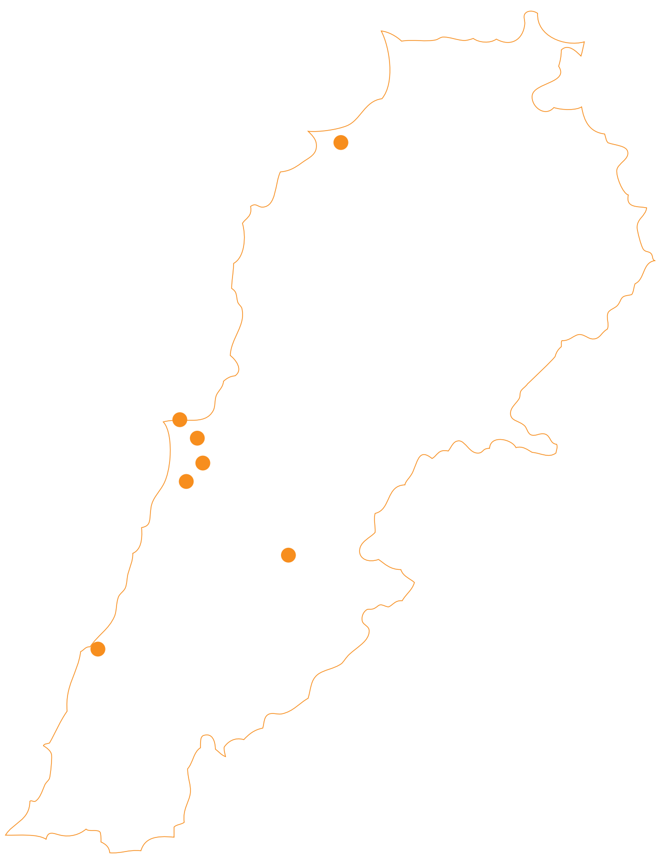
al-baraka.com



PRESIDENT & CHIEF EXECUTIVE'S REPORT (CONTINUED)

Al Baraka Bank Syria s.a.

Founded 2009

In 2011 Syria's GDP slumped by an estimated -2.0% compared with around 3.2% growth in 2010. This was mainly attributable to the negative impact of international sanctions imposed following the civil disturbances, including the ban on Syrian oil exports to the EU (which had accounted for 12% of GDP in 2010) and the drop in tourism earnings.

Al Baraka Syria began commercial operations during the third quarter of 2010. Since then, and despite the turmoil in the country at present, it has been growing steadily. At the close of 2011 its total assets had risen to the equivalent of $427 million. Total financings and investments amounted to $237 million, with the Murabaha and Mudaraba portfolios showing the most significant growth. The bank also introduced Musharaka financings to the market, which made a good start. The growth was funded by customer deposits, including IAH, which together amounted to $344 million. Total operating income amounted to $11 million whilst operating expenses aggregated $8 million, producing an operating profit of $3 million and, after provisions and a tax credit, a net profit of a little below $4 million, compared with a net loss of over $2 million in 2010, a commendable result for its first full year of operation.

The bank's branch network, which stood at 2 branches in Damascus including its head office in the Saba Bahrat area of the city, grew to 9 over the course of the year.

The bank offers a 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 plans to launch a credit card and Musawama (the purchase from retailers of specific goods at a discount which are then offered to consumers for payment over a period) facilities in 2012 and is also working on introducing SMS banking shortly. A Call Centre is to be established and it also intends to offer a money exchange.

(All figures in US dollars unless otherwise stated)

Al Baraka Bank Syria s.a.

Al Baraka Bank Syria s.a. was formally incorporated in December 2009 and started commercial operations in 2010. Al Baraka Syria operates with a network of 9 branches.

UNIT HEAD: **Mr. Mohammed Halabi**
TITLE: **Chief Executive Officer**

ADDRESS: **Alshahbander Street,
P.O. Box 100,
Damascus,
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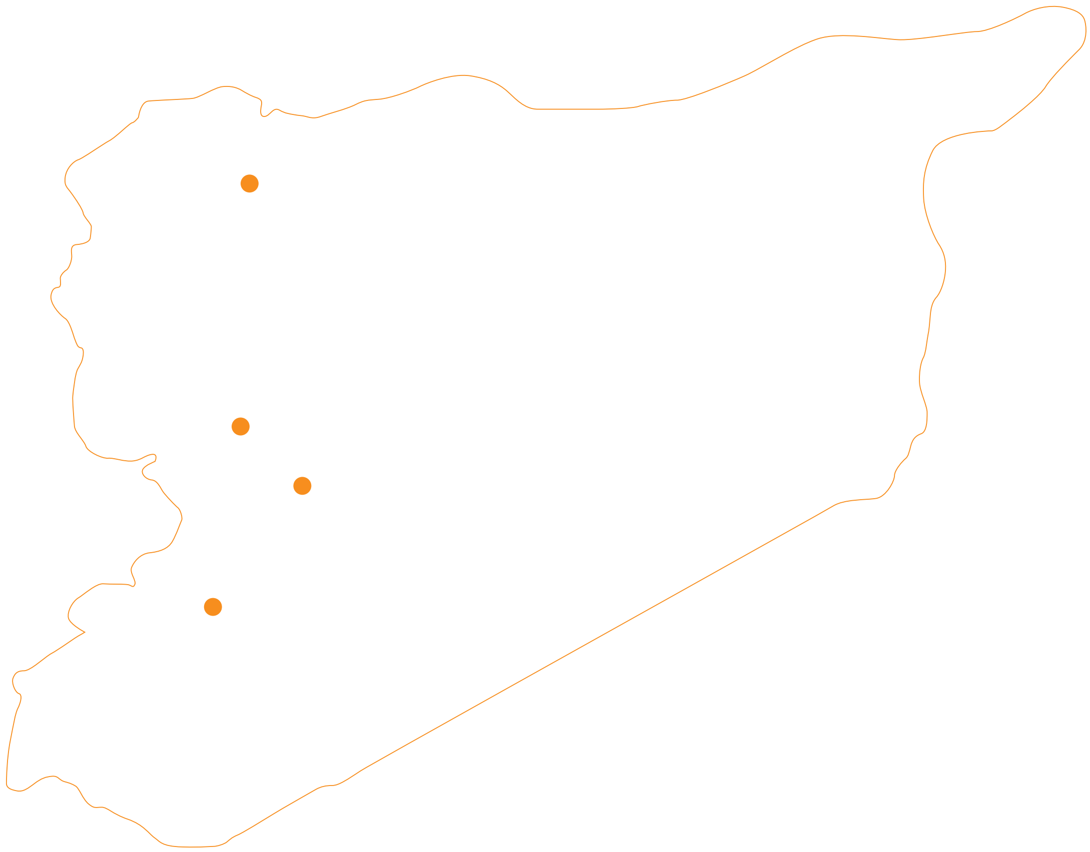

Al Baraka Banking Group Representative Office, Indonesia

Founded 2008

In 2011 the Indonesian economy grew by an estimated 6.5%, compared with a growth rate of 6.1% in 2010. The current account surplus was estimated to be standing at 0.4% of GDP (0.8% in 2010). The rate of inflation was slightly better at 5.3% as compared with 2010's 5.7%.

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. Due to the favourable regulatory environment, the growing economy and having the largest Muslim population in the world, Indonesia offers a very attractive operating environment for Islamic banks.

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**

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albaraka.com

(All figures in US dollars unless otherwise stated)

Al Baraka Banking Group Representative Office, Libya

(Under Formation)

As of the end of 2010, the Group was at an advanced stage in establishing a representative office in Libya, one of its aims under its medium term expansion strategy. The country's GDP – estimated at $74 billion for 2010 or $11,500 per capita – and the scope for economic expansion for the benefit of its population, renders it an attractive proposition for the Group.

Whilst the revolution of 2011 has put a temporary hold on its plans to set up the representative office, ABG nevertheless fully intends to pursue its strategy in relation to Libya and aims to participate in the Libyan people's future development and prosperity in the fullness of time.

UNIT HEAD: **Mr. Wafik Al Shater**
TITLE: **Chief Representative**

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

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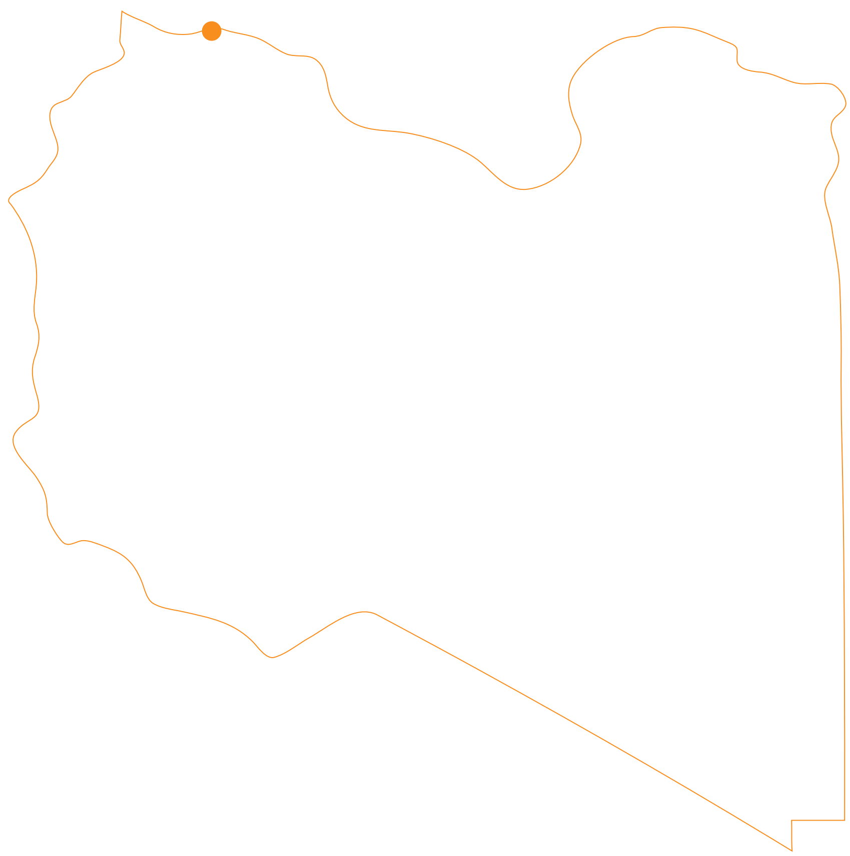
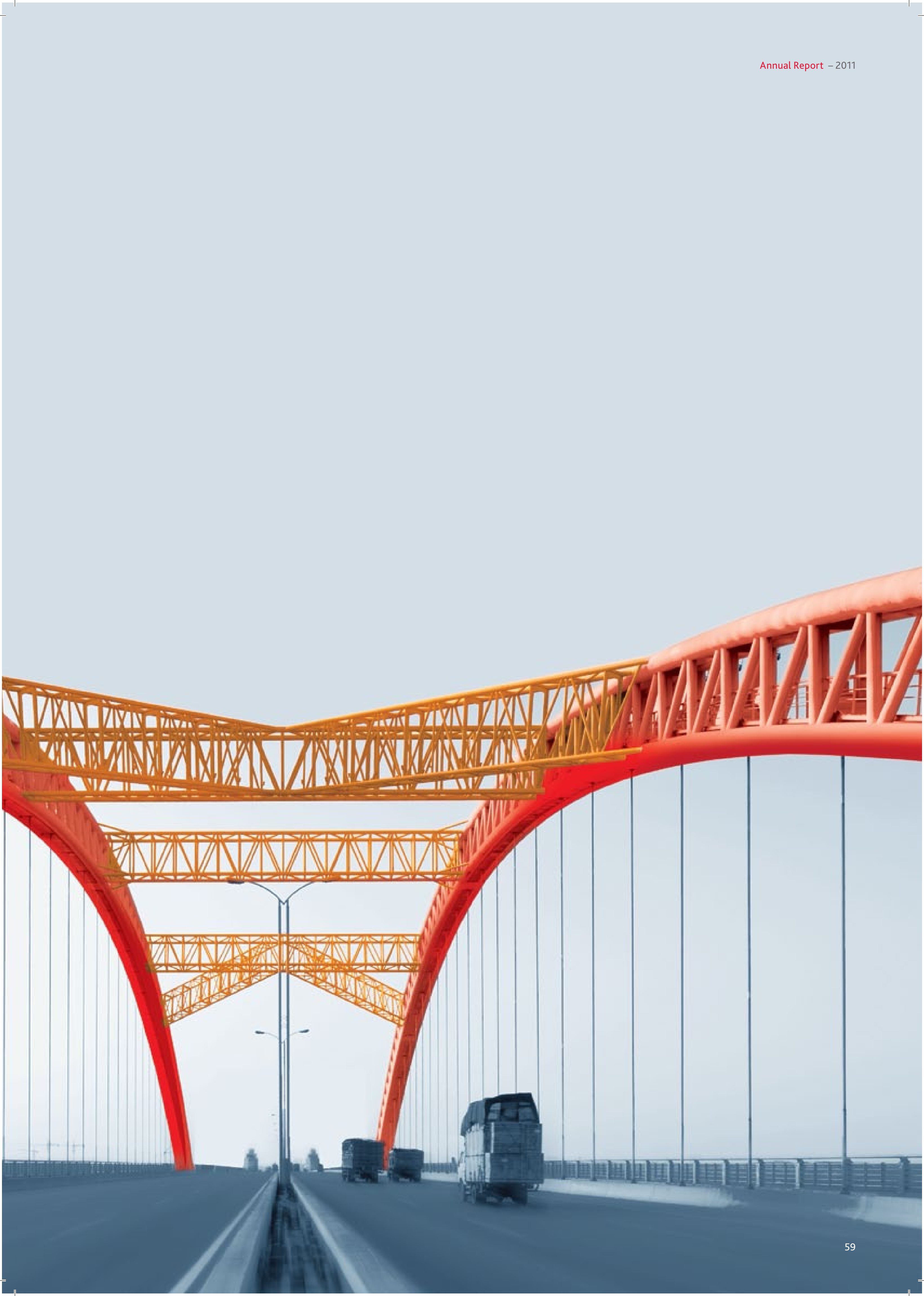


(All figures in US dollars unless otherwise stated)

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.



CORPORATE GOVERNANCE

The Board of Directors

The Board of Directors is responsible for the Group's overall management and accountable to shareholders for the financial and operational performance of the Group. In particular, the Board is responsible for the Group's business strategy, for the raising and allocation of capital, monitoring of operations and making critical business decisions. 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 Organisation 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 continuing process of enhancing compliance framework at the Group including ABG's subsidiaries.

In October 2010 the CBB introduced new requirements to be met by all licensees under the respective Modules HC of Volume 2 and Volume 6 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 new 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 the amendments to the requirements and the milestones set. Accordingly, the appointment of the Chairman of the Board of Directors has been consented to by the CBB notwithstanding that he is not an independent director as defined in the CBB Rulebook, while the Board has directed that a scholar of the Shari'a Supervisory Board will attend at least one meeting per year of the Board Audit & Governance Committee to assist the Committee on Shari'a-related governance issues. ABG can also confirm that the minority shareholders of the Group are well represented on the Board of Directors, either directly or through the independent directors.

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 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

The Board of Directors (continued)

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 Chairmen 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.

ABG does not provide for any performance-linked stock incentives for the Board or Executive Management.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and employees; details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice, the Board has adopted corporate governance guidelines covering the matters required under the CBB Rulebook and other matters required by the Board, and instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of six independent directors, defined as a person who is not:

- a controller of ABG as the term is defined by the Bahrain Bourse (BB);
- an associate of a Director or a member of Executive Management of ABG;
- a professional advisor to ABG (such as an external auditor);
- a large depositor with or large borrower from ABG (i.e. one whose deposits or borrowings exceed 10% of ABG's capital base); or
- in a significant contractual or business relationship with ABG which could be seen to interfere materially with his/her capacity to act in an independent manner.

In 2011 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*
   * In place of Samer Mohammed Farhoud with effect from 23 March 2011

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 policies and procedures, strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments. The Board Executive Committee's primary purpose is to consider and recommend for approval of the Board the overall policies and procedures, strategies and business plan of the Group.

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.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. The 2011 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.

It 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 all of which took place during the past year.

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.

CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

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

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

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

Board Risk Committee

The Board Risk Committee is chaired by Mr. Abdul Elah Sabbahi, with its other members being Mr. Jamal Bin Ghalaita, Mr. Mohyedin Saleh Kamel and Mr. Fahad A. Al-Rajhi. 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.

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2011

Name of Board / Committees	Members' Name	No. of meetings in 2011	Dates of the meetings	No. of meetings attended
Board of Directors	Sh. Saleh Abdullah Kamel	6	23/02/2011	3
	Mr. Abdullah A. Saudi		23/03/2011	5
	Mr. Abdullah Saleh Kamel		11/05/2011	6
	Mr. Saleh Al Yousef		10/08/2011	4
	Mr. Adnan Ahmed Yousif		13/11/2011	6
	Dr. Anwar Ibrahim		28/12/2011	2
	Mr. Abdul Elah Sabbahi			6
	Mr. Ebrahim Fayez Al Shamsi			6
	Mr. Jamal Bin Ghalaita			2
	Mr. Yousef Ali Fadil Bin Fadil			6
	Dr. Bassem Awadallah			6
	Mr. Mohyedin Saleh Kamel			6
	Mr. Fahad Abdulla A. Al-Rajhi *			3
Board Executive Committee	Mr. Abdullah Saleh Kamel	3	01/05/2011	3
	Mr. Adnan Ahmed Yousif		26/06/2011	3
	Mr. Abdul Elah Sabbahi		08/12/2011	3
	Mr. Yousef Ali Fadil Bin Fadil			3
Board Audit & Governance Committee	Mr. Saleh Al Yousef	4	23/02/2011	3
	Dr. Anwar Ibrahim		11/05/2011	2
	Mr. Ebrahim Fayez Al Shamsi		09/08/2011	4
	Dr. Bassem Awadallah		13/11/2011	4
Board Affairs & Remuneration Committee	Mr. Ebrahim Fayez Al Shamsi	3	20/01/2011	3
	Mr. Jamal Bin Ghalaita		21/06/2011	3
	Mr. Yousef Ali Fadil Bin Fadil		20/10/2011	3
Board Risk Committee	Mr. Abdul Elah Sabbahi	3	20/01/2011	3
	Mr. Jamal Bin Ghalaita		22/06/2011	3
	Mr. Mohyedin Saleh Kamel		20/10/2011	2
	Mr. Fahad Abdulla A. Al-Rajhi *			1

* Board of Directors: He was not a Member in Meeting No. 1
* Board Risk Committee: He was not a Member in Meeting No. 1

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 2011, the Executive Management Team consisted of the President & Chief Executive, the Deputy Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury, Investment and Financial Institutions, Operations and Administration, Legal Affairs and Compliance.

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 Deputy Chief Executive and 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 Affairs and Internal Audit as observer-members.

Assets 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 Deputy Chief Executive, 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 a view to effecting standardisation in information and operation management. The Committee is chaired by the Deputy Chief Executive with remaining membership comprising the Heads of 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. The Committee is chaired by the Deputy Chief Executive with the remaining membership comprising the Heads of Operations and Administration, Strategic Planning and Financial Control.

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the 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 Deputy Chief Executive and the Heads of Internal Audit, Legal Affairs, Operations and Administration and Investors' Relations.

Brand Guardians

The Brand Guardians are responsible for the introduction, implementation and management of the new Unified Identity and maintenance of a lasting positive image reflecting the dynamic and international nature of the Group's businesses and activities. The Brand Guardians are the Deputy Chief Executive, the Heads of Operations and Administration and Strategic Planning, together with selected senior members of ABG Strategic Planning and a senior member of management from Al Baraka Bahrain.

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.

Examples of information that may constitute material information are:

- Changes in share ownership of the Group;
- Changes in corporate structure of the Group, such as reorganisations or mergers;
- Public or private sale of additional securities (such as Sukuk) or planned acquisition;
- Changes in the Group's dividend policy or other material modifications to the rights of shareholders;
- Takeover bids;
- Changes in the capital structure of the Group;
- Borrowing or lending of a significant amount of funds;
- Changes in rating agency decisions such as downgrades or upgrades;
- Development of new products that might consequently affect the Group's existing products or markets;
- Changes in financial results, including significant increases or decreases in near-term earnings prospects, including all the important financial indicators that affect the Group's earnings, balance sheet, cash flow and liquidity;
- Material changes in accounting policies;
- Significant changes in capital investment plans or the Group's corporate objectives and priorities;
- Significant changes in the Group's capital adequacy;
- Changes in the Group's Board of Directors or members of Executive Management;
- Commencement of, or developments in, material legal proceedings or regulatory matters;
- Major labour disputes;
- Significant changes in the existing business models of the subsidiaries;
- Material negative changes of subsidiaries' capital adequacy ratios;
- Material positive or negative earnings, or indicators of such earnings, generated by the subsidiaries; and
- Major economic or political events in one or more of the subsidiaries' countries of operations that the Group reasonably and prudently believes would have a material impact on the financial position of the Group.

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.

CORPORATE GOVERNANCE (CONTINUED)

Compliance, Policies and Procedures (continued)

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-Chairmen of the Board of Directors
- President & Chief Executive

In the event that any of the above mentioned 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, Volume 2, Part A, Public Disclosure Requirements section.

In order for the Group to be in full compliance with the CBB disclosure requirements as specified in the above mentioned Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements and its annual audited financial statements, which are the responsibility of its Financial Control Department. However, as some of the required information is generated by departments of the Group other than the Financial Control Department, all concerned departments responsible for producing information for the purpose of complying with the CBB's disclosure requirements (for example, the Strategic Planning, Operations and Administration, Credit and Risk Management, Legal Affairs, Compliance and the Internal Audit Departments) shall provide this information to the Financial Control Department on a timely basis in order for the latter to prepare the Group Financial Statements as stipulated by the CBB.

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 Central Bank of Bahrain'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.

The CBB as the home supervisor sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's individual 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. However, 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 now have wider discretion to increase or decrease capital requirements for banks according to their individual circumstances. The new rules also require greater transparency of published information relating to bank risk management.

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 Standardised Approach applicable to Islamic Banks under the CBB's Rulebook and the Group has been adhering solely to the requirements of the CBB under Basel II since July 2008.

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.

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 at the Head Office level, complying with CBB regulations, have been disseminated to all subsidiaries for implementation.

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 meeting the Basel II 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 those for related parties' transactions. 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. These risks and the processes employed to mitigate them have not altered significantly over the past year.

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.

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.

Risk Management (continued)

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 2011 are detailed in Note 25 to the Financial Statements.

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 is therefore akin to reputation risk. 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 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 also 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 2011 was 20.66%, 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.

CORPORATE GOVERNANCE (CONTINUED)

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 next stage of the Group's IT strategy and governance framework is being developed in collaboration with the subsidiaries and with the assistance of a leading advisory firm.

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 analysing 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 module relating to capital adequacy calculation based on credit, market and operational risk was implemented between 2010 and 2011 at the Head Office and at Al Baraka Islamic Bank Bahrain, with implementation being planned at the remaining subsidiaries throughout 2012 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. Several subsidiaries chose the Equation Islamic core banking system from Misys, while other subsidiaries, operating in different markets with different priorities, adopted iMAL from Path Solutions.

Five subsidiaries – Al Baraka Bahrain, Al Baraka South Africa, Al Baraka Lebanon, Al Baraka Pakistan and Al Baraka Egypt – opted for the Equation Islamic system. Al Baraka Bahrain achieved full implementation in 2009 followed by Al Baraka Lebanon and Al Baraka South Africa in 2011. Al Baraka Egypt and Al Baraka Pakistan anticipate going live in the first quarter of 2012.

Al Baraka Algeria chose iMAL from Path Solutions, with installation expected to go live in the first quarter 2012 and be fully completed later in the year. Implementation of Al Baraka Jordan's choice of the NIBRAS Banking System as its core banking system was achieved in 2011 and full project completion is expected during 2012.

Al Baraka Sudan, who also selected iMAL as its new core banking system, is now live with the application and expects to achieve project sign off for all other optional modules by the first quarter of 2012. Al Baraka Tunisia 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 future as part of an expansive "IT 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 2012 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 standardised global Disaster Recovery Plan (DRP) throughout the Group. Once the new core applications have been fully implemented at all ABG subsidiaries in 2012, and both a global DR Centre and local DR centres have been established, each subsidiary will be fully protected against any sudden, unexpected service loss.

CORPORATE SOCIAL RESPONSIBILITY

The success of the contemporary Islamic banking and finance movement owes much to the contribution and patronage of Sheikh 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 Sheikh 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 then quickly overtaken by the next stage of development when, in the early 1970s, Sheikh Kamel oversaw the establishment across the Arab world of a series 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 banks delivering Islamic products and services over three decades. We at ABG are proud to look back on this heritage, whilst at the same time we keenly look forward to the next stage in our development, as we gradually expand into new regions and new markets and build a wider customer base. As members of a banking group founded on Islamic principles and values, we at ABG 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 "construction of land", which means adding tangible value to assets. 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 CSR 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. ABG'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 ABG's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

PEACE OF MIND

OUR CUSTOMERS CAN REST ASSURED THAT THEIR FINANCIAL INTERESTS ARE BEING MANAGED BY US TO THE HIGHEST ETHICAL STANDARDS.

UNIFIED SHARI'A SUPERVISORY BOARD REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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

Praise be to Allah and peace be upon our Prophet Mohammed, 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 six meetings during 2011, three 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 2011 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 2011 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 2011 and Statement of Income and their notes. We have queried from some of the Technical's 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 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 31st December 2011 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 below 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 1.88 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 17 Rabi'a Al Awal 1433 H, corresponding to 9 February 2012 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 2011 — US Dollars ('000)

Equity Attributable to Shareholders	1,203,128
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt and Al Baraka Bank Sudan	(147,064)
Net Zakatable Equity Attributable to Shareholders	1,056,064
LESS:	
Musharaka underlined by unzakatable assets	(36,462)
Investment in Islamic Sukuk underlined by unzakatable assets	(60,229)
Ijarah Muntahia Bittamleek	(61,765)
Long-term investment in real estate	(12,085)
Properties and equipment	(179,241)
Intangible assets	(81,485)
Investment in Associates	(62,550)
ADD:	
Shareholders share on Zakatable Assets by Associates	53,280
Borrowing to finance Unzakatable Assets	12,796
Sale of long-term investment in real estate during the year	40
ZAKATABLE AMOUNT	628,363
Zakah Percentage	2.5775%
TOTAL ZAKAH DUE	16,196
Number of Shares (thousands)	862,231
ZAKAH PER SHARE (US$ CENTS)	1.88

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 2011 and the consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment account-holders for the year then ended, notes, 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 consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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 2011 that might have had a material adverse effect on the business of the Bank or on its consolidated 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

23 February 2012
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	Notes	2011 US$ '000	Restated 2010 US$ '000
ASSETS			
Cash and balances with banks	3	4,633,280	3,813,903
Receivables	4	8,213,057	8,063,331
Mudaraba and Musharaka financing	5	950,935	1,538,632
Investments	6	2,090,253	1,348,872
Ijarah Muntahia Bittamleek	7	563,721	439,801
Property and equipment	8	313,933	298,852
Other assets	9	388,864	374,933
TOTAL ASSETS		**17,154,043**	**15,878,324**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT-HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customers' current and other accounts		3,560,317	2,906,172
Due to banks		653,462	424,477
Other liabilities	10	675,196	490,988
TOTAL LIABILITIES		**4,888,975**	**3,821,637**
EQUITY OF INVESTMENT ACCOUNT-HOLDERS	**11**	**10,465,918**	**10,240,106**
OWNERS' EQUITY	**12**		
Share capital		869,550	790,500
Treasury shares		(7,319)	(6,528)
Share premium		16,420	15,866
Reserves		104,607	96,738
Cumulative changes in fair values		(10,910)	(3,834)
Foreign currency translations		(112,163)	(24,340)
Retained earnings		167,584	236,750
Proposed appropriations		175,359	118,575
Equity attributable to parent's shareholders		**1,203,128**	**1,223,727**
Non-controlling interest		596,022	592,854
Total owners' equity		**1,799,150**	**1,816,581**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT-HOLDERS AND OWNERS' EQUITY		**17,154,043**	**15,878,324**

Shaikh Saleh Abdullah Kamel
Chairman

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

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$ '000	2010 US$ '000
INCOME			
Net income from jointly financed contracts and investments	13	895,682	808,707
Return on equity of investment account-holders before Group's share as a Mudarib		(796,826)	(745,405)
Group's share as a Mudarib	14	236,159	236,627
Return on equity of investment account-holders		(560,667)	(508,778)
Group's share of income from equity of investment account-holders (as a Mudarib and Rabalmal)		335,015	299,929
Mudarib share for managing off-balance sheet equity of investment account-holders		4,172	4,702
Net income from self financed contracts and investments	13	179,177	147,827
Other fees and commission income	15	167,702	151,067
Other operating income	16	54,878	55,049
TOTAL OPERATING INCOME		740,944	658,574
Staff expenses		222,450	196,583
Depreciation and amortisation	17	29,251	22,798
Other operating expenses	18	145,026	122,902
TOTAL OPERATING EXPENSES		396,727	342,283
NET INCOME FOR THE YEAR BEFORE PROVISIONS AND TAXATION		344,217	316,291
Provisions	19	(50,812)	(59,581)
NET INCOME BEFORE TAXATION		293,405	256,710
Taxation		(81,111)	(63,547)
NET INCOME FOR THE YEAR		212,294	193,163
Attributable to:			
Equity holders of the parent		118,370	105,607
Non-controlling interest		93,924	87,556
		212,294	193,163
Basic and diluted earnings per share - US cents	20	13.72	12.22

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$ '000	2010 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		293,405	256,710
Adjustments for:			
Depreciation and amortisation	17	29,251	22,798
Impairment of intangible assets	9(a)	31	762
Depreciation on Ijarah Muntahia Bittamleek	13.4	55,812	49,676
Unrealised loss (gain) on equity-type instruments at fair value through statement of income	13.3	459	(611)
Gain on sale of property and equipment	16	(6,679)	(9,961)
Gain on sale of investment in real estate	13.3	(1,608)	(2,729)
Gain on sale of equity-type instruments at fair value through equity	13.3	(8,323)	(161)
Gain on sale of equity-type instruments at fair value through statement of income	13.3	-	(132)
Provisions	19	50,812	59,581
Income from associates	13.3	(314)	(2,629)
Operating profit before changes in operating assets and liabilities		412,846	373,304
Net changes in operating assets and liabilities:			
Reserves with central banks		(811,087)	(217,180)
Receivables		(206,221)	(1,101,417)
Mudaraba and Musharaka financing		586,715	(563,194)
Ijarah Muntahia Bittamleek		(179,732)	(154,144)
Other assets		(31,903)	(27,022)
Customer current and other accounts		654,145	298,328
Due to banks		228,985	271,815
Other liabilities		155,300	21,217
Equity of investment account-holders		253,736	2,020,603
Taxation paid		(54,915)	(32,871)
Net cash from operating activities		1,007,869	889,439
INVESTING ACTIVITIES			
Net purchase of investments		(751,465)	(301,214)
Net purchase of property and equipment		(34,260)	(83,522)
Net sale of investment in associate		1,626	13,622
Dividend received from associates		-	244
Net cash used in investing activities		(784,099)	(370,870)
FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent		(39,525)	(44,640)
Net movement in treasury shares		73	(10,700)
Net changes in non-controlling interest		(27,267)	2,322
Net cash used in financing activities		(66,719)	(53,018)
Foreign currency translation adjustments		(148,761)	(27,101)
INCREASE IN CASH AND CASH EQUIVALENTS		8,290	438,450
Cash and cash equivalents at 1 January		2,988,700	2,550,250
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	2,996,990	2,988,700

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY YEAR ENDED 31 DECEMBER 2011

	Attributable to equity				
				Reserves	
	Share Capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Other reserves US$ '000
Balance at 1 January 2011 (restated)	790,500	(6,528)	15,866	53,547	43,191
Dividends paid	-	-	-	-	-
Bonus shares issued (note 12)	79,050	-	-	-	-
Movement in treasury shares	-	(791)	554	-	-
Net movement in cumulative change in fair value	-	-	-	-	-
Net movement in other reserves	-	-	-	-	(3,968)
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**	**39,223**

The attached notes 1 to 28 form part of these consolidated financial statements.

shareholders of the parent						
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 owner's equity US$ '000
(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)
-	-	(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
(10,910)	**(112,163)**	**167,584**	**175,359**	**1,203,128**	**596,022**	**1,799,150**

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY YEAR ENDED 31 DECEMBER 2011

	Attributable to equity				
			Reserves		
	Share Capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Other reserves US$ '000
Balance at 1 January 2010	744,000	-	99,390	42,986	39,307
Changes due to adoption of FAS 25	-	-	-	-	-
Balance at 1 January 2010 (restated)	**744,000**	**-**	**99,390**	**42,986**	**39,307**
Bonus shares issued (note 12)	46,500	-	-	-	-
Movement in treasury shares	-	(6,528)	(4,474)	-	-
Net movement in cumulative change in fair value	-	-	-	-	-
Net movement in other reserves	-	-	-	-	3,884
Foreign currency translation	-	-	-	-	-
Net income for the year	-	-	-	-	-
Transfer to statutory reserve	-	-	-	10,561	-
Dividends paid	-	-	-	-	-
Proposed dividends	-	-	-	-	-
Proposed bonus shares	-	-	(79,050)	-	-
Dividends of subsidiaries	-	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-
Balance at 31 December 2010 (restated)	**790,500**	**(6,528)**	**15,866**	**53,547**	**43,191**

The attached notes 1 to 28 form part of these consolidated financial statements.

shareholders of the parent						
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 owner's equity US$ '000
17,301	(9,165)	189,401	91,140	1,214,360	522,485	1,736,845
(2,000)	(135)	-	-	(2,135)	(918)	(3,053)
15,301	**(9,300)**	**189,401**	**91,140**	**1,212,225**	**521,567**	**1,733,792**
-	-	-	(46,500)	-	-	-
-	-	302	-	(10,700)	-	(10,700)
(19,135)	-	-	-	(19,135)	(6,698)	(25,833)
-	-	(8,474)	-	(4,590)	(3,399)	(7,989)
-	(15,040)	-	-	(15,040)	(11,893)	(26,933)
-	-	105,607	-	105,607	87,556	193,163
-	-	(10,561)	-	-	-	-
-	-	-	(44,640)	(44,640)	-	(44,640)
-	-	(39,525)	39,525	-	-	-
-	-	-	79,050	-	-	-
-	-	-	-	-	(23,990)	(23,990)
-	-	-	-	-	29,711	29,711
(3,834)	**(24,340)**	**236,750**	**118,575**	**1,223,727**	**592,854**	**1,816,581**

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT-HOLDERS YEAR ENDED 31 DECEMBER 2011

	Cash US$ '000	Sales receivables US$ '000
Balance at 1 January 2011	**44,920**	**147,093**
Deposits	33,043	329,519
Withdrawals	(60,774)	(381,689)
Income (loss) net of expenses	-	13,666
Mudarib's share	-	(3,228)
Foreign exchange translations	-	-
Balance at 31 December 2011	**17,189**	**105,361**
Balance at 1 January 2010	48,482	276,277
Deposits	1,350	109,498
Withdrawals	(4,912)	(251,787)
Income net of expenses	-	15,605
Mudarib's share	-	(2,500)
Foreign exchange translations	-	-
Balance at 31 December 2010	**44,920**	**147,093**

The attached notes 1 to 28 form part of these consolidated financial statements.

	Mudaraba financing US$ '000	Investment in real estate US$ '000	Investments US$ '000	Others US$ '000	Total US$ '000
	46,411	**28,255**	**112,057**	**76,602**	**455,338**
	294,156	7,329	56,423	309,064	1,029,534
	(141,006)	(653)	(38,161)	(346,322)	(968,605)
	1,142	474	(3,329)	2,668	14,621
	(1)	(95)	(81)	(767)	(4,172)
	-	-	(528)	(3,060)	(3,588)
	200,702	**35,310**	**126,381**	**38,185**	**523,128**
	17,786	27,156	110,624	29,726	510,051
	95,906	1,197	25,926	217,033	450,910
	(67,887)	(362)	(26,632)	(171,160)	(522,740)
	606	326	4,256	2,043	22,836
	-	(62)	(1,491)	(649)	(4,702)
	-	-	(626)	(391)	(1,017)
	46,411	**28,255**	**112,057**	**76,602**	**455,338**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

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 23 February 2012.

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.

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 2011	Ownership for 2010	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2011
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	55.90%	55.90%	1991	Algeria	25
Al Baraka Islamic Bank - Bahrain (AIB)	91.12%	91.12%	1984	Bahrain	95
Al Baraka Bank Tunis (ABT)	78.40%	78.40%	1983	Tunisia	8
Al Baraka Bank Egypt (ABE)	73.68%	73.68%	1980	Egypt	22
Al Baraka Bank Lebanon (ABBL)	98.50%	98.50%	1991	Lebanon	7
Jordan Islamic Bank (JIB)	66.01%	66.01%	1978	Jordan	75
Al Baraka Turk Participation Bank (ATPB)	56.64%	56.64%	1985	Turkey	122
Al Baraka Bank Limited (ABL)	61.98%	56.29%	1989	South Africa	10
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 2011	Effective Ownership for 2010	Year of incorporation	Country of incorporation
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	58.90%	58.90%	2010	Pakistan
Al- Rizq Trading Company	JIB	59.40%	59.40%	1994	Jordan
Al-Omariya School Company	JIB	62.31%	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	66.01%	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	66.01%	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	66.01%	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	61.98%	56.29%	1991	South Africa

d. New accounting standards

During 2010, AAOIFI issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which is effective as of 1 January 2011.

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of FAS 25 had no effect on the classification and measurement of the Groups financial assets except for the restatement as disclosed in note 6.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 account-holders in the consolidated statement of financial position to the extent of the portion of the fair value relating to equity of investment account-holders 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 account-holders 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 fluctuations 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 account-holders 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 account-holders 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 account-holders

All equity of investment account-holders 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 account-holders, after allocating the mudarib share, in order to cater against future losses for equity of investment account-holders.

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 account-holders.

u. Off-balance sheet equity of investment account-holders

Off-balance sheet equity of investment account-holders 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 account-holders 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 account-holders.

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.

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

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 account-holders is based on the terms and conditions of the related mudarib agreements.

Mudarib's share of off-balance sheet equity of investment account-holders

The Group shares profit for managing off-balance sheet equity of investment account-holders based on the terms and conditions of related contracts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x. Return on equity of investment account-holders

Equity of investment account-holders' 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 account-holders 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 account-holders 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.

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.

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 CASH AND BALANCES WITH BANKS

	2011 US$ '000	2010 US$ '000
Balances with central banks*	3,406,311	2,737,421
Balances with other banks	855,435	842,568
Cash and cash in transit	371,534	233,914
	4,633,280	3,813,903

* Balances with the central banks include mandatory reserves amounting to US$ 1,636,290 thousand (2010: US$ 825,203 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2011 US$ '000	2010 US$ '000
Sales (Murabaha) receivables (4.1)	8,080,444	7,939,881
Ijarah receivables (4.2)	25,450	18,496
Salam receivables (4.3)	80,284	80,292
Istisna'a receivables (4.4)	26,879	24,662
	8,213,057	8,063,331

4.1 SALES (MURABAHA) RECEIVABLES

	2011			2010		
	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	140,287	405,963	546,250	58,401	417,854	476,255
Other Murabaha	1,091,049	7,556,527	8,647,576	678,020	8,056,025	8,734,045
Gross Sales (Murabaha) receivables	1,231,336	7,962,490	9,193,826	736,421	8,473,879	9,210,300
Deferred profits	(120,786)	(658,930)	(779,716)	(84,817)	(860,387)	(945,204)
	1,110,550	7,303,560	8,414,110	651,604	7,613,492	8,265,096
Provisions (note 19)	(40,504)	(293,162)	(333,666)	(50,343)	(274,872)	(325,215)
	1,070,046	7,010,398	8,080,444	601,261	7,338,620	7,939,881

	2011 US$ '000	2010 US$ '000
Non-performing	441,057	459,317

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

4.2 IJARAH RECEIVABLES

	2011			2010		
	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	1,374	26,582	27,956	1,496	20,402	21,898
Provisions (note 19)	-	(2,506)	(2,506)	(887)	(2,515)	(3,402)
	1,374	24,076	25,450	609	17,887	18,496

	2011 US$ '000	2010 US$ '000
Non-performing	10,758	14,335

4.3 SALAM RECEIVABLES

	2011			2010		
	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	-	84,556	84,556	-	83,911	83,911
Provisions (note 19)	-	(4,272)	(4,272)	-	(3,619)	(3,619)
	-	80,284	80,284	-	80,292	80,292

	2011 US$ '000	2010 US$ '000
Non-performing	7,228	3,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

4 RECEIVABLES (CONTINUED)

4.4 ISTISNA'A RECEIVABLES

	2011			2010		
	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	-	27,423	27,423	-	24,958	24,958
Provisions (note 19)	-	(544)	(544)	-	(296)	(296)
	-	26,879	26,879	-	24,662	24,662

	2011 US$ '000	2010 US$ '000
Non-performing	665	483

5 MUDARABA AND MUSHARAKA FINANCING

	2011 US$ '000	2010 US$ '000
Mudaraba financing (5.1)	606,437	1,186,564
Musharaka financing (5.2)	344,498	352,068
	950,935	1,538,632

5.1 MUDARABA FINANCING

	2011			2010		
	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	161,519	456,842	618,361	105,709	1,086,908	1,192,617
Provisions (note 19)	-	(11,924)	(11,924)	(1,955)	(4,098)	(6,053)
	161,519	444,918	606,437	103,754	1,082,810	1,186,564

	2011 US$ '000	2010 US$ '000
Non-performing	17,209	6,645

5.2 MUSHARAKA FINANCING

	2011			2010		
	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	62,365	287,129	349,494	90,584	272,293	362,877
Provisions (note 19)	-	(4,996)	(4,996)	-	(10,809)	(10,809)
	62,365	282,133	344,498	90,584	261,484	352,068

	2011 US$ '000	2010 US$ '000
Non-performing	18,850	25,269

6 INVESTMENTS

	2011 US$ '000	Restated 2010 US$ '000
Equity-type instruments at fair value through statement of income (6.1)	2,983	8,966
Equity-type instruments at fair value through equity (6.2)	224,843	195,235
Debt-type instruments at amortised cost (6.3)	1,708,751	1,001,491
	1,936,577	1,205,692
Investment in real estate (6.4)	128,112	116,304
Investment in associates (6.5)	25,564	26,876
	2,090,253	1,348,872

6.1 EQUITY-TYPE INSTRUMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2011			2010		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted equities	2,983	-	2,983	5,966	3,000	8,966

6 INVESTMENTS (CONTINUED)

6.2 EQUITY-TYPE INSTRUMENTS AT FAIR VALUE THROUGH EQUITY

	2011			2010		
	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	41,172	52,060	56,232	4,042	21,221	25,263
Managed funds	8,611	31,409	40,020	12,192	33,775	45,967
	12,783	83,469	96,252	16,234	54,996	71,230
Unquoted investments						
Equities	86,618	30,605	117,223	84,359	15,364	99,723
Managed funds	-	23,843	23,843	808	31,309	32,117
	86,618	54,448	141,066	85,167	46,673	131,840
Provisions (note 19)	(7,410)	(5,065)	(12,475)	(4,343)	(3,492)	(7,835)
	91,991	132,852	224,843	97,058	98,177	195,235

6.3 DEBT-TYPE INSTRUMENTS AT AMORTISED COST

	2011			2010		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Sukuk	14,794	62,009	76,803	-	54,249	54,249
	14,794	62,009	76,803	-	54,249	54,249
Unquoted investments						
Sukuk and similar items	321,341	1,312,831	1,634,172	448,860	500,688	949,548
	321,341	1,312,831	1,634,172	448,860	500,688	949,548
Provisions (note 19)	(641)	(1,583)	(2,224)	-	(2,306)	(2,306)
	335,494	1,373,257	1,708,751	448,860	552,631	1,001,491

RECLASSIFICATION OF INVESTMENTS

Adoption of FAS 25 resulted in the following adjustment to the carrying value as of 31 December 2010:

	Before adopting FAS 25				On adopting FAS 25		
	Held to maturity US$ '000	Available for sale US$ '000	Held for Trading US$ '000	FAS 25 adjustment US$ '000	Fair value through statement of income US$ '000	Amortised Cost US$ '000	Fair value through equity US$ '000
Debt type							
Quoted investments							
Sukuk	-	55,858	-	(1,609)	-	54,249	-
Unquoted investments							
Sukuk and similar items	713,567	235,981	-	-	-	949,548	-
	713,567	291,839	-	(1,609)	-	1,003,797	-
Equity type							
Quoted investments							
Equities	-	25,263	8,966	-	8,966	-	25,263
Managed funds	-	45,967	-	-	-	-	45,967
Unquoted investments							
Equities	-	96,379	-	-	-	-	96,379
Managed funds	-	32,117	-	-	-	-	32,117
	-	199,726	8,966	-	8,966	-	199,726
Provisions	(502)	(6,295)	-	-	-	(2,306)	(4,491)
	713,065	485,270	8,966	(1,609)	8,966	1,001,491	195,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

6 INVESTMENTS (CONTINUED)

6.4 INVESTMENT IN REAL ESTATE

	2011			2010		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
At cost	8,480	115,340	123,820	5,747	82,877	88,624
At fair value	4,312	123,800	128,112	3,040	113,264	116,304

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

	2011			2010		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	1,370	47,743	49,113	1,560	40,006	41,566
Buildings	2,942	76,057	78,888	1,480	73,258	74,738
	4,312	123,800	128,112	3,040	113,264	116,304

6.5 INVESTMENT IN ASSOCIATES

Investments in associates comprise the following:

			2011			
	Ownership % 2011	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	29.7	Jordan	-	5,769	5,769	4,610
Insurance						
The Islamic Insurance Company	33.2	Jordan	-	7,199	7,199	8,043
Others						
Jordan International Trading Centre	28.4	Jordan	-	1,932	1,932	1,156
Arabian Steel Pipes Manufacturing Company Limited	26.0	Jordan	-	5,542	5,542	8,086
			-	20,442	20,442	21,895
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	377	377	
Insurance						
Aman Takaful Insurance	38.7	Lebanon	1,028	-	1,028	
Others						
BEST Lease	28.0	Tunisia	3,717	-	3,717	
			4,745	377	5,122	
			4,745	20,819	25,564	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

6 INVESTMENTS (CONTINUED)

6.5 INVESTMENT IN ASSOCIATES (CONTINUED)

			2010			
	Ownership % 2010	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	29.7	Jordan	-	6,697	6,697	6,622
Insurance						
The Islamic Insurance Company	33.2	Jordan	-	7,459	7,459	10,350
Others						
Jordan International Trading Centre	28.4	Jordan	-	1,886	1,886	1,264
Arabian Steel Pipes Manufacturing Company Limited	26.0	Jordan	-	5,461	5,461	8,086
			-	21,503	21,503	26,322
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	392	392	
Insurance						
Aman Takaful Insurance	38.7	Lebanon	1,583	-	1,583	
Others						
BEST Lease	28.0	Tunisia	3,398	-	3,398	
			4,981	392	5,373	
			4,981	21,895	26,876	

7 IJARAH MUNTAHIA BITTAMLEEK

	2011			2010		
	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	18,166	523,259	541,425	22,249	408,335	430,584
Accumulated depreciation	(9,490)	(125,621)	(135,111)	(15,719)	(105,769)	(121,488)
Net book value	8,676	397,638	406,314	6,530	302,566	309,096
Equipment						
Cost	13,571	331,282	344,853	16,621	344,434	361,055
Accumulated depreciation	(13,385)	(198,858)	(212,243)	(16,533)	(235,558)	(252,091)
Net book value	186	132,424	132,610	88	108,876	108,964
Others						
Cost	2,714	32,109	34,823	2,714	30,611	33,325
Accumulated depreciation	(2,714)	(7,312)	(10,026)	(2,560)	(9,024)	(11,584)
Net book value	-	24,797	24,797	154	21,587	21,741
TOTAL						
Cost	34,451	886,650	921,101	41,584	783,380	824,964
Accumulated depreciation	(25,589)	(331,791)	(357,380)	(34,812)	(350,351)	(385,163)
Net book value	8,862	554,859	563,721	6,772	433,029	439,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

8 PROPERTY AND EQUIPMENT

	Land and buildings US$ '000	Office furniture & equipment US$ '000	Vehicles US$ '000	Others US$ '000	Total US$ '000
Cost:					
At 1 January 2010	202,870	118,109	9,838	24,764	355,581
Additions	67,390	28,084	3,408	10,221	109,103
Disposals	(3,401)	(3,683)	(1,644)	(3,037)	(11,765)
Foreign exchange translations	(4,759)	(2,151)	(355)	(731)	(7,996)
At 31 December 2010	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**
Depreciation:					
At 1 January 2010	37,083	75,664	5,710	10,023	128,480
Provided during the year (note 17)	6,378	10,620	1,514	3,220	21,732
Relating to disposals	(58)	(31)	(738)	(806)	(1,633)
Foreign exchange translations	(899)	(1,112)	(228)	(269)	(2,508)
At 31 December 2010	42,504	85,141	6,258	12,168	146,071
Provided during the year (note 17)	9,181	12,375	1,409	2,893	25,858
Relating to disposals	182	(1,524)	(1,040)	(874)	(3,256)
Foreign exchange translations	(3,456)	(5,016)	(380)	(1,664)	(10,516)
At 31 December 2011	**48,411**	**90,976**	**6,247**	**12,523**	**158,157**
Net book values:					
At 31 December 2011	**205,760**	**59,202**	**4,315**	**44,656**	**313,933**
At 31 December 2010	219,596	55,218	4,989	19,049	298,852

9 OTHER ASSETS

	2011 US$ '000	2010 US$ '000
Bills receivables	124,827	123,924
Goodwill and intangible assets (note 9(a))	86,378	93,770
Collateral pending sale	65,388	60,237
Good Faith Qard	15,213	15,256
Deferred taxation	30,425	43,865
Prepayments	40,824	24,255
Others	37,717	27,897
	400,772	389,204
Provisions (note 19)	(11,908)	(14,271)
	388,864	374,933

9(a) GOODWILL AND INTANGIBLE ASSETS

	2011			2010		
	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	83,792	9,978	93,770	62,423	7,488	69,911
Additions	-	4,354	4,354	21,598	4,016	25,614
Amortisation charge for the year	-	(3,393)	(3,393)	-	(1,066)	(1,066)
Impairment loss for the year	-	(31)	(31)	-	(762)	(762)
Foreign exchange translations	(7,199)	(1,123)	(8,322)	(229)	302	73
At 31 December	76,593	9,785	86,378	83,792	9,978	93,770

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:

	2011 US$ '000	2010 US$ '000
Al Baraka Turk Participation Bank	27,013	33,084
Al Baraka Bank Egypt	2,371	2,464
Jordan Islamic Bank	26,646	26,646
Al Baraka Bank (Pakistan) Limited	20,563	21,598
	76,593	83,792

9 OTHER ASSETS (CONTINUED)

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.

10 OTHER LIABILITIES

	2011 US$ '000	2010 US$ '000
Payables	274,647	208,024
Cash margins	193,783	96,835
Other provisions (note 19) *	15,303	12,128
Current taxation **	46,565	52,643
Deferred taxation **	30,386	11,743
Accrued expenses	55,247	48,779
Charity fund	2,600	5,035
Others	56,665	55,801
	675,196	490,988

* 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.

11 EQUITY OF INVESTMENT ACCOUNT-HOLDERS (IAH)

	2011 US$ '000	2010 US$ '000
Equity of investment account-holders	10,358,918	10,140,981
Profit equalisation reserve (note 11.1)	8,034	2,667
Investment risk reserve (note 11.2)	93,653	87,004
Cumulative changes in fair value attributable to equity of investment account-holders - net (11.3)	5,313	9,454
	10,465,918	10,240,106

11.1 MOVEMENT IN PROFIT EQUALISATION RESERVE

	2011 US$ '000	2010 US$ '000
Balance at 1 January	2,667	2,304
Amount apportioned from income allocable to equity of investment account-holders	5,558	424
Foreign exchange translations	(191)	(61)
Balance at 31 December	8,034	2,667

11.2 MOVEMENT IN INVESTMENT RISK RESERVE

	2011 US$ '000	2010 US$ '000
Balance at 1 January	87,004	65,226
Amount appropriated to provision (note 19)	(23,783)	(19,121)
Amount apportioned from income allocable to equity of investment account-holders	44,712	42,363
Foreign exchange translations	(14,280)	(1,464)
Balance at 31 December	93,653	87,004

11.3 MOVEMENT IN ACCUMULATED CHANGES IN FAIR VALUE ATTRIBUTABLE TO EQUITY OF INVESTMENT ACCOUNT-HOLDERS - NET

	2011 US$ '000	2010 US$ '000
Balance at 1 January	9,454	19,715
Change in fair values during the year	(4,960)	(9,936)
Realised gain transferred to consolidated statement of income	(1,382)	(946)
Deferred taxation effect	1,903	(859)
Transfer from shareholders equity	298	1,480
	5,313	9,454
Attributable to investment in real estate	7,965	8,958
Attributable to equity-type instruments at fair value through equity	(2,652)	496
	5,313	9,454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

12 OWNERS' EQUITY

	2011 US$ '000	2010 US$ '000
Share capital		
Authorised 1,500,000,000 shares of US$ 1 each	1,500,000	1,500,000

	2011 US$ '000	2010 US$ '000
Issued and fully paid up		
At beginning of the year		
790,500,000 (2010: 744,000,000) shares of US$1 each	790,500	744,000
Issued during the year		
79,050,000 (2010: 46,500,000) Bonus shares of US$1 each	79,050	46,500
At end of the year		
869,550,000 (2010: 790,500,000) shares of US$1 each	869,550	790,500

The Bank issued bonus shares at one bonus share for each 10 (2010: 16) shares held following shareholders' approval and the Board of Directors' resolution in its meeting on 23 February 2011 (2010: 24 February 2010). This was also approved by the Ministry of Industry and Commerce and the CBB.

Treasury shares	No. thousand	2011 US$ '000	2010 US$ '000
At 1 January	6,528	6,528	-
Purchase of treasury shares	1,446	1,446	7,295
Sale of treasury shares	(655)	(655)	(767)
At 31 December	7,319	7,319	6,528

The market value of the treasury shares is US$ 7,978 thousand (2010: US$ 9,792 thousand) and it represents 0.8% (2010: 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:

Name	Nationality/ Incorporation	No. of shares	% holding
AT 31 DECEMBER 2011			
Saleh Abdulla Kamel	Saudi	261,825,620	30.11%
Dallah Al Baraka 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%
AT 31 DECEMBER 2010			
Saleh Abdulla Kamel	Saudi	238,023,291	30.11%
Dallah Al Baraka Holding Company E.C.	Bahrain	194,746,842	24.64%
Altawfeek Company For Investment Funds	Cayman Island	163,166,649	20.65%
Abdulla AbdulAziz AlRajihi	Saudi	53,822,253	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:

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
AT 31 DECEMBER 2011			
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%
AT 31 DECEMBER 2010			
Less than 1%	42,793,835	1,115	5.41%
1% up to less than 5%	97,947,130	8	12.39%
5% up to less than 10%	53,822,253	1	6.81%
20% up to less than 50%	595,936,782	3	75.39%
	790,500,000	1,127	100.00%

12 OWNERS' EQUITY (CONTINUED)

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.

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

	2011 US$ '000	2010 US$ '000
Cash dividend 3.5% (2010: 5%)	30,434	39,525
Bonus shares	144,925	79,050
	175,359	118,575

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 6 shares held. This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2010 was approved at the Annual General Meeting on 23 March 2011 and was effected in 2011 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.

13 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2011 US$ '000	2010 US$ '000
Receivables (note 13.1)	766,213	781,282
Mudaraba and Musharaka financing (note 13.2)	62,812	40,006
Investments (note 13.3)	193,083	94,243
Ijarah Muntahia Bittamleek (note 13.4)	44,762	34,512
Others	7,989	6,491
	1,074,859	956,534
Net income from jointly financed contracts and investments	895,682	808,707
Net income from self financed contracts and investments	179,177	147,827
	1,074,859	956,534

13.1 RECEIVABLES

	2011 US$ '000	2010 US$ '000
Sales (Murabaha) receivables	759,710	772,050
Salam receivables	4,079	5,913
Istisna'a receivables	2,424	3,319
	766,213	781,282

13.2 MUDARABA AND MUSHARAKA FINANCING

	2011 US$ '000	2010 US$ '000
Mudaraba financing	32,166	18,633
Musharaka financing	30,646	21,373
	62,812	40,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

13 NET INCOME FROM JOINTLY & SELF FINANCED CONTRACTS & INVESTMENTS (CONTINUED)

13.3 INVESTMENTS

	2011 US$ '000	2010 US$ '000
Equity-type instruments at fair value through equity	15,446	20,271
Debt-type instruments at amortised cost	166,524	66,784
Unrealised gain (loss) on equity-type instruments at fair value through statement of income	(459)	611
Gain on sale of equity-type instruments at fair value through equity	8,323	161
Gain on sale of equity-type instruments at fair value through statement of income	-	132
Rental income	1,327	926
Investment in associates	314	2,629
Gain on sale of investment in real state	1,608	2,729
	193,083	94,243

13.4 IJARAH MUNTAHIA BITTAMLEEK

	2011 US$ '000	2010 US$ '000
Income from Ijarah Muntahia Bittamleek	100,574	84,188
Depreciation on Ijarah Muntahia Bittamleek	(55,812)	(49,676)
	44,762	34,512

14 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.

15 OTHER FEES AND COMMISSION INCOME

	2011 US$ '000	2010 US$ '000
Banking fees and commissions	73,072	73,498
Letters of credit	52,978	40,073
Guarantees	37,221	36,077
Acceptances	4,431	1,419
	167,702	151,067

16 OTHER OPERATING INCOME

	2011 US$ '000	2010 US$ '000
Foreign exchange gain	46,872	33,799
Gain on sale of property and equipment	6,679	9,961
Gain arising on merger of Pakistan branches	-	9,833
Others	1,327	1,456
	54,878	55,049

17 DEPRECIATION AND AMORTISATION

	2011 US$ '000	2010 US$ '000
Property and equipment depreciation (note 8)	25,858	21,732
Intangible assets amortisation (note 9(a))	3,393	1,066
	29,251	22,798

18 OTHER OPERATING EXPENSES

	2011 US$ '000	2010 US$ '000
General and administration	85,675	74,560
Professional and business expenses	20,826	18,202
Premises related expenses	38,525	30,140
	145,026	122,902

19 PROVISIONS

2011	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)
Provisions at 1 January	325,215	3,402	3,619
Charged during the year	64,531	1,279	1,502
Written back during the year	(31,900)	(2,110)	(816)
	32,631	(831)	686
	357,846	2,571	4,305
Written off during the year	(27,512)	-	-
Amount appropriated from investment risk reserve (note 11.2)	23,746	-	-
Foreign exchange translations /others	(20,414)	(65)	(33)
Provisions at 31 December	**333,666**	**2,506**	**4,272**
2010			
Provisions at 1 January	277,007	2,987	3,524
Charged during the year	82,066	962	915
Written back during the year	(36,937)	(373)	(749)
	45,129	589	166
	322,136	3,576	3,690
Written off during the year	(15,053)	-	-
Amount appropriated from investment risk reserve (note 11.2)	19,098	-	-
Foreign exchange translations /others	(966)	(174)	(71)
Provisions at 31 December	**325,215**	**3,402**	**3,619**

	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 10)	Total US$ '000
	296	6,053	10,809	10,141	14,271	12,128	385,934
	296	6,242	465	4,783	2,126	11,526	92,750
	(33)	(89)	(5,673)	-	(1,018)	(299)	(41,938)
	263	6,153	(5,208)	4,783	1,108	11,227	50,812
	559	12,206	5,601	14,924	15,379	23,355	436,746
	-	-	-	(134)	-	(12)	(27,658)
	-	-	37	-	-	-	23,783
	(15)	(282)	(642)	(91)	(3,471)	(8,040)	(33,053)
	544	**11,924**	**4,996**	**14,699**	**11,908**	**15,303**	**399,818**
	151	618	1,858	6,314	16,330	6,180	314,969
	169	5,635	1,740	4,614	1,117	8,295	105,513
	(1)	(49)	(1,675)	(558)	(1,498)	(4,092)	(45,932)
	168	5,586	65	4,056	(381)	4,203	59,581
	319	6,204	1,923	10,370	15,949	10,383	374,550
	(3)	-	(289)	(87)	(2)	(128)	(15,562)
	-	-	23	-	-	-	19,121
	(20)	(151)	9,152	(142)	(1,676)	1,873	7,825
	296	**6,053**	**10,809**	**10,141**	**14,271**	**12,128**	**385,934**

19 PROVISIONS (CONTINUED)

These provisions relate to the following geographical areas:

2011	Sales (Murabaha) receivables US$ '000	Ijarah receivables US$ '000	Salam receivables US$ '000
Middle East	195,009	1,181	-
North Africa	30,621	173	3,581
Europe	84,025	-	-
Others	24,011	1,152	691
Total	**333,666**	**2,506**	**4,272**
2010			
Middle East	167,826	2,068	-
North Africa	30,850	-	3,543
Europe	102,466	-	-
Others	24,073	1,334	76
Total	**325,215**	**3,402**	**3,619**

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2011 amounts to US$ 298.3 million (31 December 2010: US$ 373.7 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.

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
-	11,249	323	11,501	5,693	14,513	239,469
100	675	53	2,557	195	322	38,277
-	-	-	363	535	602	85,525
444	-	4,620	278	5,485	(134)	36,547
544	**11,924**	**4,996**	**14,699**	**11,908**	**15,303**	**399,818**
-	5,411	286	7,085	4,922	11,598	199,196
112	642	54	2,570	3,167	513	41,451
-	-	-	143	610	18	103,237
184	-	10,469	343	5,572	(1)	42,050
296	**6,053**	**10,809**	**10,141**	**14,271**	**12,128**	**385,934**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

20 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:

	2011	2010
Net income attributable to the equity shareholders of the parent for the year - US$ '000	118,370	105,607
Weighted average number of shares outstanding at the beginning of the year (in thousands)	864,100	790,500
Treasury shares effect (in thousands)	(1,565)	(5,450)
Bonus shares effect (in thousands)*	-	79,050
Weighted average number of shares outstanding at the end of the year (in thousands)	862,535	864,100
Earnings per share - US cents	13.72	12.22

*The weighted average number of shares of the previous year has been adjusted on account of the bonus issue made in 2011 and 2010.

21 CASH AND CASH EQUIVALENTS

	2011 US$ '000	2010 US$ '000
Balances with central banks excluding mandatory reserve	1,770,021	1,912,218
Balances with other banks	855,435	842,568
Cash and cash in transit	371,534	233,914
	2,996,990	2,988,700

22 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	2011 US$ '000	2010 US$ '000
Net income from jointly financed contracts and investments	305	340	3	48	696	3,946
Net income from self financed financing and investments	-	431	-	-	431	713
Return on equity of investment account-holders	-	(51)	(34)	(572)	(657)	(809)
Other fees and commission income	43	69	-	-	112	-
Other operating income	-	-	-	-	-	376

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

	2011 US$ '000	2010 US$ '000
Short term employee benefits	4,943	4,519
Long term employee benefits	566	560

Director's remuneration accrued for the year ended 31 December 2011 amounted to US$ 750 thousand (2010: US$ 750 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

22 RELATED PARTY TRANSACTIONS (CONTINUED)

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	2011 US$ '000	2010 US$ '000
Assets:						
Cash and balances with banks	-	-	-	-	-	177
Receivables	5,556	7,626	439	151	13,772	44,394
Mudaraba and Musharaka financing	-	16,215	-	339	16,554	36,763
Investments	5,103	70,277	-	-	75,380	81,622
Ijarah Muntahia Bittamleek	-	-	55	36	91	121
Other assets	-	54	498	132	684	949
Liabilities:						
Customer current and other accounts	16,152	3,421	1,507	336	21,416	24,323
Other Liabilities	-	1,087	69	-	1,156	2,081
Equity of investment account-holders	2,070	5,008	2,257	7,519	16,854	19,096
Off-balance sheet equity of investment account-holders	6,643	8,130	141	-	14,914	19,354

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

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	2010 No. of shares	Transaction No. of shares	2011 No. of shares*
Saleh Abdulla Kamel	Chairman	Saudi	432,770,133	-	476,047,146
Abdulla Ammar Saudi	Vice Chairman	Bahraini	358,816	65,000	466,198
Abdulla Saleh Kamel	Vice Chairman	Saudi	215,358	-	236,894
Fahad Abdulla Al-Rajhi	Board Member	Saudi	15,990,576	-	17,589,634
Mohyedin Saleh Kamel	Board Member	Saudi	187,170	-	205,887
Abdul Elah Sabbahi	Board Member	Saudi	143,679	-	158,047
Adnan Ahmed Yousif	Board Member and President & Chief Executive	Bahraini	233	-	256
Abdulrahman Shehab	Senior Vice President, Head of Operations and Administration	Bahraini	51,590	-	56,749

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 10 shares held following shareholders' approval at the Annual General Meeting on 23 March 2011.

23 COMMITMENTS AND CONTINGENCIES

	2011 US$ '000	2010 US$ '000
Letters of credit	1,273,460	1,144,767
Guarantees	2,886,318	2,854,794
Acceptances	142,802	72,353
Undrawn Commitments	393,570	361,067
Others	264	17,247
	4,696,414	4,450,228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

24 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 is presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment account-holders were as follows:

	2011			2010		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
SEGMENT						
Middle East	7,808,985	1,883,492	5,157,413	6,920,049	1,528,672	4,608,896
North Africa	2,287,272	987,756	959,182	2,105,346	852,847	920,957
Europe	5,510,986	1,628,441	3,345,056	5,424,000	1,104,352	3,763,013
Others	1,546,800	389,286	1,004,267	1,428,929	335,766	947,240
	17,154,043	4,888,975	10,465,918	15,878,324	3,821,637	10,240,106

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

	2011			2010		
	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	235,097	94,741	40,362	217,817	82,944	15,871
North Africa	129,736	84,627	57,079	124,216	82,140	66,257
Europe	303,601	147,527	103,413	274,486	143,966	103,482
Others	72,510	17,322	11,440	42,055	7,241	7,553
	740,944	344,217	212,294	658,574	316,291	193,163

25 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.

25 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	6 months to 1 year US$ '000
ASSETS				
Cash and balances with banks	2,966,957	30,033	-	-
Receivables	1,316,921	1,011,335	1,157,858	1,331,948
Mudaraba and Musharaka financing	488,552	10,847	12,732	34,436
Investments	675,575	278,405	152,990	253,097
Ijarah Muntahia Bittamleek	14,674	11,046	73,762	31,043
Property and equipment	-	-	-	-
Other assets	128,279	10,187	9,675	11,549
Total assets	5,590,958	1,351,853	1,407,017	1,662,073
LIABILITIES				
Customer current and other accounts	3,560,317	-	-	-
Due to banks	653,462	-	-	-
Other liabilities	389,144	40,182	14,717	34,658
Total Liabilities	4,602,923	40,182	14,717	34,658
Equity of investment account-holders	**2,591,356**	**1,150,649**	**1,079,525**	**2,153,690**
Total liabilities and equity of investment account-holders	**7,194,279**	**1,190,831**	**1,094,242**	**2,188,348**
Net liquidity gap	**(1,603,321)**	**161,022**	**312,775**	**(526,275)**
Cumulative net liquidity gap	**(1,603,321)**	**(1,442,299)**	**(1,129,524)**	**(1,655,799)**
Off-balance sheet equity of investment account-holders	**214,040**	**46,962**	**35,254**	**10,048**

	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
	2,100,450	1,090,273	198,890	5,149	233	-	8,213,057
	159,301	144,464	91,950	8,653	-	-	950,935
	507,330	108,863	5,613	10,946	-	97,434	2,090,253
	57,695	100,431	130,113	143,263	1,694	-	563,721
	-	-	-	-	-	313,933	313,933
	69,405	14,446	2,513	-	-	142,810	388,864
	2,894,181	1,458,477	429,079	168,011	1,927	2,190,467	17,154,043
	-	-	-	-	-	-	3,560,317
	-	-	-	-	-	-	653,462
	83,633	18,103	1,720	-	93,039	-	675,196
	83,633	18,103	1,720	-	93,039	-	4,888,975
	2,632,959	**789,994**	**67,745**	**-**	**-**	**-**	**10,465,918**
	2,716,592	**808,097**	**69,465**	**-**	**93,039**	**-**	**15,354,893**
	177,589	**650,380**	**359,614**	**168,011**	**(91,112)**	**2,190,467**	**1,799,150**
	(1,478,210)	**(827,830)**	**(468,216)**	**(300,205)**	**(390,317)**	**1,799,150**	
	120,876	**-**	**-**	**-**	**-**	**95,948**	**523,128**

25 RISK MANAGEMENT (CONTINUED)

a. Liquidity Risk (continued)

The consolidated maturity profile at 31 December 2010 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000
ASSETS				
Cash and balances with banks	2,967,891	20,809	-	-
Receivables	1,165,644	1,050,981	1,154,247	1,484,525
Mudaraba and Musharaka financing	649,938	418,728	23,856	32,019
Investments	426,072	45,935	62,296	96,525
Ijarah Muntahia Bittamleek	9,597	9,243	51,384	26,681
Property and equipment	-	-	-	-
Other assets	64,689	19,604	3,923	23,785
Total assets	**5,283,831**	**1,565,300**	**1,295,706**	**1,663,535**
LIABILITIES				
Customer current and other accounts	2,906,172	-	-	-
Due to banks	424,477	-	-	-
Other liabilities	229,288	15,685	13,785	28,637
Total Liabilities	**3,559,937**	**15,685**	**13,785**	**28,637**
Equity of investment account-holders	**3,569,685**	**1,157,237**	**772,190**	**1,597,402**
Total liabilities and equity of investment account-holders	**7,129,622**	**1,172,922**	**785,975**	**1,626,039**
Net liquidity gap	**(1,845,791)**	**392,378**	**509,731**	**37,496**
Cumulative net liquidity gap	**(1,845,791)**	**(1,453,413)**	**(943,682)**	**(906,186)**
Off-balance sheet equity of investment account-holders	**89,420**	**68,823**	**35,591**	**47,993**

	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	Restated Total US$ '000
	-	-	-	-	-	825,203	3,813,903
	2,034,115	990,869	177,865	3,787	1,298	-	8,063,331
	182,736	136,647	88,954	5,754	-	-	1,538,632
	252,904	120,366	-	8,551	255,359	80,864	1,348,872
	60,663	77,139	107,407	97,687	-	-	439,801
	-	-	-	-	-	298,852	298,852
	84,938	16,624	2,231	-	36,523	122,616	374,933
	2,615,356	**1,341,645**	**376,457**	**115,779**	**293,180**	**1,327,535**	**15,878,324**
	-	-	-	-	-	-	2,906,172
	-	-	-	-	-	-	424,477
	66,693	30,045	701	-	106,154	-	490,988
	66,693	**30,045**	**701**	**-**	**106,154**	**-**	**3,821,637**
	2,225,289	**870,070**	**48,233**	**-**	**-**	**-**	**10,240,106**
	2,291,982	**900,115**	**48,934**	**-**	**106,154**	**-**	**14,061,743**
	323,374	**441,530**	**327,523**	**115,779**	**187,026**	**1,327,535**	**1,816,581**
	(582,812)	**(141,282)**	**186,241**	**302,020**	**489,046**	**1,816,581**	
	11,903	**106,061**	**-**	**-**	**-**	**95,547**	**455,338**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (31 DECEMBER 2011)

25 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.

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

	Maximum exposure	
	2011 US$ '000	Restated 2010 US$ '000
Receivables	8,213,057	8,063,331
Mudaraba and Musharaka financing	950,935	1,538,632
Investments	2,090,253	1,348,872
Ijarah Muntahia Bittamleek	563,721	439,801
Other assets	165,849	152,806
Total	11,983,815	11,543,442
Commitments and contingencies	4,696,414	4,450,228
	16,680,229	15,993,670

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:

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
31 DECEMBER 2011				
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	169,651	429	19,585	189,665
	9,062,081	134,132	515,352	9,711,565
31 DECEMBER 2010				
Receivables	7,854,313	63,466	478,084	8,395,863
Mudaraba and Musharaka financing	1,479,068	44,512	31,914	1,555,494
Other assets	142,198	383	24,496	167,077
	9,475,579	108,361	534,494	10,118,434

25 RISK MANAGEMENT (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:

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
31 DECEMBER 2011				
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
31 DECEMBER 2010				
Receivables	34,172	10,515	18,779	63,466
Mudaraba and Musharaka financing	34,424	6,132	3,956	44,512
Other assets	3	7	373	383
	68,599	16,654	23,108	108,361

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.

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 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.
5. Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment account-holders or off-balance sheet equity of investment account-holders.
6. Rated and unrated senior Sukuk 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 counter parties 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.

25 RISK MANAGEMENT (CONTINUED)

c. Concentration Risk (continued)

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

	2011			2010		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Manufacturing	2,242,288	99,720	152,982	1,873,433	49,827	173,660
Mining and quarrying	117,684	280	20,278	228,785	14	504
Agriculture	73,676	1,801	15,406	92,884	2,270	22,165
Construction & real estate	2,120,031	20,569	32,251	2,176,827	8,481	36,621
Financial	2,435,541	235,401	1,351,097	1,990,192	260,201	1,335,235
Trade	1,706,910	92,767	178,936	1,723,898	42,714	246,975
Personal & consumer finance	2,186,159	2,714,117	7,510,713	1,726,214	1,810,525	6,411,571
Government	4,212,567	58,457	207,469	3,718,712	24,237	44,835
Other Services	2,059,187	1,665,863	996,786	2,347,379	1,623,368	1,968,540
	17,154,043	4,888,975	10,465,918	15,878,324	3,821,637	10,240,106

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 account-holders. The profit distribution to equity of investment account-holders 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$ 227,826 thousand (2010: US$ 204,201 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 224,843 thousand (2010: US$ 195,235 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 2,983 thousand (2010: US$ 8,966 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.

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:

CURRENCY	Operational equivalent Long (short) US$ '000	Strategic equivalent Long (short) US$ '000	Total equivalent Long (short) US$ '000
2011			
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)
2010			
Turkish Lira	4,363	316,155	320,518
Jordanian Dinar	(29,982)	186,241	156,259
Egyptian Pound	(19,017)	98,681	79,664
Sudanese Pound	(3,264)	39,373	36,109
Algerian Dinar	-	131,192	131,192
Lebanese Pound	1,468	16,551	18,019
Pound Sterling	43	-	43
Tunisia Dinar	2,104	-	2,104
Euro	8,162	-	8,162
South African Rand	-	19,758	19,758
Pakistani Rupees	22,770	40,363	63,133
Syrian Pound	(39,223)	10,983	(28,240)
Others	1,856	-	1,856

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

25 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 equity. The impact of a similar increase in exchange rates will be approximately opposite to the impact disclosed below.

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)

AT 31 DECEMBER 2010 Currency	Particular	Exposures in US$ '000	Variance %	Change in net income and Owners' equity US$ '000
Algerian Dinar	Net Income	55,599	(5%)	(2,648)
	Total Owners' Equity	103,502	(5%)	(11,176)
Egyptian Pound	Net Income	14,636	(15%)	(1,909)
	Total Owners' Equity	35,249	(15%)	(17,469)
Turkish Lira	Net Income	103,482	(15%)	(13,498)
	Total Owners' Equity	241,983	(15%)	(72,801)
Sudanese Pound	Net Income	5,875	(5%)	(280)
	Total Owners' Equity	8,598	(5%)	(2,284)
S.African Rand	Net Income	1,572	(15%)	(205)
	Total Owners' Equity	15,344	(15%)	(4,578)
Syrian Pound	Net Income	(2,568)	(10%)	233
	Total Owners' Equity	36,768	(10%)	(4,341)
Pakistani Rupees	Net Income	108	(15%)	(14)
	Total Owners' Equity	22,589	(15%)	(8,211)

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 categorises 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.

25 RISK MANAGEMENT (CONTINUED)

e. Operational Risk (continued)

Information Technology Risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorised 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 organisational 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 organisation. The process description are up to date and clear; furthermore, it is accessible to all employees.

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 nonexecutive 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.

26 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$ 141,066 million (2010: US$ 131,840 million) 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 financial statement.

27 EARNINGS PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 4.1 million (2010: US$ 6.8 million). This amount has been taken to charity.

28 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.

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2011 (UNAUDITED)

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.

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

	31 December 2011		31 December 2010	
	Tier 1 US$ '000	**Tier 2 US$ '000**	**Tier 1 US$ '000**	**Tier 2 US$ '000**
Tier 1 Capital Components				
Issued and fully paid up ordinary shares	862,231	-	783,972	-
Disclosed reserves				
Legal / statutory reserves	65,384	-	53,547	-
Share premium	16,420	-	15,866	-
Others	102,102	-	137,335	-
Retained profit brought forward	167,584	-	236,739	-
Unrealised gains arising from fair valuing equities (45% only)	-	-	5	-
Non-controlling interest in consolidated subsidiaries	596,022	-	593,525	-
Less:				
Goodwill	76,593	-	83,792	-
Unrealised gross losses arising from fair valuing equity securities	46,515	-	38,545	-
Tier 1 Capital before PCD deductions	**1,686,635**	**-**	**1,698,652**	**-**
Tier 2 Capital Components				
Unrealised gains arising from fair valuing equities (45% only)	-	16,165	-	16,083
Profit equalisation reserve	-	8,034	-	2,667
Investment risk reserve	-	93,653	-	87,004
Tier 2 Capital before PCD deductions	**-**	**117,852**	**-**	**105,754**
Total Available Capital	**-**	**1,804,487**	**-**	**1,804,406**
DEDUCTION				
Investment in insurance entity greater than or equal to 20%	(4,114)	(4,114)	(4,521)	(4,521)
Net Available Capital	**1,682,521**	**113,738**	**1,694,131**	**101,233**
TOTAL ELIGIBLE CAPITAL		**1,796,259**		**1,795,364**

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2011 (UNAUDITED)

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (CONTINUED)

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)
The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

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

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)
The following table summarises the capital requirements by type of Islamic financing contracts as of:

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

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))
The following are Capital adequacy ratios for total capital and Tier 1 capital as of:

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

Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))
The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

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

* These ratios represent the consilidated ratios. Al Baraka Pakistan has Teir 1 capital ratio of 34% (2010: 34%) and Total capital ratio of 34% (2010: 34%).

Legal restrictions on capital and income mobility (PD-1.3.6 (c))
There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))
The following table summarizes the distribution of ownership of shares by nationality/ incorporation as of:

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

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

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

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

b) Credit Risk

General credit policies and guiding principles

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

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

2 RISK MANAGEMENT (CONTINUED)

b) Credit Risk (continued)

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

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

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

	31 December 2011			
	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.**

31 December 2010			
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
3,184,754	2,712,278	4,878,577	4,779,995
526,778	404,504	1,011,854	767,929
820,213	722,124	528,659	493,798
180,818	161,218	258,983	238,074
75,262	58,357	77,544	101,587
4,391,687	4,510,846	58,541	43,387
9,179,512	**8,569,327**	**6,814,158**	**6,424,770**

2 RISK MANAGEMENT (CONTINUED)

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))
The following table summarises the geographic distribution of gross funded exposure as of 31 December 2011, broken down into significant areas by major types of credit exposure:

	Self financed			
	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

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

	Self financed			
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
Receivables	895,205	505,340	1,646,783	137,426
Mudaraba and Musharaka financing	313,274	66,925	85,150	61,429
Investments	304,605	9,970	281,770	223,868
Ijarah Muntahia Bittamleek	105,188	57,191	9,875	8,564
Other Assets	32,781	19,485	2,660	20,336
	1,651,053	658,911	2,026,238	451,623

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

Financed by IAH			
Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
1,839,866	370,892	2,329,793	338,026
731,457	77,099	-	203,298
476,086	-	-	52,573
190,974	34,906	6,913	26,190
31,433	12,759	5,643	27,709
3,269,816	495,656	2,342,349	647,796

2 RISK MANAGEMENT (CONTINUED)

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

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

	Funded Exposures					
	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 retails	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**

				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**

2 RISK MANAGEMENT (CONTINUED)

Table - 10. Exposure by counterparty type (PD-1.3.23(c)) (continued)
The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2010:

	Funded Exposures					
	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	89,571	152,869	9,964	-	151,767	80,119
Claims on multi-lateral development banks	1,691	4,181	-	-	-	-
Claims on investment firms	87,219	127,173	-	65,050	5,030	-
Claims on banks	138,979	470,852	34,105	70,317	14,825	3,876
Claims on corporates	2,089,279	2,681,966	210	22,604	-	-
Claims on retails	708,336	1,290,027	-	-	-	-
Past dues receivables	69,679	151,509	-	11,033	-	-
Equity investment	-	-	96,353	77,758	541,685	325,025
Investment in Funds	-	-	-	-	53,764	56,477
Specialised Lending	-	-	386,146	765,092	-	-
Other assets	-	-	-	-	53,142	63,162
Total	**3,184,754**	**4,878,577**	**526,778**	**1,011,854**	**820,213**	**528,659**

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

					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
	-	-	-	-	88,701	-	340,003	232,988
	-	-	-	-	-	-	1,691	4,181
	-	-	-	-	6	-	92,255	192,223
	2,194	87,475	-	-	65,212	-	255,315	632,520
	51,197	40,912	-	-	4,033,497	28,033	6,174,183	2,773,515
	125,795	129,599	-	-	204,271	30,508	1,038,402	1,450,134
	1,632	997	-	-	-	-	71,311	163,539
	-	-	-	-	-	-	638,038	402,783
	-	-	-	-	-	-	53,764	56,477
	-	-	-	-	-	-	386,146	765,092
	-	-	75,262	77,544	-	-	128,404	140,706
	180,818	**258,983**	**75,262**	**77,544**	**4,391,687**	**58,541**	**9,179,512**	**6,814,158**

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.

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		
2011	Total US$ '000	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	90 days to 1 year US$ '000	1 year to 3 years US$ '000	Over 3 years US$ '000
Sovereign	160,971	158,617	2,354	-	-	-	-
Bank	822,866	822,305	-	561	-	-	561
Investment Firms	203,555	158,397	-	45,158	5,218	18,037	21,903
Corporates	5,458,143	5,145,255	23,389	289,499	69,021	104,549	115,929
Retail	3,066,030	2,777,507	108,389	180,134	62,548	87,701	29,885
	9,711,565	**9,062,081**	**134,132**	**515,352**	**136,787**	**210,287**	**168,278**
2010							
Sovereign	687,628	687,037	591	-	-	-	-
Bank	969,222	967,887	752	583	-	-	583
Investment Firms	119,855	74,711	-	45,144	7,772	37,372	-
Corporates	5,293,315	4,957,434	20,286	315,595	87,825	120,788	106,982
Retail	3,048,414	2,788,510	86,732	173,172	80,770	69,318	23,084
	10,118,434	**9,475,579**	**108,361**	**534,494**	**176,367**	**227,478**	**130,649**

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))
The following table summarises the total specific provisions disclosed by counterparty type as of 31 December:

	Specific Provisions						
2011	Opening Balance US$ '000	Charges during the year US$ '000	Write-Back during the year US$ '000	Write-offs during the year US$ '000	Appropriation from (to) IAH during the year US$ '000	Foreign exchange translations /others US$ '000	Balance at the end of the year US$ '000
Bank	2,832	411	(290)	-	-	(303)	2,650
Investment Firms	3,440	4,883	-	(96)	-	(233)	7,994
Corporates	277,547	68,193	(38,687)	(26,822)	9,306	(19,008)	270,529
Retail	89,987	7,737	(2,662)	(728)	14,477	(5,469)	103,342
	373,806	**81,224**	**(41,639)**	**(27,646)**	**23,783**	**(25,013)**	**384,515**
2010							
Bank	3,171	69	-	(1,085)	-	677	2,832
Investment Firms	2,814	3,360	-	-	-	(2,734)	3,440
Corporates	222,459	86,589	(33,031)	(13,969)	6,291	9,208	277,547
Retail	80,345	7,200	(8,809)	(380)	12,830	(1,199)	89,987
	308,789	**97,218**	**(41,840)**	**(15,434)**	**19,121**	**5,952**	**373,806**

Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))
The following table summarises the movement of general provisions during the year ended:

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

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

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

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

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

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

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))

- The Group has no significant obligations with respect to recourse transaction.
- The Group has not imposed any material penalties on customers for defaults.
- The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

Table - 16. Counterparty Credit (PD-1.3.26 (b))
The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of:

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

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

2 RISK MANAGEMENT (CONTINUED)

c) Market Risk(continued)

Profit rate risk

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

Displaced Commercial Risk

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

Equity price risk

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

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

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

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

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

2011	Total Gross exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukuk 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
Funds	61,263	127,112	40,020	21,243	19,153
	1,961,697	1,877,190	196,036	1,765,661	49,124
2010					
Sukuk and similar items	1,001,491	844,386	54,249	947,242	4,904
Equity Investment	150,279	204,873	49,376	100,903	123,599
Funds	77,787	61,502	45,967	31,820	16,902
	1,229,557	1,110,761	149,592	1,079,965	145,405

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))
The following table summarises the cumulative realised and unrealised gains or losses during the year ended:

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

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

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

Table - 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))
The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

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

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2011 (UNAUDITED)

2 RISK MANAGEMENT (CONTINUED)

d) Operational Risk (continued)
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 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 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.

3 CORPORATE GOVERNANCE

Board of Directors
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 him/her to recognise 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 endeavour 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 him or her or any member of his/her 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. Utilisation 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 a continues 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 mandated by 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.

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

	31 December 2011 US$ '000	31 December 2010 US$ '000
Directors remuneration	750	750
Executive Management		
Salary and other remuneration, including meeting allowance	2,984	2,997
Fees	80	83
Bonuses	1,746	1,383
Benefits-in-kind	699	616
	5,509	5,079
Shari'a Committee Members fee and remuneration	**258**	**206**
	6,517	6,035

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.

3 CORPORATE GOVERNANCE (CONTINUED)

External Auditors

The Board Audit and Governance Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2011 financial year. The AGM has approved the reappointment on 23 March 2011 and the related regulatory approval were taken in due course.

Disclosures to Shareholders

The group will disclose to the shareholders the requirements under PD - 6 of Central Bank of Bahrain rule book and in accordance to the group's internal policies and procedures.

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

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

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

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

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

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

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))
The following table summarises the percentage of IAH financing for each type of Shari'a-compliant contract to total IAH financing as of:

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

Table – 25. Investment Account-holders by Counterparty Type (PD-1.3.33 (i))
The following table summarises the percentage of financing for each category of counterparty to total financing as of:

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

IAH Share of Profit (PD-1.3.33 (e) & (q))
The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

4 EQUITY OF INVESTMENT ACCOUNT-HOLDERS DISCLOSURES (CONTINUED)

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

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

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

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

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

	31 December 2011			31 December 2010		
Type of Claims	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Claims on Sovereign	308,069	92,421	11,090	14,783	4,435	532
Claims on PSEs	3,284	985	118	37,577	11,273	1,353
Claims on MDBs	-	-	-	2,091	627	75
Claims on Banks	269,538	80,861	9,703	281,675	84,503	10,140
Claims on Corporates	3,727,770	1,118,331	134,200	4,373,018	1,311,905	157,429
Regulatory Retail Portfolio	672,041	201,612	24,193	679,158	203,747	24,450
Mortgage	587,385	176,216	21,146	392,520	117,756	14,131
Past due facilities	120,310	36,090	4,331	170,497	51,149	6,138
Investment in securities	197,142	59,143	7,097	629,825	188,948	22,674
Holding of Real Estates	186,584	55,975	6,717	156,606	46,982	5,638
Other Assets	525,475	157,643	18,917	907,099	272,130	32,656
	6,597,589	1,979,277	237,513	7,644,849	2,293,455	275,216

5 OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT-HOLDERS

Off-balance sheet equity of IAH 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. Organising 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.

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 2011 %	31 December 2010 %
Receivables	34	76
Mudaraba and Musharaka financing	66	24

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 2011 %	31 December 2010 %
Sovereign	2	-
Multinational Development Banks	-	5
Bank	47	31
Corporates	15	19
Retail	36	45

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 IAHs' returns are analysed at the local level.

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