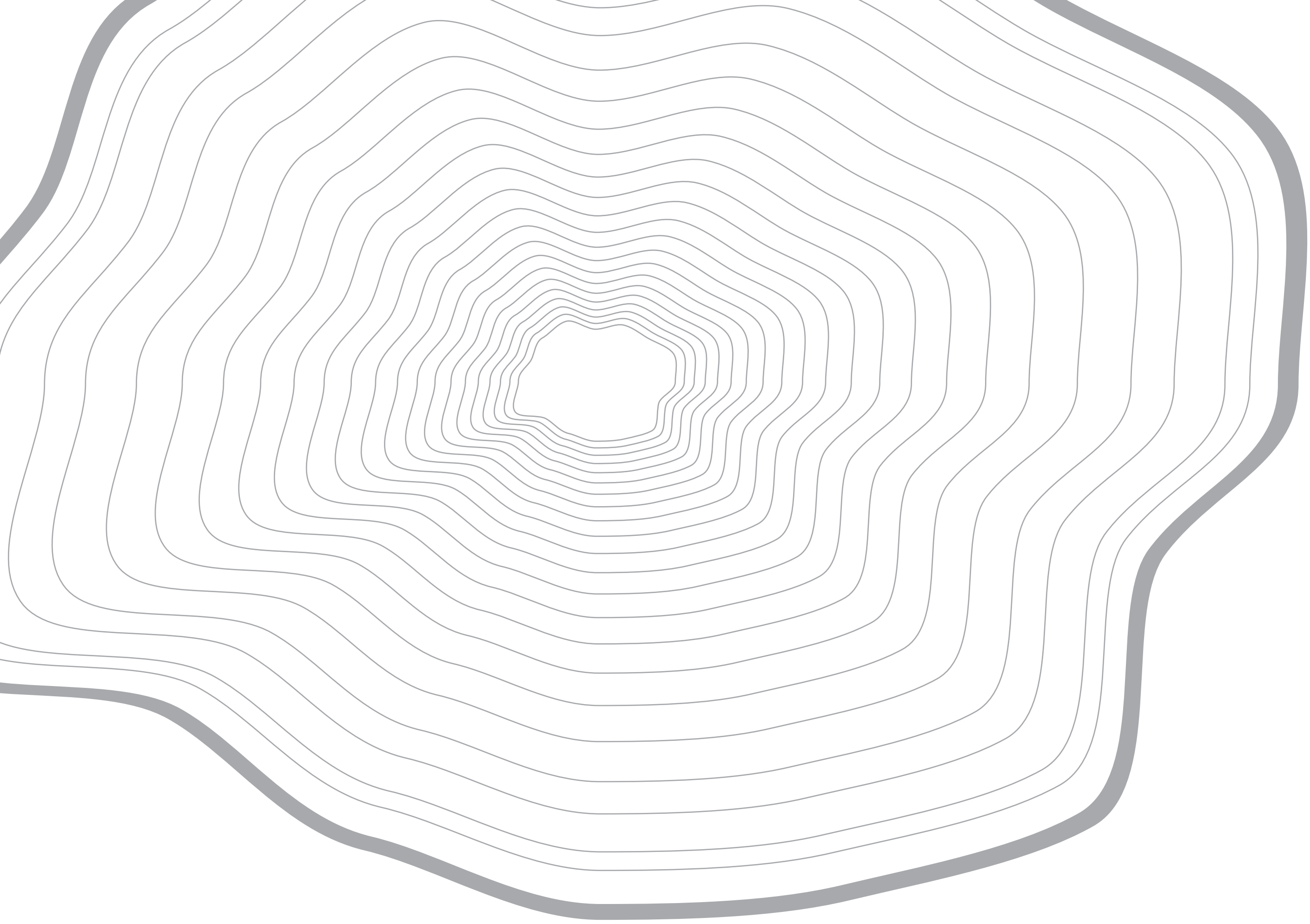
His Royal Highness
Prince Khalifa bin Salman
Al Khalifa
The Prime Minister of the
Kingdom of Bahrain

His Majesty
King Hamad bin Isa
Al Khalifa
The King of the
Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa
The Crown Prince &
Deputy Supreme Commander



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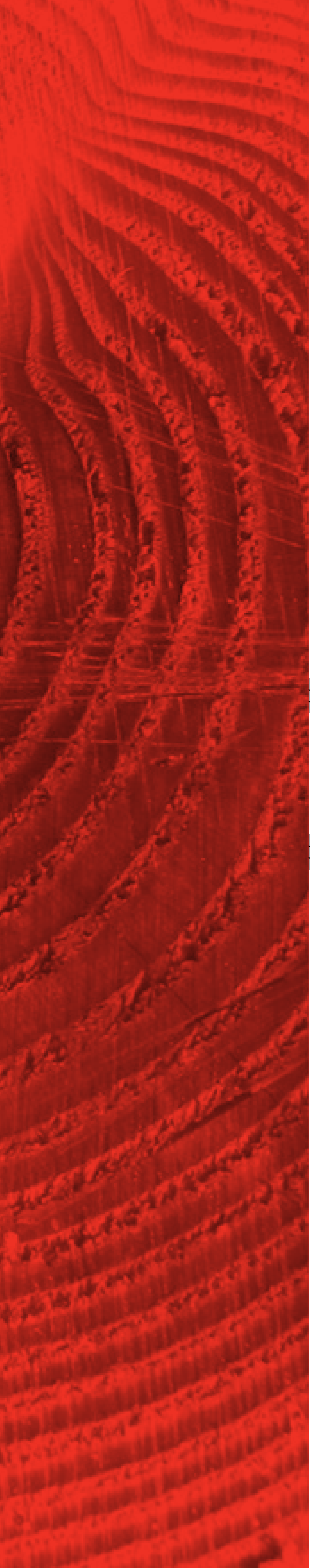
A new ring forms in between the most recent ring and the bark of the tree. This causes the tree to grow wider with one ring marking each year. These tree rings inform you of the age and strength of the tree. The process is comparable to the infusion of new ideas and implementation of the operational strategy which is beneficial to all Al Salam clients.



Our Vision

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

Our Mission

- Become a "one-stop-shop" for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken

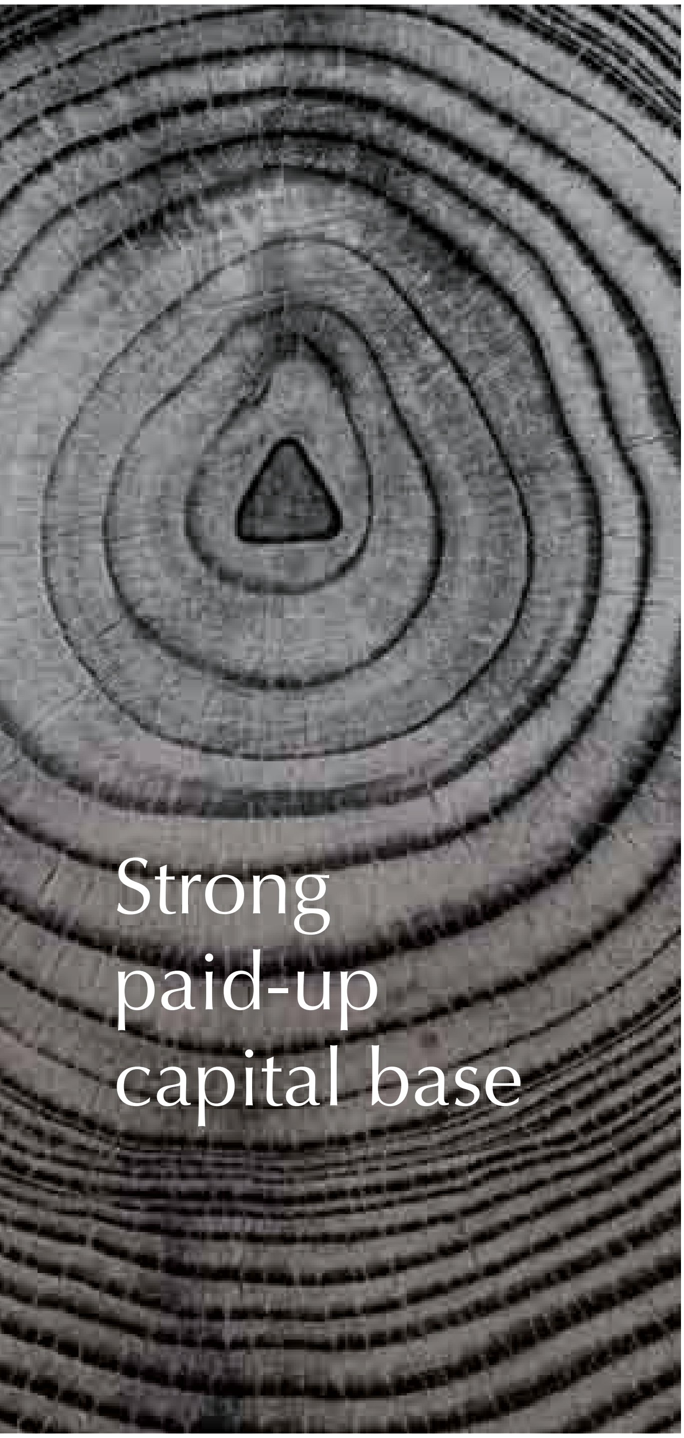
Dynamic - Diversified - Differentiated

Dynamic - Diversified - Differentiated

Corporate Overview

Headquartered in the Kingdom of Bahrain, Al Salam Bank-Bahrain (B.S.C.) is a dynamic, diversified and differentiated Islamic bank.

Key factors that contribute to the Bank's distinct market differentiation include:



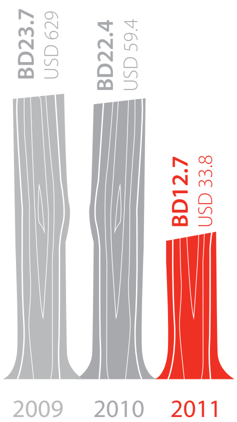
- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-caliber management team;
- State-of-the-Art IT infrastructure;
- Universal business model covering deposits, financing and investment services;
- Innovative, tailor-made Shari'a-compliant solutions;
- Firm commitment to corporate and social responsibility;

Incorporated on 19 January 2006 in the Kingdom of Bahrain and commenced commercial operations on 17 April 2006, the Bank operates under Shari'a principles in accordance with regulatory requirements for Islamic banks set by the Central Bank of Bahrain. Al Salam Bank-Bahrain was listed on the Bahrain Bourse on 27 April 2006, and subsequently on the Dubai Financial Market on 26 March 2008. The Bank's high-caliber management team comprises highly qualified and internationally-experienced professionals with proven investment expertise in key areas of banking, finance and related fields; all supported by a world-class Information Technology (IT) infrastructure and the latest 'smart' working environment. In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank BSC. Established with a paid-up capital of BD120 million, the Group's total equity has crossed BD 200 million (US$530 million) with total assets crossing the US$2 billion mark.

Al Salam Bank-Bahrain is committed to adopting internationally recognized standards and best practices in Corporate Governance and operates with highest levels of integrity, transparency and trust.

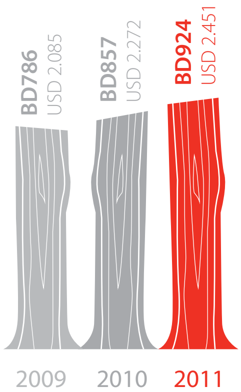
The Bank is committed to its role as a concerned corporate citizen, actively seeking ways to contribute and add value to the social and economic well-being of the local communities in which it invests and operates.

Key Financial Indicators

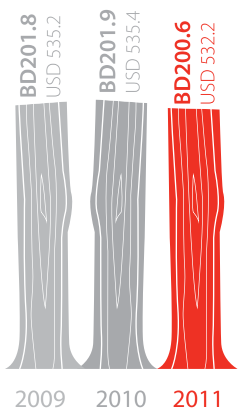


Total Operating Income (million)

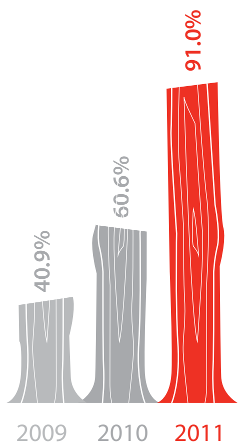
Net Profit (million)



Total Assets (million)



Total Equity (million)



Cost to Income Ratio

Guiding the Vision to Success - Board of Directors

H. E. Mohamed Ali Rashid Alabbar

Salman Saleh Al Mahmeed

H.H. Shaikha Hessa bint Khalifa Al Khalifa

Terence D. Allen

Hamad Tarek Alhomaizi

Habib Ahmed Kassem

Sheikh Abedlelah Kaki

Essam bin Abdulkadir Al Muhaidib

Fahad Sami Al Ebrahim

Yousif Abdulla Taqi

Ahmed Jamal Jawa

Khalid Ahmed Abdulla Al Ashar

Directors' Profiles

H. E. Mohamed Ali Rashid Alabbar
Chairman

Independent and non-executive
Director Since: 17 April 2006
Term started: 18 April 2009
Term ended: 20 March 2012

H.E. Mohamed Alabbar is the founding member and Chairman of Emaar Properties PJSC, the Dubai-based global property developer. He serves on the board of directors of the Investment Corporation of Dubai (ICD), the investment arm of the Government of Dubai. He is also a Board Member of Noor Investment Group, an affiliate of Dubai Group, focused on Shari'a compliant financial services. A graduate in Finance and Business Administration from Seattle University in the United States, Mr. Alabbar works closely with regional NGOs, and is especially committed to the cause of educational reform and social housing. A keen sportsman, he is Chairman of the UAE Golf Association.

Mr. Habib Ahmed Kassem
Vice Chairman

Independent and non-executive
Director Since: 17 April 2006
Term started: 18 April 2009

Habib Kassem is the Chairman of Almahd Investment Company, Bahrain Ferro Alloys, Bahrain Electricity Supply & Transmission Company, Capital Growth Management and Quality Wire Products Company. He is also the Chairman of Almahd Day Boarding School. Mr. Kassem was Minister of Commerce and Agriculture, Kingdom of Bahrain from 1976 to 1995, and Member of the GCC Consultative Council for the Supreme Council from 1997-2007.

Sheikh Abedlelah Mohammed Saleh Kaki
Director

Independent and non-executive
Term started: 15 February 2010
Term ended: 20 March 2012

Sheikh Abedlelah Kaki has more than 35 years experience in banking, trading & industry. He is the Chairman of Saudi International Trading & Marketing Ltd. AMK Gulf for Investments & International Agencies Co. Ltd. and United Gulf Industries Ltd in Saudi Arabia, Marsh Saudi Arabia Insurance & Reinsurance Broking, Marsh Insurance Consulting Saudi Arabia. He is also the Chairman of Noubaria Seed Production Co, Nile Company For Development & Tourism & Real Estate Investment, Tanta Flax & Oil Co, SAE and Mediterranean Agricultural Products Co (MAPCO) in Egypt. He is an active board member in several Egyptian Companies; Saudi Corporation for Arab Investment SAE, Egyptian Saudi Investment Tourism & Real Estate Co, Lacto Misr Co and Dynarabia Co Ltd, Al Jouf Cement Company in Saudi Arabia. Sheikh Kaki is a graduate in Economics from United States International University in California, United States of America.

H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa
Director

Independent and non-executive
Term started: 18 April 2009

An active member of the royal family of the Kingdom of Bahrain, H.H. Shaikha Hessa gained her Bachelor's degree in Management (1998), and her Master degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. Gained a MSc Development Finance 2010 from University of London. She joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded "INJAZ Bahrain" which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director. With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panelist at various occasions including the UN, and the World Economic Forum.

Mr. Essam bin Abdulkadir Al Muhaidib
Director

Independent and non-executive
Director Since: 17 April 2006
Term started: 18 April 2009

Mr. Essam Al Muhaidib is CEO of A.K. Al Muhaidib & Sons Group, and Board member in several organizations having interests in banking & insurance, FMCG & retail, building & construction, industrial, real estate apart from educational, charitable and benevolent organizations. Emmar Middle East, United Sugar Company, Amwal Al Khaleej, Saudi Tabreed Company, Synthomer Middle East, Nestle Co, Al Oula Real Estate Development Co, Dubai Contracting Company (DCC, Gulf Union Insurance Company, Al Massa International Inc-Canada, Dnata Kuwait, Saudi Fisheries Company, Aziziah Panda United Co, Savola Foods Co, Al Latifia Trading & Contracting Co. Moreover, he is also a member in some of charitable and non profitable & educational organizations such as King Fahad University of Petroleum & Minerals Endowment Fund, board of directors of the educational services company at Prince Mohammad bin Fahad in Dammam as well as founder for Prince Sultan College for Prince Sultan Ladies' Fund.

Mr. Salman Saleh Al Mahmeed
Director

Independent and non-executive
Term started: 15 February 2010

Salman Al Mahmeed is the Deputy Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owners' Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Managa Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and BSc. degree in Administration from Cairo University.

Mr. Fahad Sami Al Ebrahim
Director

Independent and non-executive
Term started: 18 April 2009

Received his Bachelors of Arts in Journalism and Communication Studies from the University of Oregon-Eugene, Oregon, USA. He also has an MBA degree from the Maastricht School of Management and he has successfully completed the 10th session of the "General Management Program" at Harvard Business School.

He has over 12 years of professional experience. Mr. Al Ebrahim heads the International Wealth Management Group of Global Investment House, Kuwait as Senior Vice President, where he had played a major role in increasing assets under management and had been an active participant to establish one of the leading wealth management groups in the region.

He was mandated in early 2010 as Acting CEO of Global Investment House – Saudi for the first half of the year were he was able to downstream the operation in the Kingdom and position the company in the Saudi market and played a major role in increasing AUM and revenue of the Saudi operations.

Mr. Al-Ebrahim began his career with Global in the Marketing Department. Later on, he pursued Business Development positions in the Investment Funds Department focused on Alternative Investments including Hedge Funds, Real Estate Funds and Private Equity. Prior to joining Global, Mr. Al-Ebrahim worked in a semi-government institution for approximately two years. In addition, he is a member of numerous boards of directors in the financial and real estate arenas. His board memberships include Al-Mazaya Holding Company, Kuwait as Vice Chairman; First Securities Brokerage Company S.A.K., Kuwait; Investment House, Qatar and Global Investment House – Saudi, and Investment Committee member in Macro Fund.

Mr. Hamad Tarek Alhomaizi
Director

Independent and non-executive
Term started: 18 April 2009

Hamad Alhomaizi has a BSc in Computer Science and Business Administration from George Washington University and has a strong IT background and technical understanding of web technologies. He has varied experience in a number of areas including direct investments, hedge funds, real estate and startup businesses. He has worked in various capacities in a number of companies and was a founding Board Member in companies including Shuwaikh Real Estate Projects Company (Kuwait), Ishraq Real Estate Company (Bahrain / UAE) and Al Shaab Holding Company (Kuwait).

Mr. Ahmed Jamal Jawa
Director

Independent and non-executive
Term started: 18 April 2009
Term ended: 20 March 2012

A graduate in Business Administration with an MBA from the University of San Francisco, Mr. Jawa has served on the boards of the Novapark Swiss Hotel Group; Mirapolice, and Tricon Group, US. Mr. Jawa is President, CEO and Board Member of Starling Holding Ltd, and President of Contracting and Trading Company (CTC), Saudi Arabia. Mr. Jawa is Board Member of Emaar Properties PJSC. He is also Chairman of the Nomination and Remuneration Committee, as well as a member of the Audit Committee.

He is a Board Member of Emaar the Economic City and Chairman of the Nomination and Remuneration Committee. He is a Board Member of Emaar Turkey and serves on the board of Emaar MGF India, Emaar Egypt and Emaar Cham, Syria. He is also a Board Member of RAK Petroleum. The World Economic Forum had honored Mr. Jawa as one of the Global Leaders of tomorrow in February 2006.

Mr. Terence D. Allen
Director

Independent and non-executive
Term started: 18 April 2009
Term ended: 20 March 2012

Mr. Allen has more than 40 years of experience in the treasury and investment banking business. He is the founder and Managing Director of Allied Investment Partners PJSC a UAE based merchant banking company with diversified group holdings. He has spent several years in the private fund management business, where he was a Director of several asset and fund management companies. In the past he has been appointed as advisor and consultant to several regional governments and institutions. He is a Qualified Arbitrator for the GCC. He is the author of several books and frequently produces articles for newspapers and journals ranging from military history to financial and banking topics.

Mr. Yousif Abdulla Taqi
Director and Chief Executive Officer

Director Since: 05 May 2008
Term started: 18 April 2009

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted to Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of Al Salam Bank-Bahrain, and also a board member of Eskan Bank, Al Salam Bank-Algeria, Aluminium Bahrain (ALBA) and Tadhamon Capital.

New Directors

At the Annual General Meeting held on 20 March 2012, the Bank's shareholders elected a new Board comprising of 11 members for the next term of three years. The new Board of Directors of Al Salam Bank-Bahrain held its first meeting at Bank's premises on 5 April 2012 and elected H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa as the Chairperson of the Board and Mr. Hamad Tariq Al Humaizi as the Vice Chairman for a new term of 3 years.

Accordingly, the following new directors were appointed with effect from 20 March 2012:

Mr. Hussein Mohammed Al Meeza
Director

Independent and non-executive
Term started: 20 March 2012

Hussein Mohammed Al Meeza is considered one of the renowned personalities in the Islamic banking sectors and Islamic finance and insurance. Al Meeza's outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Having graduated from the Beirut Arab University in 1975, Al Meeza started his professional career at the Dubai Islamic Bank (DIB) where he spent 27 years during which he played a pioneering role in enhancing and developing the banks services. Al Meeza is currently the CEO and Managing Director of Aman Insurance and Re-Insurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria, Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies, Chairman of Amity Health Services Company, Vice Chairman of Emirate Cooperative Society – Dubai, Vice Chairman of Leader Capital. He is also Board Member of Emirates Society for Insurance and Chairman of Nawat Company.

Mr. Mohammed Omeir Bin Yussef
Director

Independent and non-executive
Term started: 20 March 2012

Mr. Mohammed Omeir Bin Yussef holds M.Sc. from University of Cairo and B.Sc. in Political Science & Business Administration from U.A.E. University, Al Ain. He is currently the Vice Chairman & Managing Director, Omeir Bin Youssef Group, Chairman of Al Salam Bank-Sudan, Chairman of Al Salam Bank-Algeria, Chairman of Dubai Islamic Insurance and Re-Insurance Company (AMAN), the Chief Executive Officer of Bin Omeir Holding Group. He is also the CEO of United Investment Group and the CEO of Emirates National Group.

Mr. Salem Rashed Saeed Al Mohannadi
Director

Independent and non-executive
Term started: 20 March 2012

Mr. Salem Al Mohannadi is currently the Advisor in the Managing Director's Office at Abu Dhabi Investment Authority, Chairman of Tunis and Emirates Bank, Vice Chairman of Abu Dhabi Holding Company. He is also Board member of Al Salam Bank – Sudan, Al Salam Bank-Algeria and Emaar Properties, Vice Chairman of Aman Insurance and Re-Insurance Company (AMAN).

Mr. Adnan Abdulla Al Bassam
Director

Independent and non-executive
Term started: 20 March 2012

Mr. Adnan Al Bassam is a Certified Public Accountant (CPA) and holds B.S. in Business Administration with specialization in Accounting from Oregon State Board of Accountancy. His years of experience in the financial and investment sector go back to 1994. Currently he holds the positions of Vice Chairman and Managing Director of Al Bassam Investment Company W.L.L., Board member in each of Jordan Islamic Bank, Al Baraka Bank, Sudan, Esterad Investment Company B.S.C., Capivest B.S.C.(c), Chairman of Muharraq Mall Company W.L.L. Prior to joining the Board Adnan worked for Messrs Ernst & Young and Bahrain Islamic Bank in various capacities.

Mr. Khalid Ahmed Abdulla Al Ashar
Secretary to the Board

Mr. Al Ashar holds a BSc in Commerce and Business Administration from Beirut Arab University. He previously worked in the Operations Department at the Bank of Bahrain and Kuwait and Arab Banking Corporation. He also held the position of Director of Human Resources and Administration at the Liquidity Management Center. He enjoys a long experience in the field of establishing Islamic banks and contributed to the establishment of the Liquidity Management Center.

The trunk is covered by the bark which is an important diagnostic feature in tree identification and which often differs markedly from the bottom of the trunk to the top depending on the species. The trunk is the most important part of the tree for timber production. At Al Salam, we understand the intricacies of the science behind this phenomenon - a parallel we draw in our workings, developing solutions that make a positive difference to our clients.

Fatwa and Shari'a Supervisory Board

Dr. Hussain Hamid Hassan
Chairman

Dr Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Masters in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LL B in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.

Dr. Ali Mohuddin Al'Qurra Daghi
Member

Dr. Al'Qurra Daghi holds a PhD in Shari'a and Law, and a Masters in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'Qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.

Shaikh Adnan Abdulla Al Qattan
Member

Shaikh Adnan Al-Qattan holds Masters degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Mohamed Abdulhakim Zoeir
Member & Secretary to the Board

Dr. Zoeir holds PhD in Islamic Economy; Masters degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years experience with Egypt Central Bank. Dr. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.

Board of Directors' Report to the Shareholders

The Directors of Al-Salam Bank-Bahrain BSC ("the Bank") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2011. The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Bahraini Saudi Bank BSC (together known as "the Group").

Needless to say, 2011 was an extremely turbulent year for businesses in the market place due to the prolonged period of unrest in Bahrain. The unrest in the Arab World that began in Tunisia in late 2010 and more specifically the situation in Syria and Iran are not helping Bahrain and the region. Europe went through turmoil in a different way with many EU member countries trying to tackle their debt crisis. There are still no sure signs of recovery in the US and UK. While we see marginal improvements in the US employment data, the economic growth has been flat and their external debt bulging with their trade deficit continuing to be very significant. We have not been hearing positive news from Asia either. Major economies like China and India are reporting reduction in growth rates and exports, as well as decline in their manufacturing data. It appears that the recession that started in the later part of 2008 in the US has been moving eastwards and has hardly left any economy unaffected, perhaps Australia is an exception.

In spite of difficult market conditions, the Group managed to post an impressive growth in total assets from BD 856.6 million (US$2.3 billion) at 31 December 2010 to BD 923.9 million (US$ 2.5 billion), an increase of BD 67.3 million (US$178.6 million) or 8% over 31 December 2010. The increase is largely attributable to growth in the credit portfolio and investments complemented by increase in customer deposits from BD 532 million at end of 2010 to BD 598 million at end of 2011. Continuing global economic downturn prevented planned exits. The prevailing economic and capital market conditions also resulted in a significant decrease in asset valuations during the year.

While the gross operating income decreased by 43% over 2010, income from core banking activities representing Islamic retail and commercial banking increased by 10%. Although the operating results of 2011 are not as good as we expected with a net profit of BD 0.3 million, we have been extremely prudent in recognizing fair value changes on our investment portfolio. Prudent cost management continued through in 2011 with a reduction in operating expenses by 14.5% for 2011.

During the year, the Group successfully extended the lease of its Boeing 777-200 ER aircraft with Malaysian Airlines for a further period of 7 years. This transaction was one of the first and significant private equity transactions entered by the Bank in the aviation sector. This investment continues to provide attractive returns to the Bank's investors.

The Group managed to record a growth of 18% in its financing portfolio compared to 2010 in a year that was very difficult for Bahrain owing to the unrest prevalent for most part of the year. The growth in financing portfolio demonstrates the Bank's continuous efforts in increasing its focus on retail and corporate banking initiatives.

As part of its initiative to provide support to growth of private sector businesses in the Kingdom of Bahrain, the Group entered into an agreement with Tamkeen to provide Shari'a compliant facilities to private sector business.

In line with regulatory focus on reducing real estate exposure, the Bank has tightened its investment and financing to the sector. The Board and management are conscious of the need to check the Bank's concentration to the real estate sector and hence new businesses in this sector are being undertaken on a selective basis to take advantage of market opportunities bearing in mind investor's cash yield expectations.

On the treasury front, the Group continued to expand its financial institutions network. In 2011, the Group continued to be a net lender to the system with a net lending position of BD 96 million at 31 December 2011 in addition to holding a large portfolio of the Central Bank of Bahrain issued Sukuk which are eligible for rediscounting. The Group also enjoys a comfortable liquidity position as reflected by its strong liquidity ratio of 16% as of 31 December 2011.

This is net of due to banks and interbank deposits and excludes Sukuk issued by Central Bank of Bahrain (CBB).

The Directors believe that the challenges facing the banking sector are far from being over and expect 2012 to be even more challenging. The Directors and management will use key initiatives along with an existing strong risk management framework and growing customer base to achieve better results in 2012. Your Bank continues to look for acquisition opportunities locally to support inorganic growth and achieve its vision of becoming one of the largest Islamic financial institutions in Bahrain as a precursor to launching the regional expansion strategy. The Board and management are ambitious in positioning the Group as the largest Islamic bank in Bahrain in the coming years. Our Group is ideally positioned to consummate deals of bigger size due to abundant liquidity and a strong capital base.

Financially, fiscal year 2011 had seen a decline in net profit from BD 7.2 million in 2010 to a net profit of BD 0.3 million in 2011 attributable to shareholders of the Bank. The gross operating income amounted to BD 12.7 million (2010: BD 22.4 million) and the operating expenses were BD 11.6 million (2010: BD 13.6 million).

Retained earnings and appropriation of net income

	BD '000
Balance at beginning of the year	**4,603**
Net profit for the year – 2011	312
Transfer to statutory reserve	(31)
Charitable contributions	(100)
Transfer from investment reserve	33,039
Balance at end of the year	37,823

Directors' and senior management interest

As required by the Central Bank of Bahrain rule book set out below are the interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2011.

	31/12/2011
Directors' shares	125,688,928
Senior managers' shares	511,268
	126,200,196

Directors' attendance fee and expenses for 2011 amounted to BD 65,000.

	No. of shares	2010 No. of Shareholders	% of total Outstanding shares
Percentage of shares held			
Less than 1%	941,294,918	23,141	62.88
1% up to less than 5%	384,735,107	14	25.70
Over 5%	171,033,800	1	11.42
Total	1,497,063,825	23,156	100.00

	Nationality	Holding
Shareholders holding over 5%		
Global Mena Macro Fund Company B.S.C. (c)	Bahrain	11.42%

The directors would like to express their appreciation to the leadership and ministries of the Kingdom of Bahrain, the Central Bank of Bahrain, Dubai Financial Services Authority, correspondents, customers, shareholders and employees of the Group for their support and collective contribution since establishment and we look forward to their continued support in the fiscal year 2012.

4 March 2012
Manama, Kingdom of Bahrain

Mohammed Ali Rashid Alabbar
Chairman

Message from the Chief Executive Officer

Fiscal year 2011 was yet another challenging year for the Bahrain banking sector. Set against the backdrop of regional and global volatility we remained focused on building the balance sheet. I am pleased to report that, despite these tumultuous times, we have forged ahead and remained profitable, albeit marginally, achieving an 8% growth in total assets from BD 856.6 million (US$2.3billion) to BD 923.9 million (US$2.5 billion), through expansion of the financing portfolio and diversified investment activities, including a sukuk portfolio.

The Group focused on expanding the deposit base and commercial banking business by successfully growing customer deposits by BD 66 million during the fiscal year. Aligned with this focus, 2011 was dedicated to the implementation of key initiatives, such as preparation of the infrastructure of both Al Salam Bank-Bahrain and the Bahraini Saudi Bank, together with the expansion of the Group's reach through the opening of new branches. The Group has now created a solid platform from which we plan to launch new Shari'a compliant products and services such as the Tayseer personal financing tool, which has been well received in the market. There are a number of exciting new initiatives that are being targeted for the coming year.

The Group maintained a conservative approach to banking practices and relied on its core competencies in lending activities. Prudent risk management practices have been followed in granting new financing facilities and acquiring investments. The Group has followed a tight policy in providing financing and investment in the real estate sector in line with the regulatory focus to control such exposures.

The Group reported a net profit of BD 0.3 million for 2011 compared to BD 7.2 million in 2010. Although the operating results did not meet our expectations, the Group has demonstrated its ability to control operating costs in a challenging environment, reducing the operating expenses by 14.5%. In an effort to diversify the sources of income, measures were taken to build a high quality liquid sukuk portfolio.

Highlighting our commitment to development of the Kingdom's economy and infrastructure, renewed focus was placed to uplift the SME sector. The Group has entered into partnership with Tamkeen on several fronts to support private sector projects.

The Group continued to maintain a healthy Capital Adequacy Ratio which stood at 24.9% (2010: 24.7%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12%. Our strong liquidity position at 16% (2010:24%) coupled with our capital base, is expected to provide us with the competitive advantage to rollout our expansion plans and seek acquisition opportunities both locally and regionally.

The year ahead will no doubt present new challenges as the global economic recovery from the financial crisis is taking place at a much slower pace than initially expected. However, I am confident that the Group is well positioned to face these challenges and meet the expectations of our customers and shareholders.

The Management and Board of Directors are also confident that the Group is well positioned to become one of the largest Islamic financial Institutions in the Kingdom of Bahrain within the coming years.

I would like to take this opportunity to express my heartfelt appreciation to the continuing support of the Government of the Kingdom of Bahrain led by His Majesty King Hamad bin Isa Al Khalifa, with the directives of HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and the support of HRH the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa. I also express my appreciation of Al Salam Bank-Bahrain and Bahraini Saudi Bank staff members whose hard work and dedication have been fundamental to our ongoing success. I am grateful to the Board of Directors and the Central Bank of Bahrain for their strong support and guidance, and to our shareholders and clients for their continued confidence. I also express my heartfelt appreciation to the continuing support of the Government of the Kingdom of Bahrain and its leadership.

Yousif Abdulla Taqi
Director & Chief Executive Officer

Operating Environment

2011 began on a relatively positive footing on the backdrop that advanced economies were expected to show some signs of recovery from the fallout of the global financial crisis. However, as the year unfolded, financial markets continued to reflect a lackluster sentiment triggered by the extent of the Euro crisis.

GCC economies also displayed signs of a partial recovery in 2011, encouraged by high oil prices and increased government spending, particularly on infrastructure projects. Nevertheless the operating environment remained challenging with real estate and stock market segments still bearing scars of the 2008 crash.

Fiscal stimulus plans have been put in place by most GCC Governments to encourage an increase in the contribution of the private sector in economic activity, especially major infrastructure projects, as well as to fuel resumption in bank lending after a stagnant growth in the last two years.

The majority of regional financial institutions focused on restructuring their balance sheets and streamlining business units in an effort to reduce operating costs in an extremely difficult operating environment.

In the face of decreased profitability levels and a decline in asset quality of some key players, the GCC Banking Sector managed to uphold its high reputation and continues to remain the backbone of the GCC states economies.

Business Environment

2011 stands as one of the most politically turbulent years the Kingdom of Bahrain has faced in over four decades. Businesses in the marketplace were severely affected by the unrest that continued throughout the year. However many customers maintained confidence in the Kingdom's banking system, reflected by the steady growth in customer deposits and healthy liquidity.

Regardless of the turmoil in the business environment, the Group remained focused on expanding the retail banking business. The Group opened a fully operational branch in to the Country Mall, further improving the Group's presence and expanding customer reach.

The Group continued to consolidate the benefits of its acquisition of the Bahrain Saudi Bank, which became a fully-fledged Islamic Bank. The Group now has a solid platform to successfully exploit innovative Islamic banking products and services.

Financial Performance

In a year that was particularly challenging for the domestic banking sector, the Group continued on its growth trajectory. The total assets of the Group grew by 8% (2010: 9%) to BD 923.9 million (2010: BD 856.6 million) over the last fiscal year. The financing portfolio grew by BD 44.3 million (2010: BD 43.9 million) to BD 290.9 million while the investment portfolio saw a moderate growth of BD 3.3 million (2010: BD 27.7 million) to BD 223.3 million during the fiscal year. Customer deposits increased from BD 532 million to BD 598 million highlighting continued customer confidence. Operating income of the Group decreased by 43% (2010: a decrease of 7%) to BD 12.7 million (2010: BD 22.4 million) mainly due to the decrease in asset values and fee income highlighting the challenges in sourcing new investment opportunities. However, income from financing contracts grew by 18.9% (2010: 59.1%). As a result of the stringent cost management measures employed during the year, the operating expenses of the Group decreased by 14.5% over the previous year. Additional provisions were taken against nonperforming financing contracts amounting to BD 0.65 million (2010: BD 1.5 million). The Group recorded a net profit of BD 0.3 million for the fiscal year 2011 (2010: BD 7.2 million) in an extremely challenging environment both locally and regionally.

Capital Adequacy

In accordance with the Basel II capital adequacy guidelines, the Group's capital adequacy continued to reflect a healthy ratio of 24.90% (2010: 24.7%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12%.

Asset Quality

The Group continues to maintain a conservative approach in selecting new assets for financing and investments. As a result more than 84.3% (2010: 91.0%) of the financing asset portfolio has been grouped under the "satisfactory" category while an amount of BD 2.15 million (2010: BD 1.51 million) has been set aside as provisions for past due, but not impaired facilities, although such assets are covered by adequate collateral. This provision has been made in line with the Group's conservative risk management policy.

Funds Under Management

The level of liquidity in the region available for investment continued to rise on the back of higher oil prices, however, it is understandable that High Net Worth Individuals in the region continued to take a conservative approach towards new investment commitments in 2011. The Group's funds under management at the end of the fiscal year increased by BD 6.6 million (2010: reduced by BD 12.6 million) to BD 54.8 million (2010: BD 48.13 million).

During the short history of the Group, we have built strong relationships with our investors; based on trust, professionalism, transparency and our ability to offer unique Shari'a compliant investment opportunities, and will continue to nurture these relationships going forward.

BANKING GROUP

Corporate Banking

Corporate Banking faced a challenging year as Bahrain›s economy deflated by 1.4 percent quarter-on-quarter in the first three months of 2011 as the effects of the unrest hit businesses in the Kingdom. However, some momentum was maintained through government intervention, improvement in liquidity and significant spending, with the Government continuing the vital work of developing the Kingdom's infrastructure.

During the year Corporate Banking business was strengthened with the conversion of Bahraini Saudi Bank into a fully-fledged Islamic financial institution. The Group continued to provide support and stability to its existing client base, however credit quality remained on high priority when new facilities were granted.

Underscoring our commitment to support Small and Medium Enterprises (SME) in the Kingdom, and the growth of the local economy, the Group signed a Shari'a compliant financing arrangement with Tamkeen during the year.

Our strong team of Relationship Managers continue to build relationships with local and international companies whilst nurturing existing relationships with major Bahrain-based institutions.

Retail Banking

During the year, the Group's subsidiary, Bahraini Saudi Bank, was formally recognized as an Islamic Bank. In line with our focus on growing the commercial and retail banking business, the Group made a significant investment in providing the necessary skills to employees in customer facing roles.

The Group continued to grow its retail presence with Bahraini Saudi Bank opening a new branch in Country Mall as a result of our strategic partnership with the Electricity & Water Authority (EWA). The branch and ATM network serving Al Salam Group has now reached 11 fully operational branches and 23 ATM's across the Kingdom, offering more accessibility, and even greater convenience, to our customers.

With the emphasis on improving customer service, a significant revamp was undertaken to increase the effectiveness of the 24-hour call ensuring our customers have instant access to information and support in relation to any of the Group's products and services. Significant measures are also being taken to reduce the turnaround time for approval of personal financing facilities.

Underlining our commitment to meeting our customers every banking need the retail banking group launched several innovative products during the year. The Murabaha-based "Tayseer", a flexible personal financing product, which aims to meet customer liquidity requirements, continues to be well received by the market. The convenient financing tool allows customers to acquire durable assets, as well as supporting liquidity needs for marriage, education, medical treatment, travel and more. The Shari'a compliant Wakala deposit products, including Wakala Plus and Easy Wakala are packed full of benefits and continue to be popular, offering our customers outstanding profit returns at tenures to suit all needs. Our customers continue to take advantage of the generous return on monthly savings with the Taib savings account, allowing depositors to specify a time period for their deposit; allowing profit to be paid on maturity.

Inline with the regulations of the Central Bank of Bahrain (CBB), the Group announced the successful completion of implementing International Bank Account Number (IBAN) standard, used to minimize risk and transcription errors across all local and international electronic payments.

Wealth Management

With markets lacking sustained direction, and continued market unpredictability, investor appetite remained subdued. Clients continued to seek stability in their financial portfolios, however despite these challenges, Wealth Management continued to perform well.

Through our professional and dedicated placement team we continue to focus on offering attractive products and providing personalized services. Our placement team based in the Kingdom meets with investors on a regular basis to assess their investment appetite and risk profile in order to provide personalized Islamic financing solutions.

Investments

In these volatile market conditions, investment protection is a key factor in the Group's investment strategy. In order to minimize downside risk and preserve investment valuation, the Group maintains a cautious approach to new investment selection, with all potential opportunities subjected to rigorous internal review, diligence and analysis prior to presenting them to the Group's Investment Committee. Our investment teams, based in Bahrain and Singapore, continue to seek attractive, diversified investment opportunities, and typically analyze in excess of one hundred regional and cross border opportunities in a year.

During the year, our investment team successfully concluded the extension of the lease of the Group's 777-200ER aircraft with Malaysian Airline Systems, for a further period of 7 years. This transaction was one of the first and significant private equity transactions entered by the Group in the aviation sector, which continues to provide attractive returns to the Group's investors.

The Group's investment in a Shari'a compliant mezzanine facility provided to refinance a landmark commercial property located in the heart of Canary Wharf in the financial district of London in 2010 continues to provide attractive cash yield to investors.

The Group's investment in Burj Al Safwa and Burj Al Jewar, residential and commercial towers located just meters away from the King Abdul-Aziz Gate overlooking the holy mosque are in full operation by a hotel operator of international repute providing a cash yield to our investors.

The Group's investment across a diversified portfolio of operating companies in China has been adversely affected by the state of the Country's economy. A reduction in growth rates and exports, as well as a decline in manufacturing data, is evidence to the fact that the waves of the 2008 recession have well and truly arrived in the East.

Information Technology

The Information Technology division, inline with the Group's business strategies, creates infrastructure architecture that seeks to deliver excellence in customer services and business support whilst maintaining world-class standards of security.

During the year the Group unified the core-banking platform of its subsidiary Bahraini Saudi Bank with Al Salam Bank, setting out the road map for successfully integrating a single Islamic banking Platform in the near future.

The Information Technology division focused on enhancing our customers' banking experience, upgrading IT Infrastructure and ensuring compliance with regulatory as well as internal control requirements.

Corporate Governance and Risk Management

During the year, significant initiatives were undertaken to improve the knowledge and practice of Corporate Governance within the Group. Compliance to Central Bank of Bahrain guidelines and other regulatory guidelines is a fundamental element of the Group's strategy.

Know Your Customer

The Group complies with Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

The Group places significant emphasis in understanding its customers and their financial activities. The Group has implemented world-class systems to support the monitoring activities. Proper due diligence is conducted to ensure that financial activities of customers are performed in accordance with the guidelines issued by the regulatory authorities.

Human Capital

The Group maintains a strong commitment to the development of human capital throughout the organization; considering our people a vital asset of the Group, and a key determinant in organizational effectiveness.

Attracting and retaining the highest quality of talent remains our focus. This has been achieved through motivating effective performance using holistic appraisal and compensation systems, as well as the development of our employees through training initiatives.

The Group encourages dialogue between employees and management, facilitating employee feedback both formally through appraisal systems, and informally through social gatherings and events. Transparency and communication remain key factors in achieving such a dialogue. These initiatives strengthen the fabric of the Group's corporate culture and the development of a strong organizational capacity for Corporate Social Responsibility.

Inline with the Group's Corporate Social Responsibility strategy to support the youth and develop a capable future workforce, 15 fresh graduates took part in the annual Summer Traineeship. The program included a number of workshops to introduce the graduates to Islamic banking, helping them link their theoretical knowledge with practical on-the-job experience.

Bahraini employees comprise of 84% (82% in 2009) of the total of 222 employees (233 in 2009) across Singapore and Bahrain.

Policy

The Group aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Group's business.

The Board has adopted a Board of Directors Charter which, together with the Bank's Memorandum and Articles of Association and the charters of certain Board committees, provides the authority and practices for governance of the Group.

Board of directors

The Board of Directors shall provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Group to achieve these objectives. Directors shall determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to "stakeholders" and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Group's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Group. In discharging that obligation, directors may rely on the honesty and professional integrity of the Group's senior executives and external advisors and auditors.

Major Shareholders as on 31 December 2011

	Name	Country of origin	No. of shares	% Holding
1	Global Mena Macro Fund Company	BAH	171,033,800	11.42%
2	Leader Capital (L.L.C)	UAE	57,976,149	3.87%
3	Mohamed Omeir Yousif Ahmed Al Mehairi	UAE	53,544,981	3.58%
4	Independent Enterprises & Co. Representation	UAE	44,101,670	2.95%
5	Social Insurance Org.(Pension)-Civil	BAH	26,557,556	1.77%
6	Bayan Group for Proper Investment W.L.L	BAH	26,310,253	1.76%
7	Alsouban Company	BAH	26,250,000	1.75%
8	Capital Management House B.S.C.(Closed)	BAH	24,766,207	1.65%
9	HRH Prince Mohammed Bin Fahad Bin Abdulaziz Al-Saud	KSA	21,708,750	1.45%
10	Al Salam Bank-Sudan	SUD	21,000,000	1.40%
11	Al Rushid Investments (L.L.C)	UAE	21,000,000	1.40%
12	Ebrahim Nader Al Qubaisi	UAE	21,000,000	1.40%
13	Noim Properties Ltd	UK	18,375,000	1.23%
14	Global Express Company W.L.L	BAH	18,072,561	1.21%
15	Bahrain Islamic Bank B.S.C.	BAH	17,570,462	1.17%
16	Ali Hassan Ali Dayekh	CAN	16,066,943	1.07%
17	Emaar Properties PJSC	UAE	15,750,000	1.05%

Shareholding – 31 December 2011

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	895,979,493	23,139	59.87
1% to less than 5%	430,050,532	16	28.72
5% to less than 10%	-	-	-
10% to less than 20%	171,033,800	1	11.42
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	**1,497,063,825**	**23,156**	**100.00**

The ordinary share ownership of the Bank is distributed as follows

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	26,557,556	1.77
Institutions	379,920,356	25.38
ASBB treasury Stock	7,205,906	0.48
Individuals	185,934,872	12.42
GCC		
Government	5,179,864	0.35
Institutions	300,225,266	20.05
Individuals	483,200,267	32.28
Other		
Institutions	65,140,708	4.35
Individuals	43,699,030	2.92
Total	**1,497,063,825**	**100.00**

Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by Remuneration and Nomination Committee and approval by the Shareholders and the Central Bank of Bahrain. The classification of 'executive' Directors, 'non-executive' Directors and "independent non-executive" Directors is as per definitions Stipulated by the Central Bank of Bahrain.

Mandate of the Board of Directors and Directors' Roles and Responsibilities

The principal role of the Board of Directors, (the Board), is to oversee the implementation of the Group's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Chief Executive Officer.

The Board receives a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of internal controls. All policies pertaining to the Bank's operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of Al Salam Bank-Bahrain ("ASBB") Directors (including the Chairman and/or Deputy Chairman) are required to attend the Board meetings in order to ensure a quorum.

Board elections system

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.

2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.

3. Other members of the Board shall be elected by the General Assembly by secret ballot.

4. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covered the "Termination of Membership in the Board of Directors". It provided the following:

A Director shall lose his office on the Board in the event that he:

a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;

b. Resigns his office by virtue of a written request;

c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;

d. Is elected or appointed contrary to the provisions of the Law; and

e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

Induction and Orientation for new Directors

The Bank shall provide an orientation program for new directors, which shall include presentations by senior management on the Bank's strategic plans, significant financial, accounting and risk management issues, compliance programs, operations, Code of Conduct, management structure and executive officers, and its internal and external auditors. The orientation program may also include visits to Group's significant branches/offices to the extent practical. The Group shall also make available continuing education programs for all members of the Board. All directors are invited to participate in the orientation and continuing education programs.

Evaluation of Board Performance

The Board shall conduct an annual review of its performance. This review shall include an overview of the talent base of the Board as a whole as well as an individual assessment of each director's qualification under corporate governance rules and all other applicable laws, rules and regulations regarding directors; consideration of any changes in a director's responsibilities that may have occurred since the director was first elected to the Board and such other factors as may be determined by the Committee to be appropriate for review. Each Committee shall annually prepare an evaluation of its performance as provided in its charter.

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of profits not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of

Industry and Commerce. The report of the Board of Directors to the General Assembly shall include a full statement of the remuneration the members of the Board of Directors have been paid during the year in accordance with the provisions set forth in Article 188 of the Commercial Companies Law of 2001.

The Board Charter provides the following:

The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation. The Remuneration and Nomination Committee shall conduct an annual review of directors' compensation. Directors who are employees of the Group shall not receive any compensation for their services as directors. Directors who are not employees of the Group may not enter into any consulting arrangements with the Group without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Group.

Whistle Blowing Policy

The Group has a whistle blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to employees for any reports in good faith. The Board's Audit Committee oversees the implementation of this policy.

Key Persons (KP) Policy

The Group has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of ASBB shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee.

The Key Persons' Policy is posted on the Bank's website.

Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include 'whistle-blowing' procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors' "Code of Conduct" is published on the Bank's website. The directors' adherence to this Code of Conduct is periodically reviewed.

The directors have adopted the following code of conduct in respect to their behavior:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Group and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Group incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Group will be able to discharge the obligations when it is required to do so;

- Not to agree to the business of the Group being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Group's creditors;
- To treat fairly and with respect all of the Group's employees and customers with whom they interact;
- Not enter into competition with the Bank;
- Not demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not take advantage of business opportunities to which the Group is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

Conflict of Interest

The Group has a documented procedure for dealing with situations involving 'conflict of interest' of Directors. In the event of Board or its Committees considering any issues involving 'conflict of interest' of Directors, the decisions are taken by the full Board/Committees.

The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Board Meetings and Attendances

The Board of Directors meets at the summons of its Chairman or his Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Commercial Law, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by not less than eight directors in person. During 2011, four Board meetings were held in Bahrain in the following manner:

Quarterly Board meetings, 2011 - Minimum four meetings per annum

Members	1 February 2011	18 April 2011	13 July 2011	31 October 2011
1. H. E. Mohamed Ali Rashid Alabbar	-	√	By Circulation	-
2. Mr. Essam Al Muhaideb	√	√	By Circulation	√
3. Mr. Habib Ahmed Kassem	√	√	By Circulation	√
4. Mr. Terence D. Allen	√	√	By Circulation	√
5. Mr. Fahad Sami Al-Ebrahim	√	√	By Circulation	-
6. Mr. Ahmed Jamal Jawa	-	√	By Circulation	√
7. Mr. Hamad Tarek Al Homaizi	√	√	By Circulation	√
8. H.H. Shaikha Hessa bint Khalifa Al- Khalifa	√	√	By Circulation	√
9. Sheikh Abdulelah Mohahmmed Kaki	√	√	By Circulation	√
10. Mr. Salman Al Mahmeed	√	√	By Circulation	-
11. Mr. Yousif Abdulla Taqi	√	√	By Circulation	√

Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2011 was as follows:

Members	31 December 2010	31 December 2011
H.E. Mohamed Ali Rashid Alabbar	10,500,000	10,500,000
Mr. Habib Ahmed Kassem	2,102,489	2,102,489
Mr. Essam Bin Abdulkadir Al Muhaideb	-	-
Sheikh Abdlelah Mohamed Saleh Kaki	3,618,354	3,618,354
H.H. Shaikha Hessa bint Khalifa Al-Khalifa	-	-
Mr. Salman Saleh Al Mahmeed	-	-
Mr. Hamad Tarek Al Homaizi	-	-
Mr. Fahad Sami Fahad Al-Ebrahim	-	-
Mr. Ahmed Jamal Hassan Jawa	105,000	105,000
Mr. Terence D. Allen	-	-
Mr. Yousif Abdulla Taqi	-	-

There are no movements in the above shareholding during the year 2011.

Related Parties

The following shareholders are related to H.E. Mohamed Alabbar:

- Al Rushd Investments owns 21,000,000 shares
- Leader Capital owns 57,976,149 shares
- Emaar Properties owns 15,750,000 shares

The following shareholder is related to Mr. Habib Kassem:

- Almahd Investment Company owns 3,059,792 shares
- Mary Sabkar owns 2,489 shares

The following shareholder is related to Mr. Essam AL Muhaideb:

- Al Muhaideb Holding Company owns 4,414,522 shares

The following shareholder is related to Mr. Yousif Taqi:

- Capital Service House owns 7,160,133 shares

Global Mena Macro Fund Company is related to Mr. Fahad Al-Ebrahim and Mr. Hamad Al Homaizi.

Nature and Extent of Transactions with Related Parties during 2011

None.

Approval process for Related Parties' Transactions

The Group has a due process for dealing with transactions involving related parties. Any such transaction will require the approval of the Board of Directors.

Material Transactions

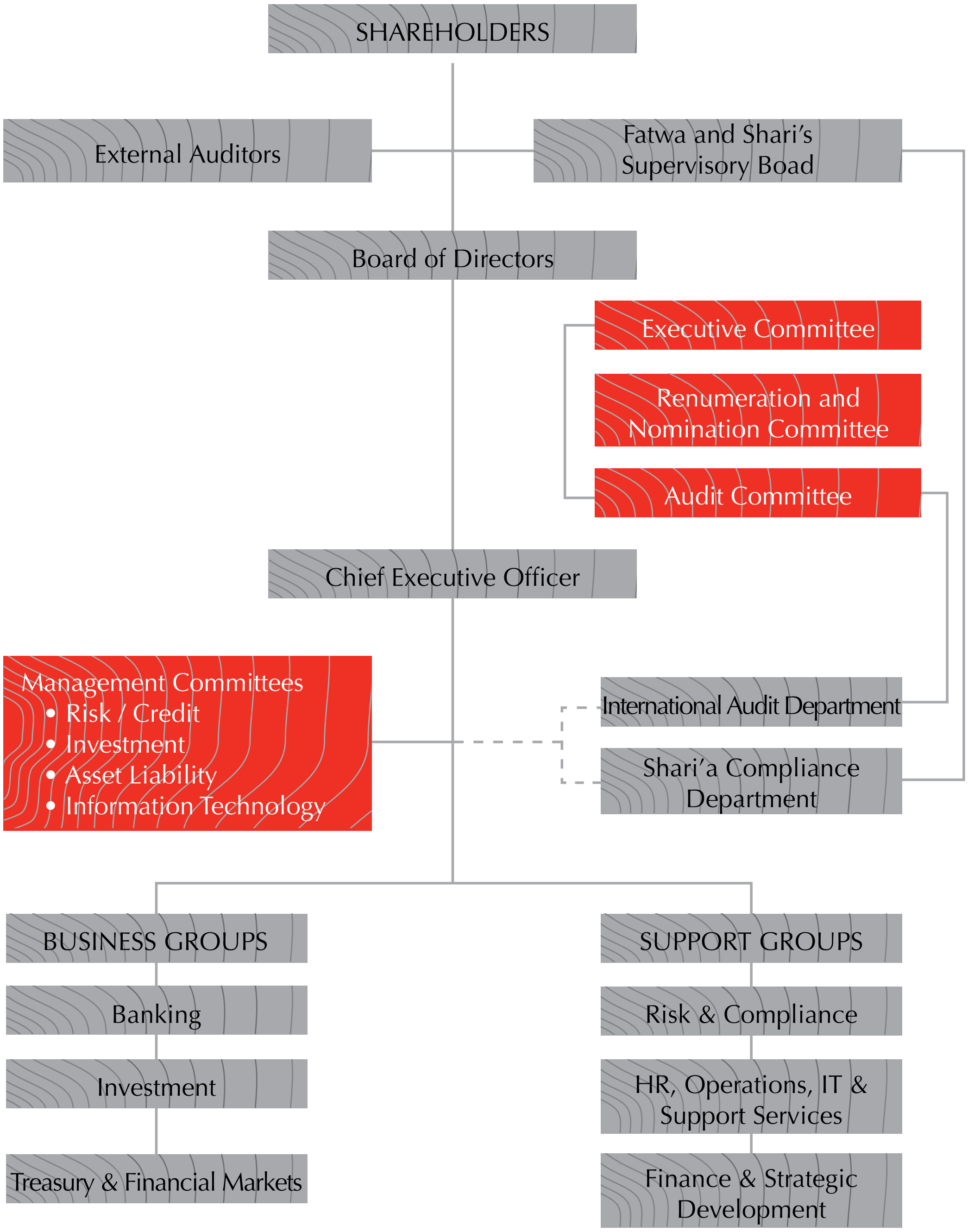
While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank.

Material Contracts and Financing Involving Directors

The Chairman has provided a personal guarantee for the amount outstanding. The details of the facility as follows:

- Principal amount of financing	: USD 2,000,000
- Nature of facility	: Murabaha Contract
- Purpose of financing	: Personal and business financing needs
- Profit rate	: 8%
- Security	: Personal guarantee from the Chairman
Repayment of principal	: Bullet at maturity of the facility

Organization Structure



Board Committees

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. They are considered the high level link between the Board and the Executive Management. The objective of these committees is to assist the Board in supervising the operations of the Group. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

There are no major issues of concern to report relating to the work of the Board Committees during the year 2011.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit Committee, and Nomination, Remuneration) are published on the Bank's website.

Executive Committee

Quarterly Committee meetings, 2011 - Minimum four meetings per annum

Members	30 January 2011	17April 2011	08 June 2011	24 October2011
Mr. Habib Ahmed Kassem	√	√	√	√
Mr. Essam Al Muhaideb	√	√	√	√
Mr. Ahmed Jamal Jawa	√	√	√	√
Mr. Fahad Sami Al-Ebrahim	√	-	√	√

Summary of Responsibilities: reviews, approves and directs the Executive Management on matters raised to the Board of Directors such as various policies, business plans and the periodical review of the Group's achievements.

Audit Committee

Quarterly Committee meetings, 2011 - Minimum four meetings per annum

Members	27 January 2011	17 April 2011	20 October 2011	12 December 2011
Mr. Terence D. Allen	√	√	√	√
Mr. Hamad Al Homaizi	√	√	√	√
Mr. John Hawkins	-	√	-	√

Summary of Responsibilities: reviews the internal audit program and internal control system, considers major findings of internal audit review, investigations and management's response, ensures coordination among internal and External Auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements.

Remuneration and Nomination Committee

Quarterly Committee meetings, 2011 - Minimum Two meetings per annum

Members	1 February 2011	15 June 2011	23 October 2011
H.H. Shaikha. Hessa bint Khalifa Al- Khalifa	√	√	√
Mr. Habib Ahmed Kasim	√	√	√
Mr. Fahad Sami Al-Ebrahim	√	√	√

Summary of Responsibilities: to assess, evaluate and advise to the Board of Directors on all matters. To ensure that the Group adopts and enhances sound Corporate Governance practices which are consistent with the Corporate Code of the Kingdom of Bahrain, regulatory requirements and also reflects the best market practices in Corporate Governance, making recommendations to the Board as deemed appropriate.

Compliance

The Group has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse, the Dubai Financial Market, the Emirates Securities & Commodities Authority, including anti-money laundering, prudential and insider trading reporting. The Group is in compliance with High Level Control Module issued by the Central Bank of Bahrain.

Communication Policy

ASBB recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Group follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

ASBB uses modern communication technologies in a timely manner to convey messages to its target Banks. The Group shall reply without unnecessary delay, to information requests by the media and the public. ASBB strives in its communication to be as transparent and open as possible while taking into account Group confidentiality. This contributes to maintaining a high level of accountability. ASBB also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Group reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Group's formal communication material is provided in both English and Arabic languages. The Bank maintains a Legal Policy published on its website: www.alsalambahrain.com that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report is published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Group regularly communicates with its staff through internal communications to provide updates of the Group's various activities.

Risk Management and Compliance

At Al Salam Bank-Bahrain we appreciate the fact that we are in the business of taking risks and our success is largely dependent on how efficiently we identify, measure, control and manage these risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel II Accord as a catalyst to the successful implementation of the pillars of risk management.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank's establishment plan gave priority to the development of an effective and practical risk management framework and independent risk management and compliance function in line with best risk management practice locally and internationally, the requirements of the Central Bank of Bahrain and the Basel II Accord.

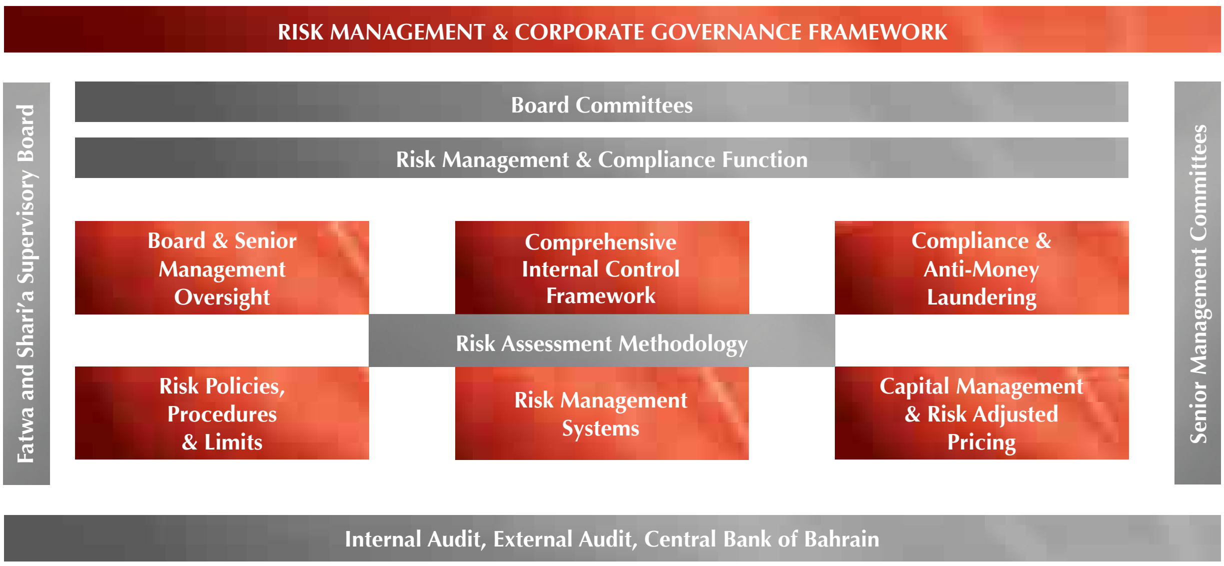
Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank–Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, strategic and reputation risks, the role and responsibilities of the Board, Risk Management group and Senior Management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic control risk self assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives



Capital Management

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving Risk Management, Finance and Business groups.

Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 33 to 43.

Risks Ownership

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management & Compliance Departments. Ownership of the various risks across the Group lies with the business and support Heads and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

Board Approved Policies, Procedures and Limits

Credit Risk Management	Market Risk Management	Operational Risk Management	Capital Management	Compliance & Anti-Money Laundering
• Exposures and limits Monitoring	• Positioning and Limits Monitoring	• Control Self Assessments	• Basel II Compliance	• Compliance Monitoring
• Portfolio Management	• Risk Measurement Methodology	• Key Risk Indicators Monitoring	• Risk Adjusted Pricing	• Anti-money Laundering control
• Timely Reporting to Risk Committee	• Timely reporting to ALCO	• Risk & Loss Events Database	• Reporting to Board Executive Committee	• Training and Awareness
• Internal rating Methodology		• IT Security Managements	• Scenario Analysis	• AML System Controls
• Periodic Stress Testing and Scenario Analysis		• Business Continuity Planning		
		• Outsourcing Risk Management		

Compliance & Anti-Money Laundering Unit

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading.

In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank - Bahrain through it's Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively.

The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF 40 + 9 recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

Corporate Social Responsibility

The Group endeavors to be a good corporate citizen through continuing to support the Government in its initiatives to enhance the quality of life in the Kingdom.

Initiatives such as developing the Country's housing, education and healthcare, as well as entrepreneurship, and the development of our youth, are synonymous with our vision and core values.

The Group continues to support charitable causes that uplift those who are less fortunate in the Kingdom.

The Group supported a number of societal initiatives during the year including the national campaign "I am Bahrain", initiated by the Youth Committee at the Supreme council for Women. The campaign promoted the concept of national unity. Manara Developments, the Group's real estate development arm sponsored the "Youth Arab Leadership", (YAL) forum entitled "Building the Leaders of Future Generations". YAL's mission is to elevate economic and social standards of the Arab countries through the development of its youth.

Dendrochronology is what scientists call using trees to measure time. When you begin counting the tree rings, you are actually measuring time using a tree. At Al Salam, we assess our systems and processes on a constant basis and our measures aim to not only fulfil time bound promises made to our clients, but seek to exceed the immeasurable service and performance quality levels.

Fatwa & Sharia Supervisory Board's Report Presented to The General Assembly for the Financial Year Ended 31 December 2011

The Shari'a Supervisory Board ("the Board") has reviewed the transactions entered into by the Bank during the year. The Board reviewed the balance sheet, the income statement, the statement of cash flows and the statement of changes in equity. The Board met and discussed the financial statements with the management of the Bank and presented its annual report as follows:

First:

1. The Board has supervised the Bank's activities and transactions during the year. The Board had played its role in guiding various departments to adherence to the Principles of Shari'a and the pronouncements of the Board in respect of these activities and transactions. The Board held, for this purpose, several meetings with the Bank's management. The Board is hereby emphasizing the Bank's management utmost keenness to observe the Rules and Principles of Shari'a and Pronouncements of the Board.
2. The Board has examined the transactions that were presented to it during the year, and approved contracts and documents relating to these transactions. The Board has responded to questions and queries raised in respect of these transactions, and issued appropriate Fatwas and Pronouncements. These decisions have been circulated to the departments concerned for execution.

Second:

The Board has reviewed samples of contracts and agreements that were presented to it and requested management to abide by these sample contracts and agreements.

Third: Financial Statements

The Board has reviewed the consolidated financial statements of the Group (the Bank and its subsidiary) and the notes thereto and clarifications complementary to them, on which the Board made the following observations and recommendations:

1. Based on information made available by the Banks' management, the consolidated financial statements reviewed by the Board presents fairly the Banks' assets, its liabilities, URIA, equity, revenues and operating expenses. The accuracy of the information and data provided are the responsibility of the Bank's management.
2. The Banks' management represents that majority of the deposits are based on Wakala contracts; the clients are informed of the profit to expect and the Bank holds one general pool for these deposits. The management represents that the Bank receives limited amounts of saving accounts deposits for investment on the basis of Mudaraba which are comingled with the funds of shareholders in a common pool. The Board has advised that the Bank expands its activities of receiving deposits to include accepting fixed-term deposits on Mudaraba basis in line with the practice in other Islamic Banks.

The Board believes that the consolidated balance sheet, income statement and the distribution of profits between depositors and shareholders had been prepared on this basis.

Fourth: Zakah

Since the Articles of Association of the Bank does not require the Bank to pay Zakah on behalf of the shareholders, the Board has calculated the Zakah payable by shareholders. This has been disclosed in the notes to financial statements for shareholders information.

Fifth: Conversion of Bahraini Saudi Bank

The Bank has acquired a 90.31% stake in Bahraini Saudi Bank with the objective of converting it to an Islamic Bank. The conversion is underway and the Board has advised that 31 December 2011 is the last day of conversion, so that the bank may start all its activities on 01 January 2012 in accordance with Shari'a principles and rules only.

Sixth: Shari'a Prohibited Income

Pursuant to the Board's directive, the prohibited income earned by the Subsidiary should be purified by the Group from the date of conversion. Since the Subsidiary's operations are not fully compliant with Shari'a rules and Principles, the prohibited income and expenses have been calculated and disclosed in the notes to the financial statements. The shareholders should purify the amount of prohibited income attributable to each share by donating the relevant amounts of such prohibited income to charity.

The prohibited income to be donated by each shareholder for 2011 has been determined by the Shari'a Supervisory Board as 1.053 fils per share.

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board.

Shari'a Board Members

Dr. Hussein Hamed Hassan
Chairman

Dr. Ali Al Qura Daghi
Board Member

Dr. Mohammed Zoeir
Member & Secretary to the Board

Shaikh Adnan Al Qattan
Board Member

ERNST & YOUNG

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C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiary [together "the Group"] as of 31 December 2011, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Auditors' Responsibility

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2011, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C. (continued)

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 the 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 Bank.

Ernst + Young

4 March 2012
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position
31 December 2011

	Note	31 December 2011 BD '000	(Restated) 31 December 2010 BD '000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	4	**72,318**	95,791
Central Bank of Bahrain Sukuk		**125,027**	68,632
Murabaha and Wakala receivables from banks	5	**135,698**	137,299
Corporate Sukuk		**49,650**	60,959
Murabaha financing	6	**135,383**	114,572
Mudaraba financing		**57,706**	19,309
Ijarah Muntahia Bittamleek	8	**66,477**	56,756
Musharaka financing		**11,711**	8,127
Assets under conversion	9	**27,750**	57,432
Non-trading investments	10	**223,320**	212,432
Investment in an associate	11	**-**	7,578
Investment properties		**2,500**	3,373
Receivables and prepayments	12	**15,278**	12,479
Premises and equipment		**1,089**	1,859
TOTAL ASSETS		**923,907**	856,598
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**104,573**	101,300
Wakala payables to non-banks		**515,147**	456,447
Customers' current accounts		**66,585**	57,362
Liabilities under conversion	9	**7,633**	5,171
Other liabilities	13	**13,088**	15,993
TOTAL LIABILITIES		**707,026**	636,273
EQUITY OF INVESTMENT ACCOUNT HOLDERS	14	**16,256**	18,465
OWNERS' EQUITY			
Share capital	15	**149,706**	149,706
Treasury stock		**(465)**	-
Reserves and retained earnings		**47,228**	48,165
Total equity attributable to shareholders of the Bank		**196,469**	197,871
Non-controlling interest		**4,156**	3,989
TOTAL OWNERS' EQUITY		**200,625**	201,860
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**923,907**	856,598

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 4th March, 2012.

Mohamed Ali Rashid Alabbar
Chairman

Yousif Abdulla Taqi
Director & Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Income Statement
Year ended 31 December 2011

	Note	**Year ended 31 December 2011 BD '000**	Year ended 31 December 2010 BD '000
OPERATING INCOME			
Income from financing contracts	16	**30,262**	25,447
Gains on sale of investments and sukuk		**2,849**	1,531
Income from FVTPL investments		**601**	1,089
Fair value changes on FVTPL investments		**5,189**	7,608
Writedown of available for sale investments		**(5,325)**	-
Fair value changes on investment properties		**(873)**	-
Dividend income		**1,156**	402
Fees, commissions and foreign exchange gains	17	**2,300**	5,536
		36,159	41,613
Profit on Murabaha and Wakala payables to banks		**(714)**	(617)
Profit on Wakala payables to non-banks		**(16,403)**	(14,674)
Profit relating to equity of investment accountholders	14	**(153)**	(216)
Depreciation on Ijarah Muntahia Bittamleek	8	**(6,149)**	(3,742)
Total operating income		**12,740**	22,364
OPERATING EXPENSES			
Staff costs		**6,016**	7,023
Premises and equipment cost		**1,168**	1,144
Depreciation		**999**	1,133
Other operating expenses		**3,415**	4,255
Total operating expenses		**11,598**	13,555
Share of profit from an associate		**-**	15
NET PROFIT BEFORE PROVISIONS		**1,142**	8,824
Provision for impairment	7	**(645)**	(1,508)
NET PROFIT FOR THE YEAR		**497**	7,316
Attributable to:			
Shareholders of the Bank		**312**	7,209
Non-controlling interest		**185**	107
		497	7,316
WEIGHTED AVERAGE NUMBER OF SHARES (in '000)		**1,491,779**	1,497,064
BASIC AND DILUTED EARNINGS PER SHARE (FILS)		**0.2**	4.8

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows
Year ended 31 December 2011

	Year ended 31 December 2011	Year ended 31 December 2010
	BD ’000	BD ’000
OPERATING ACTIVITIES		
Net profit for the year	**497**	7,316
Adjustments:		
Depreciation	**999**	1,133
Gains on investments	**1,009**	(7,608)
Provision for impairment	**645**	1,508
Exchange differences on investment in an associate transferred to income statement	**96**	-
Share of profit from an associate	**-**	(15)
Operating income before changes in operating assets and liabilities	**3,246**	2,334
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(303)**	(1,600)
Central Bank of Bahrain Sukuk	**(56,395)**	(35,724)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	**9,990**	(10,888)
Corporate Sukuk	**11,309**	(43,579)
Murabaha financing	**(20,811)**	(28,806)
Mudaraba financing	**(38,397)**	(6,746)
Ijarah Muntahia Bittamleek	**(10,221)**	(23,004)
Musharaka financing	**(3,584)**	(2,743)
Assets under conversion	**29,348**	41,304
Non-trading investments, net	**(4,520)**	(20,914)
Receivables and prepayments	**(2,799)**	14,423
Murabaha and Wakala payables to banks	**3,273**	11,902
Wakala from non-banks	**58,407**	119,130
Customers' current accounts	**9,223**	24,662
Liabilities under conversion	**2,755**	(95,284)
Other liabilities	**(3,005)**	1,016
Net cash used in operating activities	**(12,484)**	(54,517)
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(229)**	(655)
Purchase of investment property	**-**	(2,196)
Net cash used in investing activities	**(229)**	(2,851)
FINANCING ACTIVITIES		
Equity of investment accountholders	**(2,209)**	9,056
Purchase of treasury stock	**(465)**	-
Dividends	**-**	(7,129)
Net cash (used in) from financing activities	**(2,674)**	1,927
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(15,387)**	(55,441)
Cash and cash equivalents at 1 January	**203,116**	258,557
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**187,729**	203,116
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain (Note 5)	**45,410**	73,945
Balances with other banks (Note 5)	**7,638**	2,879
Murabaha and Wakala receivables from banks with original maturities of less than 90 days	**134,681**	126,292
	187,729	203,116

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Changes in owners' Equity
Year ended 31 December 2011

Amounts in BD '000

	Attributable to Shareholders of the Bank												
	Share capital	Treasury stock	Statutory reserve	Retained earnings	Investment reserve	Changes in fair value	Foreign exchange translation reserve	Share premium reserve	Total reserves	Proposed appropriations	Total	Non-controlling interest	Total owners' equity
Balance as of 1 January 2011	**149,706**	**-**	**8,631**	**4,603**	**33,039**	**172**	**(96)**	**2,573**	**48,922**	**-**	**198,628**	**3,997**	**202,625**
Changes due to adoption of FAS 25 (note 2.3.1)	**-**	**-**	**-**	**33,039**	**(33,039)**	**(757)**	**-**	**-**	**(757)**	**-**	**(757)**	**(8)**	**(765)**
As at 1 January 2011 (restated)	**149,706**	**-**	**8,631**	**37,642**	**-**	**(585)**	**(96)**	**2,573**	**48,165**	**-**	**197,871**	**3,989**	**201,860**
Net profit for the year	**-**	**-**	**-**	**312**	**-**	**-**	**-**	**-**	**312**	**-**	**312**	**185**	**497**
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**(1,245)**	**-**	**-**	**(1,245)**	**-**	**(1,245)**	**(18)**	**(1,263)**
Transfer to income statement	**-**	**-**	**-**	**-**	**-**	**-**	**96**	**-**	**96**	**-**	**96**	**-**	**96**
Treasury shares purchased	**-**	**(465)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(465)**	**-**	**(465)**
Transfer to statutory reserve	**-**	**-**	**31**	**(31)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Charitable donations	**-**	**-**	**-**	**(100)**	**-**	**-**	**-**	**-**	**(100)**	**-**	**(100)**	**-**	**(100)**
Balance at 31 December 2011	**149,706**	**(465)**	**8,662**	**37,823**	**-**	**(1,830)**	**-**	**2,573**	**47,228**	**-**	**196,469**	**4,156**	**200,625**
Balance as of 1 January 2010	142,577	-	7,910	5,009	26,245	(381)	-	2,573	41,356	14,258	198,191	3,586	201,777
Changes due to adoption of FAS 25 (note 2.3.1)	-	-	-	26,245	(26,245)	507	-	-	507	-	507	-	507
As at 1 January 2010 (restated)	142,577	-	7,910	31,254	-	126	-	2,573	41,863	14,258	198,698	3,586	202,284
Net profit for the year	-	-	-	7,209	-	-	-	-	7,209	-	7,209	107	7,316
Changes on investment in an associate	-	-	-	-	-	-	(96)	-	(96)	-	(96)	-	(96)
Net change in fair value	-	-	-	-	-	(711)	-	-	(711)	-	(711)	296	(415)
Bonus shares issued	7,129	-	-	-	-	-	-	-	-	(7,129)	-	-	-
Transfer to statutory reserve	-	-	721	(721)	-	-	-	-	-	-	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Dividends paid for 2009	-	-	-	-	-	-	-	-	-	(7,129)	(7,129)	-	(7,129)
Balance at 31 December 2010	149,706	-	8,631	37,642	-	(585)	(96)	2,573	48,165	-	197,871	3,989	201,860

The attached notes 1 to 31 form part of these consolidated financial statements.

A sliced tree makes one observe the dark and lighter parts of the circle. These represent the seasons of growth. The lighter parts of the rings are when the tree was growing in the spring. The dark spots of the circles tell you where the tree was growing in the late summer and the fall seasons. By looking at the color of the rings, you can read what season it was created. This complex process is similar to the bespoke mechanism of the Al Salam business model helping our clients secure and safeguard their financial future.

1. Incorporation and Principal Activities

The parent company, Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license. The Bank is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

The Bank and its subsidiary, BSB, (together known as "the Group") operate through eleven retail branches in the Kingdom of Bahrain. The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework. The Bank's Sharia Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank's ordinary shares are listed in the Bahrain Bourse B.S.C. (c) ("Bahrain Bourse") and Dubai Financial Market.

In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank in the Kingdom of Bahrain. BSB operates under a retail banking license issued by the Central Bank of Bahrain. BSB has applied for an Islamic retail banking license with the CBB and is awaiting approval. Subsequent to acquisition by the Bank, BSB has discontinued new conventional activities and the conversion into a fully compliant Islamic operations is in progress. On 28 December 2011 the Sharia Supervisory Board of BSB has declared BSB an Islamic bank. Consequently, any income derived, net of related expenses, from conventional contracts will not form part of the Group's income statement but will be contributed to charity.

On 20 November 2011, the shareholders' of BSB have resolved to delist BSB from Bahrain Bourse. On 22 December 2011 the shareholders resolved to merge its operations with the parent subject to regulatory approval.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 4 March 2012.

2. Significant Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale equity investments and investment properties which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. For matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 22.

2.1.b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary. The financial statements of the Bank's subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies. Non-Shari'a compliant assets and liabilities of the subsidiary are consolidated as set out in Note 9.

2 Significant Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

2.1.b Basis of Consolidation (Continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of gaining control over the subsidiary. All intra-group transactions income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.2 Significant Accounting Judgements and Estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Judgements are made in the classification of fair value through profit or loss, assets held for sale or held-to-maturity investments based on the management's intention at acquisition of the financial asset. As fully described below, judgements are also made in determination of the objective evidence that a financial asset is impaired.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

Estimation uncertainty

The key assumptions concerning the future and otherkey sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on financial contracts

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of available-for-sale equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged (judgemental) decline in the fair value below its cost or where other objective evidence of impairment exists. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

Collective impairment provisions on financial contracts

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

2 Significant Accounting Policies (Continued)

2.2 Significant Accounting Judgements and Estimates (Continued)

Valuation of unquoted private equity and real estate investments

Valuation of above investments is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Going concern

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

2.3 Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements, which are consistent with those of prior year except for items disclosed in note 2.3.1.

2.3.1 Adoption of new and Amended Standards

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which is effective from 1 January 2011. The amended conceptual framework provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with their substance and economic reality as well as the legal form.

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 or equity instruments made by Islamic financial institutions.

The adoption of FAS 25 had an effect on the classification and measurement of the Group's financial assets. As a result of the application of this new standard, the classification of the investment portfolio was revisited and changes were made in classification to be in line with FAS 25. The corporate sukuk held by the Group have been reclassified retrospectively from available-for-sale investments to investments at amortised cost. Accordingly, the fair value adjustments previously recognised on these sukuk have been restated and the impact on the corporate sukuk balance as of 1 January 2011 was a reduction of BD 765 thousand. The adoption of FAS 25, did have not any impact on the non-trading investments held by the Group. The impact on the opening total owners' equity as of 1 January 2011 was a reduction of BD 765 thousand (1 January 2010: increase of BD 507 thousand).

Also, the investment reserve amounting BD 33,039 thousand as of 1 January 2011 (as of 1 January 2010: BD 26,245 thousand), which was previously disclosed as a separate component in the owners' equity, has now been transferred to the retained earnings as this reserve is no longer required to be disclosed separately under the new FAS 25.

2.3.2 Summary of significant accounting policies

a) Financial contracts

Financial contracts consist of balances with banks and the Central Bank of Bahrain, Central Bank of Bahrain Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

b) Corporate sukuk

These are quoted securities and classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

c) Murabaha receivables

Murabaha is a contract whereby one party sells (Seller) an asset to the other party (the Purchaser) at cost plus profit and on a deferred payment basis, after the Seller have purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

Murabaha receivables are stated at amortised cost, net of deferred profits, provision for impairment, if any, and amounts settled.

d) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba investments are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

e) Ijarah Muntahia Bittamleek

Ijara (Muntahia Bittamleek) is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease) against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Group (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (lessee) under the Ijara agreement, the Group (lessor) will sell the leased asset to the customer (lessee) for a nominal value based on sale undertaking given by the Group (lessor).

Leased assets are usually residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

f) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at amortised cost, less any impairment.

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

g) Assets and liabilities under conversion

These represent assets and liabilities of BSB which are under conversion to Shari'a compliant products. These are initially measured at fair value at the date of acquisition and the subsequent measurement is as follows:

Assets under conversion:

Due from Banks and Loans and advances to customers:

At amortised cost less any amounts written off and provision for impairment, if any.

Investments:

These are classified as available-for-sale investments and are fair valued based on criteria set out in Note 2.3 h. Any changes in fair values subsequent to acquisition date are recognized in equity.

Liabilities under conversion:

These are remeasured at amortised cost.

h) Non-trading investments

These are classified as held-to-maturity, available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

Investments held-to-maturity

Investments which have fixed or determinable payments and fixed maturity which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value.

Investments available-for-sale

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as "available-for-sale investments". These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. Fair value changes are reported in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "changes in fair value" within equity, is included in the consolidated income statement.

Investments carried at fair value through profit or loss

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "Gains on investments designated at fair value through profit or loss" in the consolidated income statement.

i) Investments in associates

The Group's investments in its associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of 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 equity.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains/losses arising out of the above investment in the associate are included in the equity.

j) Investment properties

Investment properties are those held to earn rentals and/or for capital appreciation. These are initially recorded at cost, including acquisition charges associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income as gain or loss in investment properties. The fair value of the investment properties is determined either based on valuations made by independent valuers or using internal models with consistent assumptions.

k) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer equipment	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	5 years
- Leasehold Improvements	Over the lease period

l) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

m) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognised directly in the consolidated income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

and contingent liabilities acquired. Gain on business combination, being the excess of the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of business acquisition is recognised as gain in the consolidated statement of income.

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.

n) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;

(ii) for assets carried at fair value, impairment is the difference between cost and fair value; and

(iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a collective provision is made to cover impairment for specific assets where there is a measurable decrease in estimated future cash flows.

o) Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the consolidated statement of financial position when there is a religious or legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or intends to realise the asset and settle the liability simultaneously.

p) Provisions

Provisions are recognised when the Group has 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) Employees' end of service benefits

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

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

r) Revenue recognition

Murabaha receivables

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Corporate sukuk

Income on Corporate sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

Mudaraba

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in mudaraba, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the mudaraba capital.

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

Dividends

Dividend income is recognised when the Group's right to receive the payment is established.

Ijarah Muntahia Bittamleek

Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka

Income on Musharaka is recognized when the right to receive payment is established or on distributions. In case of losses in musharaka, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the musharaka capital.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.

Fair value of financial assets

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on 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 by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

s) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "available-for-sale" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

t) Trade and settlement date accounting

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

u) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

2 Significant Accounting Policies (Continued)

2.3.2 Summary of significant accounting policies (Continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

v) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

w) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

x) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are included in the equity and are disclosed as an event after the balance sheet date.

y) Equity of investment account holders

All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment accountholders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment accountholders.

z) Zakah

In accordance with the revised Articles of Association of the Bank, the responsibility to pay Zakah is on the shareholders of the Bank.

aa) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with Central Bank of Bahrain and Murabaha receivables from banks with original maturities of less than 90 days.

ab) Wakala payables

The Group accepts deposits from banks and customers under Wakala arrangement under which a return may be payable to customers. There is no restriction on the Group for the use of funds received under wakala agreement.

ac) Jointly financed and self financed

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

The equity of investment accountholders is used to finance the Murabaha and Wakala receivables from banks and non-banks.

ad) Investment risk reserve

This is the amount appropriated by the Group out of the income of investment account holders, after allocating the mudarib share, in order to compensate future losses for investment account holders.

ae) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2011, financial instruments have been classified as follows:

	Financial assets at fair value through profit or loss	*Available for sale*	*Financial assets at cost / amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	-	72,318	72,318
Central Bank of Bahrain Sukuk	-	-	125,027	125,027
Murabaha and Wakala receivables from banks	-	-	135,698	135,698
Corporate Sukuk	-	-	49,650	49,650
Murabaha and Mudaraba financing	-	-	193,089	193,089
Ijarah Muntahia Bittamleek	-	-	66,477	66,477
Musharaka financing	-	-	11,711	11,711
Assets under conversion	-	8,122	19,628	27,750
Non-trading investments	203,937	19,383	-	223,320
Receivables	-	-	14,856	14,856
	203,937	27,505	688,454	919,896

	Financial liabilities at fair value through profit or loss	*Available for sale*	*Financial liabilities at amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	104,573	104,573
Wakala from non-banks	-	-	515,147	515,147
Customers' current accounts	-	-	66,585	66,585
Liabilities under conversion	-	-	7,633	7,633
Other financial liabilities	-	-	10,371	10,371
Equity of investment accountholders	-	-	16,256	16,256
	-	-	720,565	720,565

3 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (continued)

As at 31 December 2010, financial instruments were classified as follows:

	Financial assets at fair value through profit or loss	*Available for sale*	*Financial assets at cost / amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	-	95,791	95,791
Central Bank of Bahrain Sukuk	-	-	68,632	68,632
Murabaha receivables from banks	-	-	137,299	137,299
Corporate Sukuk	-	-	60,959	60,959
Murabaha and Mudaraba financing	-	-	133,881	133,881
Ijarah Muntahia Bittamleek	-	-	56,756	56,756
Musharaka financing	-	-	8,127	8,127
Assets under conversion	-	8,803	48,629	57,432
Non-trading investments	199,335	13,097	-	212,432
Receivables	-	-	11,763	11,763
	199,335	21,900	621,837	843,072

	Financial liabilities at fair value through profit or loss	*Available for sale*	*Financial liabilities at amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	101,300	101,300
Wakala from non-banks	-	-	456,447	456,447
Customers' current accounts	-	-	57,362	57,362
Liabilities under conversion	-	-	5,171	5,171
Other financial liabilities	-	-	12,697	12,697
Equity of investment accountholders	-	-	18,465	18,465
	-	-	651,442	651,442

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

	2011	2010
	BD '000	BD '000
Mandatory reserve with Central Bank of Bahrain	**19,270**	18,967
Cash and other balances with Central Bank of Bahrain	**45,410**	73,945
Balances with other banks	**7,638**	2,879
	72,318	95,791

5 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

	2011	2010
	BD '000	BD '000
GCC	**133,813**	137,299
Europe	**1,885**	-
	135,698	137,299

This includes certain Wakala receivables for investment in commodity Murabaha. In addition to above amounts, deferred profits on Murabaha receivables from banks amounted to BD 15,000 (2010: BD 107,000).

This consists of BD 10,759 thousands (2010: BD 18,465 thousands) of jointly financed assets and BD 124,939 thousands (2010: BD 188,834 thousands) of self financed assets.

6 MURABAHA FINANCING

	2011	2010
	BD '000	BD '000
Murabaha financing - gross	**137,036**	116,080
Less: Provision for impairment	**(1,653)**	(1,508)
Murabaha financing - net	**135,383**	114,572

Murabaha financing are shown net of deferred profits of BD 23,957,000 (2010: BD 23,480,000).

This consists of BD 5,497 thousands (2010: nil) of jointly financed assets and BD 187,592 thousands (2010: BD 133,881 thousands) of self financed assets.

7 MOVEMENTS IN PROVISIONS

	2011	2010
	BD '000	BD '000
Balance at beginning of the year	**1,508**	-
Provisions made during the year	**645**	1,508
Balance at end of the year	**2,153**	1,508

8 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	2011	*2010*
	BD '000	*BD '000*
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	**56,756**	33,246
Additions during the year	**16,370**	27,252
Ijarah assets depreciation	**(6,149)**	(3,742)
Provision	**(500)**	-
At 31 December	**66,477**	56,756

	2011	*2010*
	BD '000	*BD '000*
The future minimum lease receivable in aggregate are as follows:		
Due within one year	**18,162**	18,860
Due in one to five years	**29,096**	23,340
Due after five years	**19,219**	14,556
	66,477	56,756

	2011	*2010*
	BD '000	*BD '000*
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Air crafts	**2,735**	3,114
Machinery	**3,137**	3,555
Land and buildings	**60,605**	50,087
	66,477	56,756

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 6,008,000 (2010:BD 4,402,000).

9 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing assets and liabilities of BSB, a majority owned subsidiary of the Bank. At the consolidated statement of financial position date, the conversion of the subsidiary into a fully Islamic compliant operations is in progress, accordingly these assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of these assets and liabilities under conversion are as follows:

9 ASSETS AND LIABILITIES UNDER CONVERSION (Continued)

	2011	2010
	BD '000	BD '000
Assets		
Due from banks and financial institutions	-	757
Loans and advances to customers	19,628	47,872
Non-trading investments	8,122	8,803
	27,750	57,432
Liabilities	7,633	5,171
Due to banks and financial institutions	7,633	5,171

Loans and advances to customers given above, are stated net of write down of BD 3,983,000 made by the Group against assets held by the Subsidiary at the time of acquisition. This write down comprise of BD 1,508,000 (2010:BD 2,133,000) of specific adjustments against identified facilities and a general write down of BD 2,475,000 (2010: BD 1,850,000) as fair value adjustments as required by IFRS 3, Business Combinations. The Subsidiary carries these assets at amortized cost, less impairment, as per its accounting policy for Loans and Receivables Originated by an enterprise. Included in the non-trading investments are certain investments against which the Group has taken a fair value write down amounting to BD 330,000 (2010: BD 330,000).

Income from financing contracts includes BD 1,727 thousands (2010: BD 4,963 thousands) arising from assets under conversion. Profit on Wakala from non-banks includes BD 18 thousands (2010: BD 1,557 thousands) arising from liabilities under conversion.

In addition to the above assets under conversion, the subsidiary has a conventional deposit of BD 16,088 thousands (2010: BD 14,655 thousands) with the Central Bank of Bahrain.

10 NON-TRADING INVESTMENTS

Fair value of available-for-sale financial assets is dervied from quoted market prices in active markets, if available.

Fair value of unquoted available-for-sale financials assets is estimated using appropriate valuation techniques.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial insturments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

10 NON-TRADING INVESTMENTS (continued)

The following table shows an analysis of the financial instruments carried at fair value in the consolidated statement of financial position:

31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Financial assets at fair value through profit or loss	**4,735**	**460**	**198,742**	**203,937**
Available-for-sale financial assets	**14,105**	**-**	**5,278**	**19,383**
	18,840	**460**	**204,020**	**223,320**

During the reporting period ended 31 December 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Financial assets at fair value through profit or loss	9,093	482	189,759	199,334
Available-for-sale financial assets	13,098	-	-	13,098
	22,191	482	189,759	212,432

The fair values of investments in Sukuk, compared to carrying amounts are as follows:

	2011	*2010*
	BD '000	*BD '000*
Carrying value	**174,677**	129,590
Fair value	**175,417**	130,355

11 INVESTMENT IN AN ASSOCIATE

The Group has investment in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. This was reported as an Investment in Associate till 2010. Subsequent to dilution of ownership, the Group does not have significant influence. Accordingly, this investment is now reported as part of the Non-trading investments in the consolidated statement of financial position.

12 RECEIVABLES AND PREPAYMENTS

	2011 BD '000	2010 BD '000
Profit receivable on Murabaha and Mudaraba	**1,590**	1,807
Rental receivable on Ijarah Muntahia Bittamleek assets	**479**	683
Profit receivable on Sukuk	**1,359**	650
Prepayments	**422**	716
Other receivables	**11,428**	8,623
	15,278	12,479

Other receivables include BD 4,060 thousands (2010: BD 1,623 thousands) relating to sale of investments.

13 OTHER LIABILITIES

	2011 BD '000	2010 BD '000
Profit payable	**4,325**	4,626
Accounts payable and accruals	**5,379**	7,029
Dividends payable	**2,438**	3,440
End of service benefits	**670**	669
Charity payable	**276**	229
	13,088	15,993

Charity payable includes BD 7,000 (2010: BD 8,000) of Shari'a prohibited income allocated for charitable purposes.

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment account holders funds is commingled with the Group's funds and used to fund / invest in Islamic modes of finance and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists savings accounts of BD 7,829,000 (2010: BD 6,537,000) and call accounts of BD 8,427,000 (2010: BD 11,928,000).

The return on joint invested assets and distribution to unrestricted investment account holders were as follows:

	2011 BD '000	2010 BD '000
Gross return from commingled assets	**278**	393
Group's share as Mudarib	**(125)**	(177)
Distributions to unrestricted investment account holders	**153**	216

The average profit rate for the holders is 1.00% (2010: 1.00%)

15 OWNERS' EQUITY

	2011 BD '000	2010 BD '000
15.1 Share capital		
Authorised:		
2,000,000,000 ordinary shares of BD 0.100 each	**200,000**	200,000
Issued and fully paid at BD 0.100 per share:		
Balance at beginning - 1,497,063,825 (2010: 1,425,775,075) shares	**149,706**	142,577
Issued during the year - nil (2010: 71,288,750) shares	**-**	7,129
	149,706	149,706

Pursuant to a shareholders' resolution, during the year 2010, the Bank issued one bonus share for every twenty shares held. This amounted to 5% of the paid up capital resulting in an utilization of BD 7,129,000 from the retained earnings to this effect.

15.2 Statutory reserve

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

15.3 Investment reserve

The reserve represents unrealised gains and losses from revaluation of investments and investment properties carried at fair value though profit or loss, and is not available for distribution under the Bank's policies until transferred back to retained earnings upon disposal of the assets and realisation of the gains. As a result of adoption of FAS 25, this reserve is no longer required to be disclosed separately.

16 INCOME FROM FINANCING CONTRACTS

	2011 BD '000	2010 BD '000
Income from Murabaha and Wakala receivables from banks	**585**	1,331
Income from Murabaha and Mudaraba financing	**12,336**	13,747
Income from Musharaka	**773**	673
Income from Sukuk investments	**6,106**	2,715
Income from Ijarah Muntahia Bittamleek*	**10,462**	6,981
	30,262	25,447

* The depreciation on Ijarah Muntahia Bittamleek has been disclosed in the consolidated income statement.

17 FEES, COMMISSIONS AND FOREIGN EXCHANGE GAINS

	2011	2010
	BD '000	BD '000
Financing and transaction related fees and commissions	675	1,269
Fiduciary and other fees	517	876
Foreign exchange gains	1,108	839
Other income	-	2,552
	2,300	5,536

18 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Group. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 31 December 2011 were as follows:

	2011			
	Associates and joint ventures	Directors and related entities	Senior management	Total
	BD '000	BD '000	BD '000	BD '000
Assets:				
Murabaha financing	35,621	778	150	36,549
Ijarah Muntahia Bittamleek	-	118	140	258
Musharaka financing	2,100	-	79	2,179
Receivables and prepayments	1,333	16	7	1,356
Liabilities and Equity of Investment accountholders:				
Wakala payables to non-banks	3,289	1,090	453	4,832
Customers' current accounts	4,029	355	189	4,573
Equity of investment accountholders	-	130	74	204
Commitments	3,380	-	-	3,380
Contingent liabilities	-	-	-	-

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

18 RELATED PARTY TRANSACTIONS (Continued)

	2011			
	Associates and joint ventures	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Income:				
Income from financing contracts	**1,812**	**16**	**12**	**1,840**
Expenses:				
Profit on Wakala payables to non-banks	**34**	**35**	**52**	**121**
Share of profits on equity of investment account holders	**1**	**1**	**1**	**3**

The significant balances with related parties at 31 December 2010 were as follows:

	2010			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Assets:				
Murabaha financing	21,653	54	37	21,744
Ijarah Muntahia Bittamleek	15,068	3,114	175	18,357
Musharaka financing	7,830	-	89	7,919
Assets under conversion	-	-	21	21
Receivables and prepayments	3,260	8	6	3,274
Liabilities and Equity of Investment accountholders:				
Wakala from non-banks	3,451	1,297	125	4,873
Customers' current accounts	7,428	161	333	7,922
Equity of investment accountholders	35	91	1,292	1,418
Commitments	4,310	-	-	4,310
Contingent liabilities	1,549	63	-	1,612

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2010			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Income:				
Income from financing contracts	2,945	150	17	3,112
Expenses:				
Profit paid on Wakala from non-banks	118	54	43	215
Share of profits on equity of investment account holders	3	1	1	5

Compensation of key management personnel, consisting solely of short-term benefits, for the year was BD 1,438 thousands (2010: BD 1,695 thousands).

19 CONTINGENT LIABILITIES AND COMMITMENTS

The Group has the following commitments:

	2011	2010
	BD '000	BD '000
Contingent liabilities on behalf of customers		
Guarantees	5,270	6,773
Letters of credit	1,301	1,645
Acceptances	406	432
	6,977	8,850
Irrevocable Unutilised commitments		
Unutilised financing commitments	25,591	27,970
Unutilised non-funded commitments	8,283	7,583
Unutilised capital commitments	1,398	1,502
	35,272	37,055
	42,249	45,905

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into a five-year operating lease for its premises. Future minimal rentals payable under the non-cancellable lease are as follows:

	2010	2009
	BD '000	BD '000
Within 1 year	646	429
After one year but not more than five years	1,133	85
	1,779	514

20 RISK MANAGEMENT

20.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to early settlement risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Committee

The Executive Committee has the responsibility to monitor the overall risk process within the Group.
Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Credit/ Risk Committee

Credit/ Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

Asset and Liability Committee

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Board Audit Committee

The Audit Committee is appointed by the Board of Directors who are non-executive directors of the Bank. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

20 RISK MANAGEMENT (continued)

20.1 Introduction (continued)

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Credit / Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the Chief Financial Officer and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

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

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

20.2 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 attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure (excluding sovereign exposure) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

	Gross maximum exposure 2011	*Gross maximum exposure 2010*
	BD '000	*BD '000*
ASSETS		
Balances with other banks	**7,638**	2,879
Murabaha receivables from banks	**135,698**	137,299
Corporate Sukuk	**49,650**	61,724
Murabaha and Mudaraba financing	**148,243**	100,642
Ijarah Muntahia Bittamleek	**63,277**	65,777
Musharaka financing	**11,711**	8,127
Assets under conversion	**8,708**	48,629
Receivables	**14,017**	9,399
Total	**438,942**	434,476
Contingent liabilities and commitments	**34,848**	33,652
Total credit risk exposure	**473,790**	468,128

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk, Musharaka and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. The various financial instruments are:

Murabaha financing

The Bank arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in installments over the agreed period.

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah installments are settled.

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2011				
	Neither past due nor impaired			***Past due or individually impaired***	***Total***
	'A' Rated	***'B' Rated***	***Unrated***		
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Balances with banks	**7,460**	**54**	**123**	**-**	**7,637**
Murabaha and Wakala receivables from banks	**65,804**	**29,706**	**40,188**	**-**	**135,698**
	73,264	**29,760**	**40,311**	**-**	**143,335**

	31 December 2010				
	Neither past due nor impaired			*Past due or individually impaired*	*Total*
	'A' Rated	*'B' Rated*	*Unrated*		
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balances with Banks	2,604	36	239	-	2,879
Murabaha and Wakala receivables from banks	84,853	15,084	37,362	-	137,299
	87,457	15,120	37,601	-	140,178

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

b) The credit quality of Corporate sukuk, Murabaha and Mudaraba financing, Ijarah Muntahia Bittamleek, Musharaka financing, Assets under conversion and financing that are subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2011					
	Neither past due nor impaired					
	Satisfactory	**Watch List**	**Substandard but not impaired**	**Past due but not impaired**	**Impaired**	**Total**
	BD '000	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**
Corporate sukuk	**49,650**	**-**	**-**	**-**	**-**	**49,650**
Murabaha and Mudaraba financing	**120,382**	**-**	**9,019**	**15,250**	**3,592**	**148,243**
Ijarah Muntahia Bittamleek	**45,081**	**6,499**	**3,336**	**7,979**	**382**	**63,277**
Musharaka financing	**11,492**	**159**	**-**	**60**	**-**	**11,711**
Assets under conversion	**8,708**	**-**	**-**	**-**	**-**	**8,708**
Receivables	**13,925**	**48**	**44**	**-**	**-**	**14,017**
	249,238	**6,706**	**12,399**	**23,289**	**3,974**	**295,606**

	31 December 2011					
	Neither past due nor impaired					
	Satisfactory	*Watch List*	*Substandard but not impaired*	*Past due but not impaired*	*Impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Corporate sukuk	61,724	-	-	-	-	61,724
Murabaha and Mudaraba financing	86,476	1,958	-	9,260	2,948	100,642
Ijarah Muntahia Bittamleek	53,408	-	195	12,174	-	65,777
Musharaka financing	8,127	-	-	-	-	8,127
Assets under conversion	48,629	-	-	-	-	48,629
Receivables	11,276	41	-	-	-	11,317
	269,640	1,999	195	21,434	2,948	296,216

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

c) Past due but not impaired Murabaha and Mudaraba financing, and Ijarah Muntahia Bittamleek are analysed as follows:

	31 December 2011			
	0-30 days	***31-90 days***	***> 90 days***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Murabaha and Mudaraba financing	**4,815**	**58**	**10,378**	**15,251**
Ijarah Muntahia Bittamleek	**1,639**	**149**	**6,190**	**7,978**
Musharaka Financing	**-**	**-**	**60**	**60**
	6,454	**207**	**16,628**	**23,289**

	31 December 2010			
	0-30 days	*31-90 days*	*> 90 days*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Murabaha and Mudaraba financing	-	7,726	1,534	9,260
Ijarah Muntahia Bittamleek	-	61	12,113	12,174
	-	7,787	13,647	21,434

All the past due but not impaired Murabaha and Mudaraba financing and Ijara financing are covered by collateral of BD 27,310 thousands (2010: BD 29,933 thousands). As of 31 December 2011, the Group had BD 2,975 thousands (2010: BD 2,475 thousands) as collective impairment provision and writedown of assets.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 19 except capital commitments.

During the year BD 30,039,000 (2010: BD 22,148,000) of financing facilities were renegotiated. All renegotiated facilities are performing and are fully secured.

At 31 December 2011, the amount of credit exposure in excess of 15% of the Group's regulatory capital to individual counterparties was nil (2010: nil).

The Group has pledged certain Sukuk with a financial institution having a carrying value of BD 11,502 thousands as at 31 December 2011 (2010: nil) against which the borrowing as at 31 December 2011 amount to BD 8,465 thousands (2010: nil). These borrowings are included in Murabaha and Wakala payables to banks.

20.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimized.

As at 31 December 2011, legal suits amounting to BD 2,030,000 (2010: BD 1,686,000) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

21 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	Assets 2011	***Liabilities, equity of investment account holders and owners' equity 2011***	***Contingent liabilities and Commitments 2011***	*Assets 2010*	*Liabilities, equity of investment account holders and owners' equity 2010*	*Commitments 2010*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Geographic region						
GCC	**820,079**	**703,561**	**42,607**	777,684	644,613	43,494
Arab World	**5,282**	**3,774**	**-**	7,584	3,855	64
Europe	**32,563**	**13,257**	**-**	12,088	3,265	-
Asia	**54,459**	**2,429**	**1,421**	49,907	2,737	2,861
North America	**10,159**	**261**	**-**	6,990	268	-
Others	**1,365**	**-**	**-**	2,345	-	-
	923,907	**723,282**	**44,028**	856,598	654,738	46,419
Owners' equity	**-**	**200,625**	**-**	-	201,860	-
	923,907	**923,907**	**44,028**	856,598	856,598	46,419

	Assets 2011	***Liabilities, equity of investment account holders and owners' equity 2011***	***Contingent liabilities and Commitments 2011***	*Assets 2010*	*Liabilities, equity of investment account holders and owners' equity 2010*	*Commitments 2010*
Industry sector						
Trading and manufacturing	**11,008**	**76,298**	**9,828**	12,158	22,726	5,436
Banks and financial institutions	**206,540**	**128,681**	**263**	207,495	142,136	211
Real estate	**256,175**	**77,670**	**11,190**	221,884	102,717	11,732
Aviation	**12,573**	**29**	**-**	12,872	29	-
Individuals	**53,179**	**336,464**	**1,853**	49,611	232,667	2,499
Government and public sector	**258,711**	**71,429**	**9,180**	228,176	86,357	24,071
Others	**125,721**	**32,711**	**11,714**	124,402	68,106	2,470
	923,907	**723,282**	**44,028**	856,598	654,738	46,419
Owners' Equity	**-**	**200,625**	**-**	-	201,860	-
	923,907	**923,907**	**44,028**	856,598	856,598	46,419

22 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Group.

22.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and available-for-sale investments) solely due to reasonably possible changes in equity prices, is as follows:

	2011			
	10% increase		***10% decrease***	
	Effect on net profit	***Effect on net equity***	***Effect on net profit***	***Effect on net equity***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Quoted:				
GCC	**318**	**521**	**(693)**	**(146)**
Arab World	**-**	**528**	**(528)**	**-**
Asia	**-**	**1,036**	**(718)**	**(318)**
Unquoted	**4,436**	**295**	**(4,436)**	**(295)**

	2010			
	10% increase		*10% decrease*	
	Effect on net profit	*Effect on net equity*	*Effect on net profit*	*Effect on net equity*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Quoted:				
GCC	321	667	(321)	(667)
Asia	-	805	-	(805)
Unquoted	19,612	173	(19,612)	(173)

Assets under conversion (Note 9) include quoted equities of BD 1,457 thousands (2010: BD 1,632 thousands) and unquoted equities of BD 2,945 thousands (2010: BD 1,733 thousands). In determining the effect of price volatility on above, equity positions included in assets under conversion have been considered.

22.2 Profit return risk

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO).

22 MARKET RISK (continued)

22.2 Profit return risk (continued)

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2011			
	Change in rate	***Effect on net profit***	***Change in rate***	***Effect on net profit***
	%	***BD '000***	***%***	***BD '000***
US dollars	**0.25**	**202**	**(0.25)**	**(202)**
Bahraini dinars	**0.25**	**409**	**(0.25)**	**(409)**
Sterling pounds	**0.25**	**27**	**(0.25)**	**(27)**

	2011			
	Change in rate	*Effect on net profit*	*Change in rate*	*Effect on net profit*
	%	*BD '000*	*%*	*BD '000*
US dollars	0.25	246	(0.25)	(246)
Bahraini dinars	0.25	483	(0.25)	(483)
Sterling pounds	0.25	25	(0.25)	(25)

In addition to profit generating Islamic financing and investment products considered in arriving at the effect on net profits, the assets under conversion includes BD 24,475,000 (2010: BD 52,150,000) financial assets and BD 7,633,000 (2010: BD 5,171,000) of financial liabilities which are interest bearing. The Group is in the process of converting these into Shari'a compliant contracts. If all the interest bearing assets and liabilities were converted into Shari'a complaint contracts on 1 January 2012, the change in profit rate by 0.25% would result in a profit or loss of BD 42,000 (2010: BD 117,000).

22.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Group's Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahrain dinars or US dollars. The Group had the following significant net long positions in foreign currencies as of 31 December:

	2011	2010
	BD '000	BD '000
US dollars	**48,825**	24,268
Saudi riyals	**43,125**	48,003

22 MARKET RISK (continued)

22.3 Currency risk (continued)

The effect on income solely due to reasonably possible immediate and sustained changes in exchange rates is as follows:

	2011			
	Change in rate	***Effect on net profit***	***Change inrate***	***Effect on net profit***
	%	***BD '000***	***%***	***BD '000***
US dollars to Bahraini dinars	**1**	**488**	**(1)**	**(488)**
Saudi riyals to Bahraini dinars	**1**	**431**	**(1)**	**(431)**

	2010			
	Change in rate	*Effect on net profit*	*Change inrate*	*Effect on net profit*
	%	*BD '000*	*%*	*BD '000*
US dollars to Bahraini dinars	1	243	(1)	(243)
Saudi riyals to Bahraini dinars	1	480	(1)	(480)

23 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily marketable securities. Liquidity position is monitored on an ongoing basis by the Group's Asset Liability Committee.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2011 and 2010:

	31 December 2011				
	Up to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	68,218	-	4,100	-	72,318
Central Bank of Bahrain Sukuk	12,070	24,600	77,039	11,318	125,027
Murabaha and Wakala receivables from banks	135,698	-	-	-	135,698
Corporate Sukuk	-	-	49,650	-	49,650
Murabaha and Mudaraba financing	33,175	58,707	81,932	19,275	193,089
Ijarah Muntahia Bittamleek	9,309	8,853	29,096	19,219	66,477
Musharaka financing	5,781	407	5,329	194	11,711
Assets under conversion	6,042	6,248	12,000	3,460	27,750
Non-trading investments	-	14,105	201,263	7,952	223,320
Investment in an associate	-	-	-	-	-
Investment properties	-	-	-	2,500	2,500
Receivables and prepayments	14,886	392	-	-	15,278
Premises and equipment	-	-	1,089	-	1,089
	285,179	113,312	461,498	63,918	923,907
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	-	10,457	94,116	-	104,573
Wakala payables to non-banks	-	284,748	230,399	-	515,147
Customers' current accounts	66,585	-	-	-	66,585
Liabilities under conversion	7,633	-	-	-	7,633
Other liabilities	10,848	2,101	139	-	13,088
Equity of investment accountholders	-	-	16,256	-	16,256
	85,066	297,306	340,910	-	723,282

23 LIQUIDITY RISK (continued)

	31 December 2010				
	Up to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	76,824	-	18,967	-	95,791
Central Bank of Bahrain Sukuk	20,230	14,510	33,892	-	68,632
Murabaha and Wakala receivables from banks	137,299	-	-	-	137,299
Corporate Sukuk	-	-	60,959	-	60,959
Murabaha and Mudaraba financing	25,016	37,985	59,607	11,273	133,881
Ijarah Muntahia Bittamleek	8,330	8,058	27,702	12,666	56,756
Musharaka financing	5,853	2,044	190	40	8,127
Assets under conversion	14,047	43,385	-	-	57,432
Non-trading investments	-	13,097	199,335	-	212,432
Investment in an associate	-	-	7,578	-	7,578
Investment properties	-	-	-	3,373	3,373
Receivables and prepayments	11,394	1,085	-	-	12,479
Premises and equipment	-	-	1,859	-	1,859
	298,993	120,164	410,089	27,352	856,598
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	-	-	101,300	-	101,300
Wakala payables to non-banks	-	296,807	159,640	-	456,447
Customers' current accounts	57,362	-	-	-	57,362
Liabilities under conversion	5,171	-	-	-	5,171
Other liabilities	13,411	1,838	744	-	15,993
Equity of investment accountholders	-	-	18,465	-	18,465
	75,944	298,645	280,149	-	654,738

23 LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December, 2011 and 2010 based on contractual undiscounted payment obligation:

	31 December 2011					
	On demand	***Up to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS' COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	**-**	**101,120**	**3,453**	**-**	**-**	**104,573**
Wakala payables to non-banks	**-**	**284,748**	**219,476**	**10,923**	**-**	**515,147**
Customers' current accounts	**66,585**	**-**	**-**	**-**	**-**	**66,585**
Liabilities under conversion	**-**	**7,633**	**-**	**-**	**-**	**7,633**
Equity of investment accountholders	**-**	**16,256**	**-**	**-**	**-**	**16,256**
Unutilised commitments	**14,576**	**901**	**5,361**	**3,578**	**9,458**	**33,874**
Unutilised capital commitments	**-**	**-**	**-**	**1,398**	**-**	**1,398**
Contingent liabilities	**6,145**	**342**	**490**	**-**	**-**	**6,977**
Other financial liabilities	**-**	**8,783**	**1,449**	**139**	**-**	**10,371**
Profit due on financing contracts	**-**	**2,071**	**6,864**	**811**	**-**	**9,746**
	87,306	**421,854**	**237,093**	**16,849**	**9,458**	**772,560**

	31 December 2010					
	On demand	*Up to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS' COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	-	100,810	490	-	-	101,300
Wakala payables to non-banks	-	296,807	140,251	19,389	-	456,447
Customers' current accounts	57,362	-	-	-	-	57,362
Liabilities under conversion	-	5,171	-	-	-	5,171
Equity of investment accountholders	-	18,465	-	-	-	18,465
Unutilised commitments	12,560	2,513	1,641	5,749	13,090	35,553
Unutilised capital commitments	-	-	-	1,502	-	1,502
Contingent liabilities	1,191	2,277	4,888	494	-	8,850
Other financial liabilities	-	11,583	1,114	-	-	12,697
Profit due on financing contracts	-	1,743	3,442	2,288	-	7,473
	71,113	439,369	151,826	29,422	13,090	704,820

24 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	principally handling Shari'a-compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	principally the Banks' proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	manages the undeployed capital of the bank by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2011				
	Banking	***Treasury***	***Investments***	***Capital***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Operating income	**7,881**	**4,581**	**(2,421)**	**2,699**	**12,740**
Segment result	**2,926**	**3,638**	**(4,357)**	**(1,710)**	**497**
Other information					
Segment assets	**228,470**	**322,645**	**294,722**	**78,070**	**923,907**
Segment liabilities, and equity	**585,102**	**118,818**	**8,494**	**211,493**	**923,907**

	31 December 2010				
	Banking	*Treasury*	*Investments*	*Capital*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Operating income	11,854	2,890	5,108	2,527	22,379
Segment result	3,855	1,866	2,070	(475)	7,316
Other information					
Segment assets	195,713	324,322	249,994	86,569	856,598
Segment liabilities, and equity	517,737	120,220	8,318	210,323	856,598

24 SEGMENT INFORMATION (continued)

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

25 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 54,759 thousands (2010: BD 48,137 thousands). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

26 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwa's, rulings and guidelines issued by the Group's Shari'a supervisory Board. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their carrying values as at 31 December 2011 and 2010.

28 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Bank received income totaling
BD 7,000 (2010: BD 8,000) from conventional financial institutions on current account balances during the year. These funds were held as payable to charity as they are in the nature of Shari'a prohibited income.

29 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to the good faith qard fund which is used for charitable purposes. During the year the Group paid an amount of BD 60,000 (2010: BD 213,000) on account of charitable donations.

30 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2011 has been determined by the Shari'a supervisory board as 3.4 fils (2010: 3.5 fils) per share.

Pursuant to the Shari'a Supervisory Board's directive, the prohibited income earned from the subsidiary's operations should be purified by the Group from the date of conversion. Since the Subsidiary's operations are not fully compliant with Shari'a Rules and Principles, the prohibited income has been calculated and disclosed (Note 9). The Shareholders should purify the amount of prohibited income attributable to each share by donating the relevant amounts of such prohibited income to charity. The prohibited income to be donated by each shareholder for 2011 has been determined by the Shari'a Supervisory Board as 1.05 fils per share (2010: 2.06 fils).

31 CAPITAL ADEQUACY

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Grouping Supervision and adopted by the Central Bank of Bahrain. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the years ended 31 December 2011 and 31 December 2010.

The risk assets ratio calculations, in accordance with the 'Basel II' capital adequacy guidelines of the Central Bank of Bahrain are as follows:

	2011	*2010*
	BD '000	*BD '000*
Capital base (Tier 1)	**172,872**	172,765
Credit risk weighted exposures	**653,391**	631,566
Market risk weighted exposures	**3,416**	9,700
Operational risk weighted exposures	**36,767**	58,372
Total risk weighted exposure	**693,574**	699,638
Capital adequacy	**24.9%**	24.7%
Minimum requirement	**12.0%**	12.0%

An example of how tree rings can help us identify the climate of the past is how scientists have been able to use rings to determine the El Nino cycles that occurred before modern records were kept. The oldest complete tree ring records however are from southern Germany and go back over 10,000 years. At Al Salam we are inspired by this phenomenon as we study today's trends to embrace the possibilities of tomorrow.