

Annual Report 2010



This year's Annual Report theme – A Bridge to Partnerships, is inspired by Al Baraka's values and beliefs. Our belief of participation in our customers' success and sharing in the development of societies is an enormous responsibility and can be achieved by establishing long lasting relationships.

We believe that the mutual trust, the common vision we share is the bridge to building lasting partnerships. This is how we create more value for the businesses, families and the communities we serve.

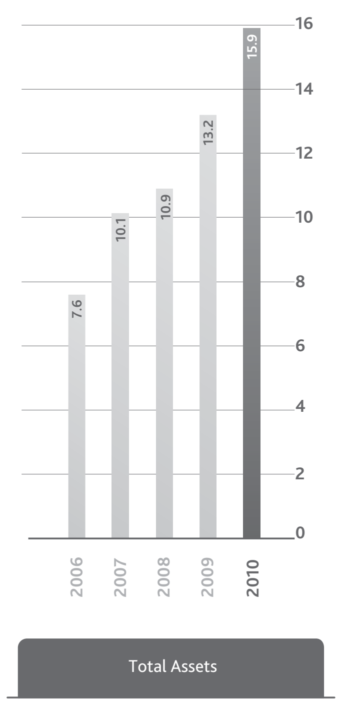
Contents

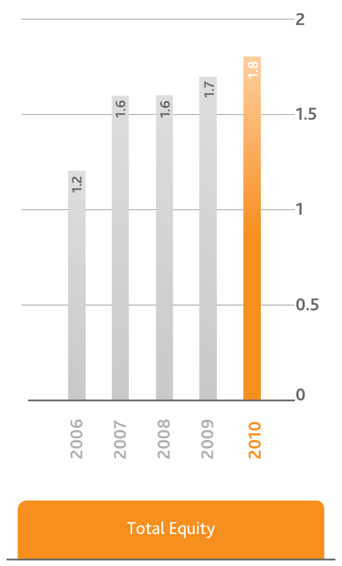
SHAIKH ISA BRIDGE

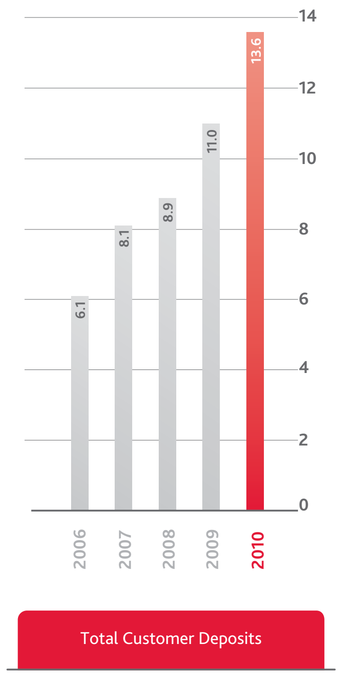
Bahrain

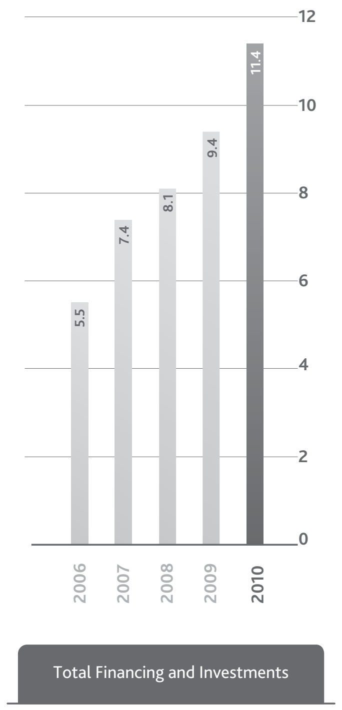
Financial Highlights

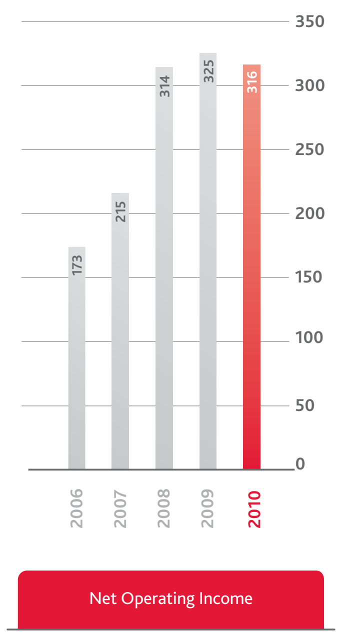
	2010	2009	2008	2007	2006
EARNINGS (US$ Millions)					
Total Operating Income	659	634	586	444	340
Net Operating Income	316	325	314	215	173
Net Income	193	167	201	201*	124
Net Income Attributable to Equity Shareholders of the Parent	106	92	114	144*	80
*BASIC AND DILUTED EARNINGS PER SHARE - US CENTS***	13	12	14	18*	10
FINANCIAL POSITION (US$ Millions)					
Total Assets	15,880	13,166	10,920	10,104	7,626
Total Financing and Investments	11,392	9,431	8,088	7,389	5,466
Total Customer Deposits	13,571	10,999	8,872	8,084	6,147
Total Equity	1,818	1,737	1,550	1,570	1,211
Equity Attributable to Shareholders of the Parent	1,225	1,214	1,131	1,144	979
CAPITAL (US$ Millions)					
Authorised	1,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	790.5	744	697.5	651	630
PROFITABILITY					
Return on Average Equity	11%	10%	13%	14%*	13%
Return on Average Shareholders' Equity	9%	8%	10%	14%*	10%
Return on Average Assets	1.3%	1.4%	1.9%	2.3%*	1.8%
Operating Expenses to Operating Income	52%	49%	46%	52%	49%
FINANCIAL POSITION					
Equity to Assets Ratio	11%	13%	14%	16%	16%
Total Financing and Investments as a multiple of Equity (times)	6.3	5.4	5.2	4.7	4.5
Net Book Value per Share (US$) **	1.56	1.54	1.43	1.45	1.24
OTHER INFORMATION					
Total Number of Employees	8,503	7,250	6,746	6,128	5,435
Total Number of Branches	370	289	283	243	216

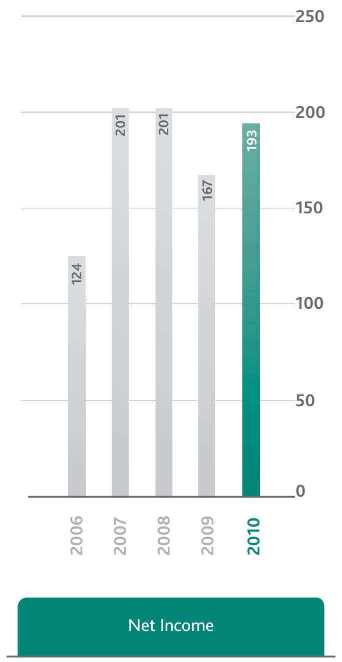


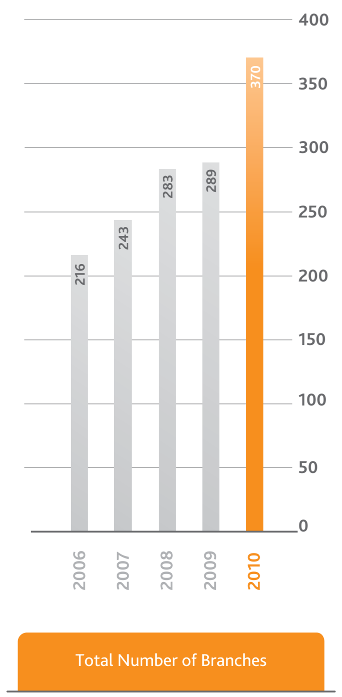


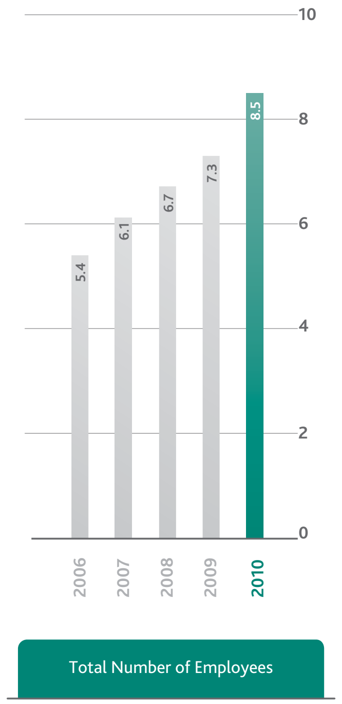












* Net income for 2007 includes exceptional profit from deemed disposal of a stake in a subsidiary amounting to US$ 54 million.
** Adjusted for treasury and bonus shares.


Wadi Rum Bridge - Jordan


Msaylha Bridge - Lebanon


Bosphorus Bridge - Turkey


Constantine Bridge - Algeria


Shaikh Isa Bridge - Bahrain


The Nelson Mandela Bridge - South Africa

Unified Corporate Identity

Your Partner Bank

One Vision   One Identity   One Group

Early in 2009, Al Baraka Banking Group commenced the methodical rollout of its new Unified Corporate Identity to all parts of the Group, the launch of which was well received by the markets. While propelling the Al Baraka brand to the forefront of Islamic banking, and emphasizing the Group's commitment to becoming the natural global leader in Islamic banking, the new corporate identity is also a strong symbol of the uniting of all subsidiaries under a single banner. Today the Al Baraka Group stands apart as an institution, with its own unique and unified philosophy, regulations, procedures and corporate culture in place.

The Unified Corporate Identity is not merely a cosmetic change to the logo, its aesthetics or consistency of colour, but goes far beyond that. It is nothing less than an attempt to link the philosophical dimension upon which Islamic banking is based - participation and partnership and the equitable sharing of risk and reward through the projection of a unified and modern identity. We see this re-launch of our brand as the first step on a journey, as we work towards the creation of a unified banking group whose many subsidiaries are focused jointly on a single unifying vision.

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

We at Al Baraka believe that banking has, or ought to have, a crucial role to play in society, one in which as bankers we have an incredible responsibility of stewardship for the resources placed in our hands. To meet this responsibility and use these resources wisely, we rely on Shari'a principles to guide us as we participate in our customers' successes, sharing in the social development of families, businesses and society at large. By 'partnership', therefore, we mean that our success and that of each of our customers are as intertwined as our jointly held beliefs. Taking part in the joint effort is therefore our reward.

We view money as a means to capitalise on opportunities and create a better society for all. Money becomes the conduit by which we enter into new opportunities together and take part in common effort for mutual reward; as steward of the resources entrusted to us, our efforts contribute to building the community, both at home and in the wider world. We call this concept: ***"Beyond Banking"***

Our Vision

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

Our Mission

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

Our Values

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

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

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

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

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

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

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

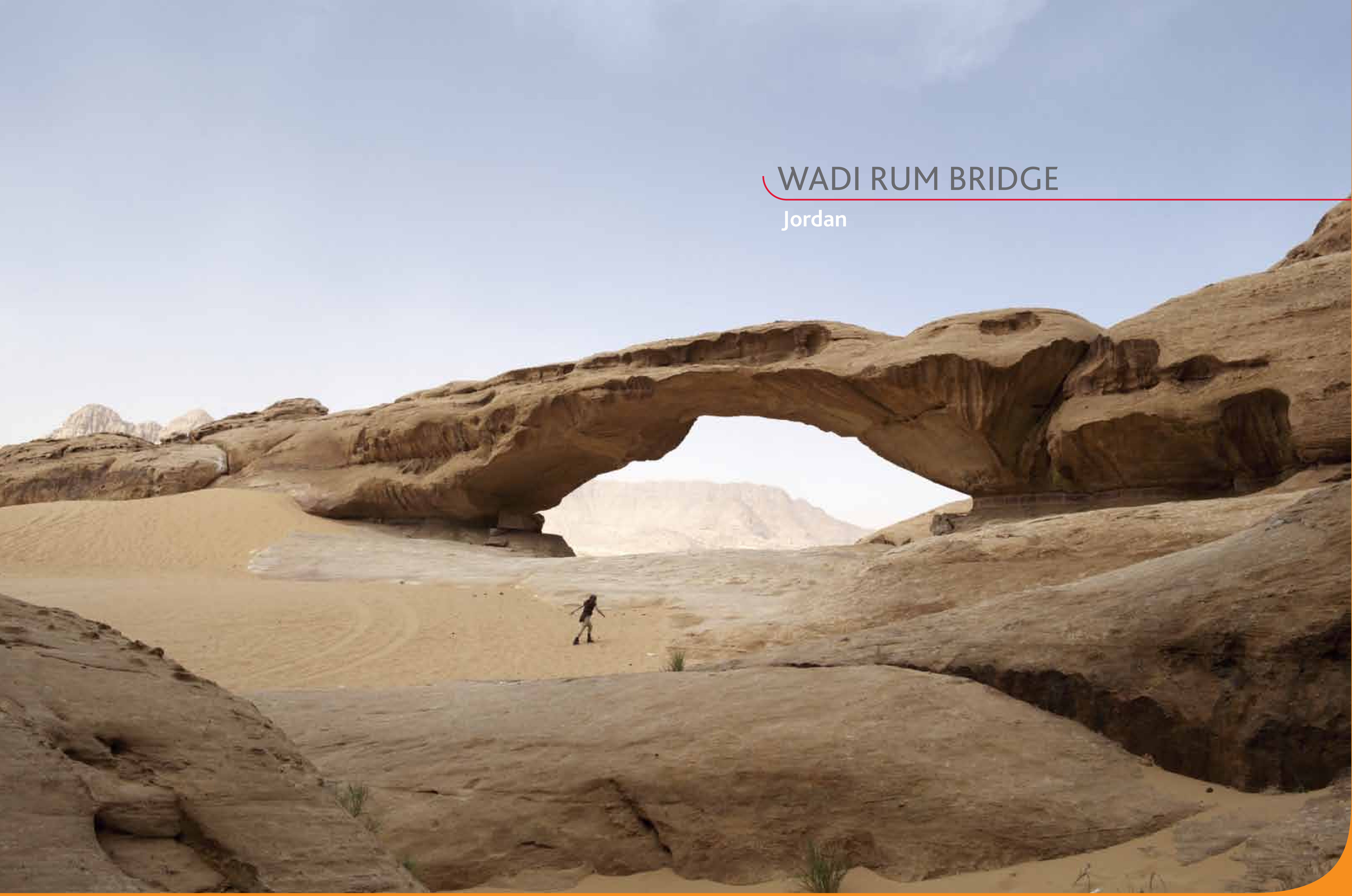
The future of our brand

Al Baraka , with its presence in 13 countries, can claim to have a wide geographical spread extending from Indonesia to Algeria, servicing its customers through a network of 370 branches. Our greatest strength is the enviable bond we have with our customers. Today we have a Unified Corporate Identity that reflects the core values and the intrinsic strengths of the organization.

We are continuously building our capacities and strengthening our resources to provide a fair and equitable financial system, not only in the countries we operate in, but also reach out to other parts of the world. Our promise ***"Your partner bank"***, is aimed at rewarding efforts and contributing to the development of society, thus making Al Baraka the brand of choice for financial services, internationally.

WADI RUM BRIDGE

Jordan



Board of Directors & Shari'a Supervisory Board

Board of Directors

- **Shaikh Saleh Abdullah Kamel**
  Chairman
- **Mr. Abdulla A. Saudi**
  Vice Chairman
- **Mr. Abdullah Saleh Kamel**
  Vice Chairman
- **Mr. Saleh Al Yousef**
  Board Member
- **Mr. Adnan Ahmed Yousif**
  Board Member and President & Chief Executive
- **Dr. Anwar Ibrahim**
  Board Member
- **Mr. Abdul Elah Sabbahi**
  Board Member
- **Mr. Ebrahim Fayez Al Shamsi**
  Board Member
- **Mr. Jamal bin Ghalaita**
  Board Member
- **Mr. Yousef Ali Fadil bin Fadil**
  Board Member
- **Mr. Samer Mohammed Farhoud**
  Board Member
- **Dr. Bassem Awadallah**
  Board Member
- **Mr. Mohyedin Saleh Kamel**
  Board Member
- **Mr. Salah Abuzaid**
  Secretary to the Board

Shari'a Supervisory Board

- **Shaikh Dr. Abdul Sattar AbuGuddah**
  Chairman
- **Shaikh Abdulla bin Sulieman Al Mannea**
  Member
- **Shaikh Dr. Abdullatif Al Mahmood**
  Member
- **Shaikh Dr. Abdulaziz bin Fowzan Al Fowzan**
  Member
- **Dr. Ahmed Mohiyeldin Ahmed**
  Member
- **Dr. Eltigani El Tayeb Mohammed**
  Secretary to the Board

Independent Non-Executive Directors

- **Mr. Abdulla A. Saudi**
  Vice Chairman
- **Mr. Saleh Al Yousef**
  Board Member
- **Dr. Anwar Ibrahim**
  Board Member
- **Mr. Ebrahim Fayez Al Shamsi**
  Board Member
- **Mr. Jamal bin Ghalaita**
  Board Member
- **Mr. Samer Mohammed Farhoud**
  Board Member
- **Dr. Bassem Awadallah**
  Board Member

Board Committees

Board Executive Committee

- **Mr. Abdullah Saleh Kamel**
  Chairman
- **Mr. Adnan Ahmed Yousif**
  Member
- **Mr. Abdul Elah Sabbahi**
  Member
- **Mr. Yousef Ali Fadil bin Fadil**
  Member

Board Affairs and Remuneration Committee

- **Mr. Ebrahim Fayez Al Shamsi**
  Chairman
- **Mr. Jamal bin Ghalaita**
  Member
- **Mr. Yousef Ali Fadil bin Fadil**
  Member

Audit and Governance Committee

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

Board Risk Committee

- **Mr. Abdul Elah Sabbahi**
  Chairman
- **Mr. Jamal bin Ghalaita**
  Member
- **Mr. Samer Mohammed Farhoud**
  Member
- **Mr. Mohyedin Saleh Kamel**
  Member

Board of Directors

Shaikh Saleh Abdullah Kamel
Chairman

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

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Saudi, Libyan national, is a world-renowned and respected international Banker. He holds a Certificate in Management and Accounting. He worked at the Central Bank of Libya for 14 years, holding various positions including that of Manager of the Banking Department and Head of the Foreign Investment Department. He was the founder of Libyan Arab Foreign Bank, where he served as Executive Chairman between 1972 and 1980, establishing branches of the Bank worldwide. He was the founder of Arab Banking Corporation (B.S.C.), Bahrain and served as its President & Chief Executive from 1980 to 1994. He also founded Arab Financial Services (E.C.), Bahrain in 1982. In addition to being voted one of the "Most Innovative Bankers" by the representatives of governments and international commercial bankers attending the International Monetary Fund and World Bank meetings in 1980, Mr. Saudi has won many international accolades, including an award at Georgetown University and the award "Best Banker" from the Association of Arab American Banks in New York in 1991. He was the first to receive the "Arab Banker of the Year" award, in 1993, from the Union of Arab Banks. In recognition of his role in the development of banking relationships between Arab and European states, Mr. Saudi has received, over his career, several gold medals and awards, notable amongst which are those awarded in 1977 by the King of Spain and the President of Italy and that given to him by the President of Tunis in 1996. He is currently the Executive Chairman of ASA Consultants W.L.L., Bahrain.

Mr. Abdullah Saleh Kamel
Vice Chairman

Mr. Abdulla, Saudi Arabian national, is a respected Saudi businessman, educated in Economic Studies at the University of California, USA. Mr. Abdulla Kamel has held a number of executive positions over the years at Dallah Group. He headed the real estate and property management and central logistics division during the period 1988-1989, was President's Assistant for Trade Affairs 1989-1995 and held senior positions at Dallah Al Baraka Holding Company over the period 1995-1999. Mr. Abdulla Kamel is currently the Chairman of Aseer Company, Amlak Real Estate Development and Finance, Al Tawfeek Financial Group, Al Tawfeek Company for Investment Funds and Vice-Chairman of Bank Al-Jazira in Saudi Arabia and King Abdullah Economic City. He is also a Member of the Boards of Saudi Research & Marketing Group and Okaz Corporation for Journalism and Publishing. Mr. Abdulla Kamel has been and remains very active in public activities through his membership in many international and local organizations and associations, such as Jeddah Chamber of Commerce (of which he is a past Member), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Currently he is the Chief Executive Officer of Dallah Al Baraka Group – a position that he has held since 1999.

Mr. Saleh Al Yousef
Member

Mr. Al Yousef, Kuwaiti national, holds a Bachelor's Degree in Commerce from Kuwait University. Mr. Al Yousef is a Kuwaiti businessman with extensive experience in the Banking industry. He served as Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. from 1988 to 2005. Prior to that, Mr. Al Yousef held a number of executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He has been Chairman of ABC Islamic Bank (E.C.), Bahrain and Chairman of ABC's consultants council, Frankfurt. He served as a Director of the Financial Securities Group during 1986. He has also served on the boards of a large number of other financial institutions, including Gulf Bank K.S.C., Kuwait, Arab Banking Corporation (B.S.C.), Bahrain and Ahli United Bank B.S.C., London. He was Chairman and Managing Director of Afkar Holding Co. until September 2010 and a Director of Gulf Investment Corporation until April 2010. He currently serves as a Commissioner with the Kuwaiti Capital Markets authority.

Board of Directors (Continued)

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

Mr. Yousif, Bahraini national, holds a Master Degree in Business Administration, University of Hull, UK. Mr. Yousif has been a Director of Al Baraka Banking Group since its inception and President & Chief Executive since August 2004. He is also Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank, Lebanon, Al Baraka Bank Syria and Al Baraka Bank (Pakistan) Ltd., whilst holding directorships in Al Baraka Bank Sudan, Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia. He has over 34 years' international banking experience and has twice been the recipient of the "Islamic Banker of the Year" Award at the World Islamic Banking Conference, in December 2004 and December 2009. He was appointed Chairman of the Union of Arab Banks in May 2007 and has been re-elected for a further four year term in May 2010.

Dr. Anwar Ibrahim
Member

Dr. Ibrahim, Malaysian national,is a well-known and respected international figure. He resides in Malaysia, where he is a Member of Parliament. He has served his country in many ministerial capacities including those of Education Minister, Finance Minister and deputy Prime Minister of Malaysia. He was formerly a visiting professor at Georgetown University in Washington D.C. and was appointed Honorary President of the London based organization Accountabiltiy (Institute of Social and Ethical Accountability). Dr. Ibrahim has been an independent non-executive director of Al Baraka Banking Group since March 2006.

Mr. Abdul Elah Sabbahi
Member

Mr. Sabbahi, Saudi Arabian national, holds a Bachelor of Science degree in Accounting from the Faculty of Economics & Administration, King Abdul-Aziz University, Saudi Arabia. Mr. Sabbahi has had over 30 years' experience in international banking, the last 20 of which with the Dallah Al Baraka Group in Saudi Arabia. He is currently Vice President, Dallah Al Baraka Group. He also holds positions as Chairman of Al Baraka Bank Tunisia, Arab Leasing International Finance, Saudi Arabia, La Société de Promotion du Lac de Tunis, and BEST Lease, Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Al Baraka Holding Co. E.C., Bahrain; Algerian Saudi Leasing Ltd.; Al Amin Investment Co., Jordan; United Albanian Bank, Albania and a number of other international companies.

Mr. Ebrahim Fayez Al Shamsi
Member

Mr. Al Shamsi, U.A.E. national, holds a Bachelor Degree in Commerce. He brings with him over 37 years' varied experience in the financial services industry and in service of the U.A.E. Government. He is currently Chief Executive Officer of Emirates Islamic Bank and has been a Director of Arab Fund for Economic & Social Development, Kuwait since 1983. Mr. Al Shamsi has been a Director of Al Baraka Banking Group since August 2006.

Mr. Jamal bin Ghalaita
Member

Mr. Ghalaita, U.A.E. national, holds a Bachelor of Science and Business Administration degree from the University of Arizona, USA. He is a Banker whose career spans over 20 years with Emirates Bank, during which he established a string of specialisations in Corporate banking, Retail banking, Trade Finance, Human Resources, Private Banking, Asset Management and Consumer Finance. He is currently Chairman of Emirates Money and a director of Emirates Islamic Bank, in addition to being Group Deputy CEO and General Manager – Consumer Banking and Wealth Management at Emirates NBD.

Board of Directors (Continued)

Mr. Yousef Ali Fadil bin Fadil
Member

Mr. Fadil, U.A.E. national, is a Banker with a Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA. During the period 1985–1998, Mr. bin Fadil held a number of senior positions in the National Bank of Umm Al Quwain. He then served Dubai Islamic Bank as Executive Manager for Investment over the period 2000-2002. In 2003 he was appointed General Manager of the Emirates Financial Company. During the period 2004-2006 he served Abu Dhabi Islamic Bank as Deputy Chief Executive Officer. Mr. bin Fadil has also served as member of the board of directors of several financial institutions including, amongst others, Union Insurance Company, U.A.E., Bahrain Islamic Bank and Bosnia International Bank. Currently he is the General Manager of Al Sahil Equity Center.

Mr. Samer Mohammed Farhoud
Member

Mr. Farhoud, Saudi Arabian national, holds a Bachelor of Computer Science and Engineering Degree from the University of Petroleum and Minerals, Dhahran, Saudi Arabia. Eng. Farhoud has had over 24 years' experience in banking and has held a number of senior positions in his career, including that of Deputy Treasurer at Al Rajhi Bank in Riyadh for two years to December 2007 and Chief Executive Officer of Fahad Abdulla Al Rajhi Holding Co., Riyadh between January 2007 and August 2010. Prior to that he held various positions including Head of Treasury Sales and Marketing Unit in Arab National Bank, Riyadh; Manager of Treasury Sales & Services Unit in United Saudi Bank in Riyadh; Senior Corporate Relationship Manager in Saudi American Bank, Riyadh; Senior Dealer in Saudi American Bank in Riyadh and Computer Engineer for SAMBA Data Center in Saudi American Bank. He is currently Chief Executive Officer of Deutsche Gulf Finance.

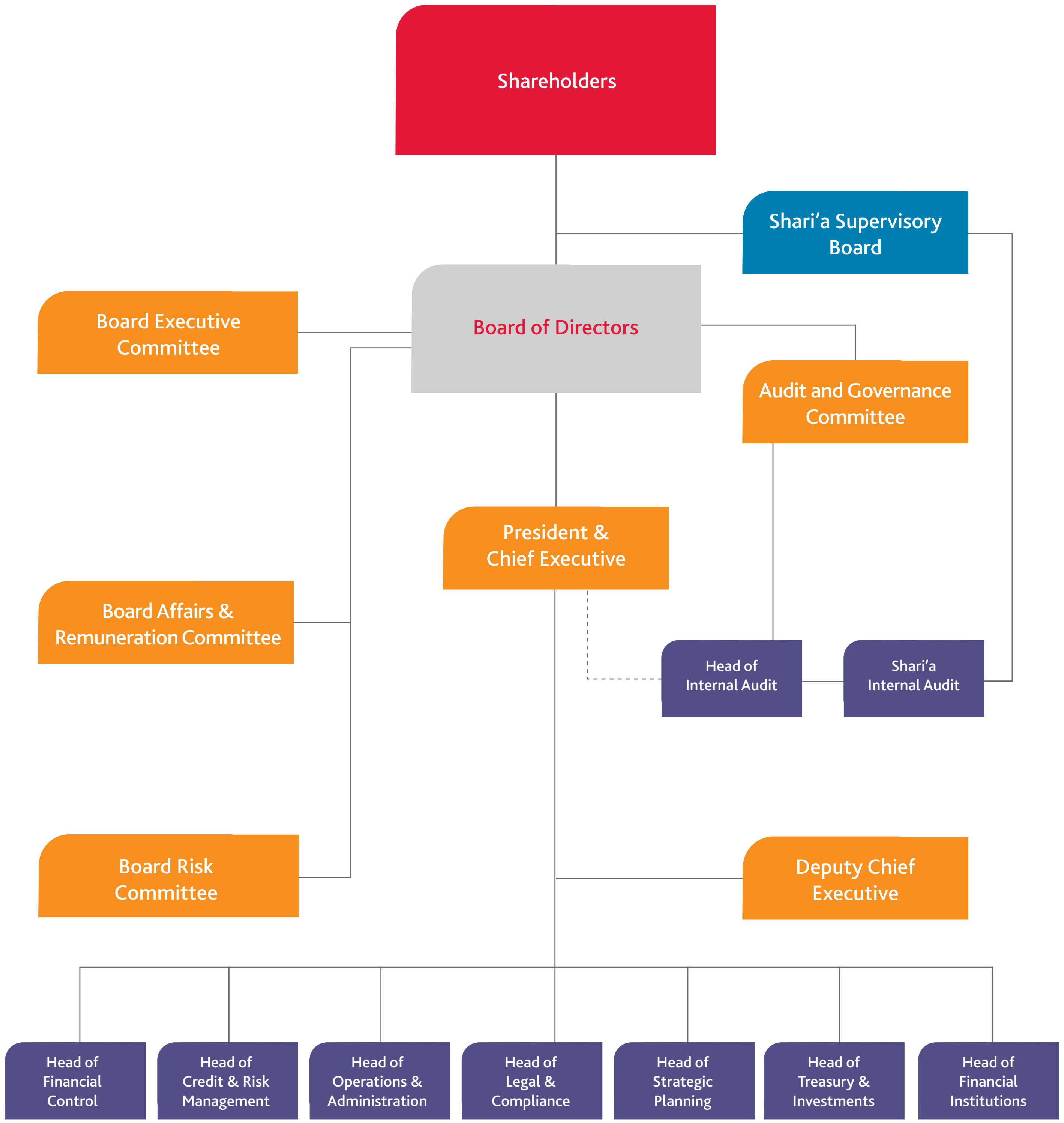
Dr. Bassem Awadallah
Member

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

Mr. Mohyedin Saleh Kamel
Member

Mr. Mohyedin, Saudi Arabian national, studied economics at the University of San Francisco, USA. He is a prominent Saudi businessman with many years' experience, currently serving as Deputy Chief Executive Officer of Dallah Al Baraka Holding Company and Deputy Chief Executive Officer for Projects at Arab Media Company (AMC). Mr. Mohyedin Kamel also serves on the boards of many other companies and institutions, including the following: Chairman of the Board of Directors of Al Rabie Saudi Foods Co. Ltd. and of Dallah Media Production Company; Managing Director of Sports Events International Company and member of the Board of Directors of: Dallah Real Estate Consulting Company – Egypt; Almaza Real Estate Development Company – Egypt; Arab Company for Real Estate and Tourism Investment – Egypt; Arab Radio and Television Network (ART); Arab Digital Distribution Company; Arab Media Company; Arab Advertising and Distribution Company; Jordan Media City; Jabal Omar Development Company and Halawani Brothers; and member of the Management Committee of Dallah Al Baraka Holding Co. He is also active in the field of public and community work in Saudi Arabia and was a member of the Board of Directors of Jeddah Chamber of Commerce and Industry in the past.

Head Office Organization Chart



Executive Management

Mr. Adnan Ahmed Yousif

Board Member
and President & Chief Executive

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

Has been a Board Director since inception, and the President and Chief Executive since August 2004. He is the Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank, Lebanon, Al Baraka Bank Syria and Al Baraka Bank (Pakistan) Ltd. He also holds directorships in Al Baraka Bank Sudan, Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia. He has more than 34 years' international banking experience and was twice the recipient of the Islamic Banker of the Year Award at the World Islamic Banking Conference in December 2004 and December 2009. He was appointed Chairman of the Union of Arab Banks in May 2007 and re-elected for another four years term in May 2010.

Mr. Othman Ahmed Sulieman

Deputy Chief Executive

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

Has been in the role since inception with the change in title to Deputy Chief Executive effective January 2007. He is the Chairman of Al Baraka Bank Sudan, member of the boards of Al Wafaa Mauritanian Islamic Bank, Mauritania, Jordan Islamic Bank, Jordan, Al Baraka Bank Limited, South Africa, Egyptian Saudi Finance Bank, Egypt, Al Baraka Turk Participation Bank, Turkey, Al Baraka Bank Lebanon and Al Baraka Islamic Bank, Bahrain. His career with Dallah Al Baraka began in 1988 following more than 24 years in banking in Sudan, that led to his appointment as Chairman of the Board and General Manager of El Nilein Bank. Since 1988 he has served the Dallah Al Baraka Group, based in Jeddah, representing its interests worldwide. In the final 7 years prior to his appointment to ABG in 2002, he was responsible for all the Group's banking interests in Africa, in addition to lending his considerable experience on the boards of Group banks in Asia and Europe and of the parent company. Mr. Sulieman is responsible for Coordination and Planning in ABG, in addition to his overall executive responsibilities.

Mr. Majeed H. Alawi

Senior Vice President
Head of Internal Audit

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

Has over 30 years of international banking experience mostly in audit and as Head of Operations. He began his career at Banque National de Paris in Bahrain in 1981 as Head of Operations, and moved to Arab Banking Corporation (B.S.C.)'s Internal Audit Department in 1988 as an audit team leader, where he carried out audits of the Head Office, its branches and subsidiaries spread over Europe, Americas, Far East and the Arab World. He joined ABG in 2000, when it was still under formation, to establish the internal audit department. He now heads the department which reviews the activities of all the subsidiary banks as well as Al Baraka Banking Group's Head Office in Bahrain, and also covers the review of control of IT as well as Shari'a aspects. He reports directly to the Audit and Governance Committee of the Board of ABG, and acts as Secretary to it. He also participates in all the meetings of the Audit Committees of all the subsidiaries of ABG as an observer member.

Executive Management (Continued)

Mr. K. Krishnamoorthy

Senior Vice President
Head of Strategic Planning

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

Has over 33 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research and fund management and administration. He has worked in the Middle East as well as in North America. After spending several years in the accountancy field in India and Bahrain, he joined Arab Banking Corporation (B.S.C.)'s investment banking subsidiary, where he served for 11 years before moving to the parent bank's Treasury Department to manage its mutual fund investment portfolio and the Treasury Mid-Office. After 2 years as a partner in a regional investment bank in the Gulf, and a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, in 2004 he took up his position at ABG initially as Head of Financial Control and in mid-2006 as Senior Vice President - Head of Strategic Planning.

Mr. Abdulrahman Shehab

Senior Vice President
Head of Operations and Administration

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

Has over 37 years of banking experience gained in senior positions with various international financial institutions, both Islamic and conventional. He commenced his career with Habib Bank Ltd in 1973, later worked with (then) Chase Manhattan Bank, Bahrain, Bank of America, Bahrain, American Express Bank, Bahrain and Bahrain Middle East Bank, Bahrain. After a successful career with Shamil Bank of Bahrain (formerly Faysal Islamic Bank of Bahrain), he was appointed as Assistant Chief Executive Officer – Operations at Bahrain Islamic Bank in 2002, and thereafter joined ABG in May 2006. Mr. Shehab is a Board member of Banque Al Baraka D'Algérie and Al Baraka Bank (Pakistan) Ltd.

Mr. Hamad Abdulla Ali Eqab

Senior Vice President
Head of Financial Control

Certified Public Accountant (CPA)

Has over 17 years' experience in financial control and auditing. Prior to joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this role, he was a member of the Assurance and Business Advisory team at Arthur Andersen. He is the Deputy Chairman of the Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Board and Audit Committee member of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algérie and member of the Board Risk Committee of Banque Al Baraka D'Algérie.

Mr. Jozsef Peter Szalay

Senior Vice President
Head of Credit and Risk Management

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

Has over 35 years of international banking experience involving credit, risk management, commercial banking and trade finance. He commenced his banking career with Bank of Montreal, Canada in international banking and was later its Middle East Representative, initially in Beirut, Lebanon and thereafter in London. He joined Gulf International Bank B.S.C. (GIB) in 1979 as Regional Marketing and Credit Officer for Central Europe based in London. He worked in various capacities in GIB within Credit and Business Development. In 2001, he was appointed Chief Credit Officer of GIB in Bahrain covering the areas of credit administration, economics, legal and credit review. He was also member of the Group Risk Committee. His most recent position with GIB was as Executive Vice-President, Head of International Banking with the responsibility for commercial banking business outside the GCC and thereafter joined ABG in September 2006.

Mr. Salah Othman Abuzaid

First Vice President
Head of Legal Affairs & Compliance

LLB, Faculty of Law
University of Khartoum

Has over 27 years of professional experience as a judge, practicing advocate or professional legal consultant serving a wide spectrum of local, regional and international clientele. After 20 years of practice in these various capacities in Sudan, he moved to the Sultanate of Oman in 2001 to work for an Omani law firm associated with an International law firm and was admitted to practice before all Omani courts by the Omani Advocates Admission Committee. In 2004, he moved to the Kingdom of Bahrain to join Al Baraka Islamic Bank (AIB) as Manager, Legal Affairs, which was followed in 2007 by his move to ABG to be First Vice President - Head of Legal Affairs & Compliance. He also serves as Secretary to the Board of Directors of ABG.

Mr. Khalid Al Qattan

First Vice President
Head of Treasury and Investments

Master in Business Administration
University of Hull, UK

Has over 25 years of banking experience in Treasury and Operations. He commenced his banking career at United Gulf Bank as an Operations Clerk in 1983. In 1988, he joined Shamil Bank (formerly Faysal Islamic Bank of Bahrain) as Operations clerk and was promoted to Manager in charge of the Treasury operations of the bank. He was later Treasury Manager in Eskan Bank from April 2006 to May 2007 where he handled the overall liquidity management of the bank and was involved in several committees. In June 2007 he joined as Vice President and rose to the position of First Vice President - Head of Treasury and Investment in 2008.

Mr. Adel Abd Allah Al-Balushi

First Vice President
Head of Financial Institutions

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

Has over 28 years of banking experience in Credit and Marketing. He began his banking career in 1981 at Bank of Bahrain and Kuwait (BBK) in the Credit and Marketing Departments and rose to a managerial level. He joined Al Baraka Islamic Bank in 1994 as Department Head in charge of Credit Administration and Analysis. From 2000 to 2007, he was Assistant General Manager of Credit, Marketing and Financial Institutions. During his period with Al Baraka Islamic Bank, he was a member of several committees. In November 2007, he joined Al Baraka Banking Group as First Vice President- Head of Financial Institutions

THE NELSON MANDELA BRIDGE

South Africa

Directors' Report

(All figures in US dollars unless otherwise stated)

Shaikh Saleh Abdullah Kamel
Chairman

Global and Regional Economies

Looking back on the past year, it seems to us that there were times when the future was shrouded in mist and we had no way of knowing which way the global economy was going to go. There were fears of a slip back into recession, whilst at the same time there was much to be optimistic about. As the year progressed, however, and we were able to see a little more clearly, our innate confidence was increasingly justified and, as we see it, the year ended on a positive note notwithstanding the weakness of the recovery in some economies.

The uncertainties felt as we began the year 2010 were of course - as we had indicated in our 2009 overview - partly due to the fact that different economies had suffered from the global recession in different ways and those economies had each, in turn, adopted specific mechanisms to counter the impact as it had affected them. Thus, the great economies of the US, China and Japan had all in their way adopted stimulus packages: the US through 'quantitative easing' – that rather ungainly term for the injection of huge sums of cash into the economy to enable the domestic financial institutions to continue to provide credit; Japan largely through a continuation of its previously adopted fiscal strategies and China through a combination of measures aimed at maintaining its breakneck rush for modernisation via its expanding export markets. On the other side of the world, Germany – the largest and by far the strongest of the European Union economies - preferred to rely, as it has always done, on the locomotive economies – a term now expanded to include China and many of the larger Asian economies – to pull them through by virtue of the revival of their imports as they re-emerged from recession; a strategy that worked yet again, leading to Germany being the first to emerge from recession and able, thus, with the aid of France and one or two others to stimulate recovery in at least part of the remainder of the EU.

Not that the rest of the EU can be said to have recovered – far from it, as first Greece and then Ireland succumbed to the heavy weight of their debt and were forced to accept rescue packages from their EU fellow members, in particular their Euro zone partners. A few others of the weaker EU countries meanwhile appear to be teetering on the brink of requiring rescue themselves.

Many emerging economies did not suffer so badly. Some actually prospered, partly from the continuing strong demand for commodities and raw materials and partly, in the case of a few, due to being able to offer a reasonably safe – if albeit temporary - home for investment for some of the excess liquidity slushing around the global economy as a result of quantitative easing and continuing trade imbalances amongst the biggest economies. Others, the hydrocarbon-producers and exporters for example, were content to let the laws of supply and demand reassert themselves in tandem with the re-emergence from recession of the oil importers, so that in due course their current account surpluses would once again rise. Still others, even if not so well endowed with natural riches, were able to continue along the path of modernisation, economic reform and progress that they had earlier adopted, and so steered a cautious and balanced course through the choppy waters.

A few statistics – necessarily only estimates at this time of writing but indicative nonetheless – will help to illustrate the extent of progress over the year. China once again led the large economies with a storming 10.3% growth rate, followed not far behind by India which turned in a respectable 9.1%. Compared with them, the US economy, struggling to regain the early momentum of its initial re-emergence in 2009 from the wastelands of the global recession, managed a relatively feeble 2.9% over the year, evincing a rising trend strengthening towards the end of the year, compelling a renewal of the Fed's quantitative easing programme, albeit much reduced at only $600 billion in comparison with the $1.75 trillion of the earlier programme. Canada and Australia remained healthy with 2.9% growth in each case. Among the large European economies, Germany was of course the best performer with 3.5% growth and, what is more, a buoyant mood which promises to take it through the next few years with internal growth supporting export performance. Others, such as France, Italy and the Netherlands, showed positive performance while those which had unwisely allowed their hitherto robust economic expansion to be increasingly based on borrowed money, consumerism and rising house prices paid the price, having to be bailed out on account of their mounting debt burden being serviced out of stagnating resources: Greece – whose GDP fell by a precipitous 3.9% - Ireland with a 1.0% overall drop, Spain with a 0.2% fall. The Far East showed the way forward – with perhaps a foretaste of the future – with a blistering 14.7% growth rate by Singapore, followed by 10.1% by Taiwan, Thailand with 7.0%, Malaysia with 6.8%, Indonesia 5.9% and South Korea 4.8%. Many of the Latin American countries had a similar story to tell: Argentina's economy recording growth of 8.2%, Brazil's by 7.7%, Mexico's by 5.0%. Closer to home, Egypt stood out with 5.1% growth, while Saudi Arabia turned in a respectable 3.8%. The UAE managed collectively to grow by 2.4% as Abu Dhabi demonstrated its intrinsic strengths and ability to shoulder the burdens of Dubai and other members by turning in a strong 3.6% growth.

Early estimates are that in the territories within which ABG operates, in addition to Egypt's, Turkey's economy showed the world its resilience as it bounced back from 2009's negative growth rate by recording 8.1% expansion, while South Africa managed 2.8% on rising international gold and commodity prices, Lebanon recorded a most impressive 8.0% growth rate, followed by Sudan with 5.5%, Algeria and Tunisia with 3.8%, Jordan 3.4%, Bahrain 3.0% and Pakistan 4.8%.

We are confident that the political situation in the North Africa, which continues to evolve as we write, will not adversely affect the Group in light of its strong foundations, soundness and financial strength. For the immediate future, our main concerns centre around the fact that the impact of all the austerity measures announced over the last 12 months is really only going to hit us in 2011. Like 2009, this last year has largely been focused on stimulus packages, but the whole developed world is now speaking of a new 'age of austerity' and, collectively, what is to come has been said by some to represent the largest synchronised budget contraction in more than 40 years. What this will do for global demand, and the repercussions for growth, remains hazy. However, it is be hoped that what faces us is at worst the prospect of a new global slowdown and not renewed recession. We shall see.

Nevertheless, as is in our nature, we continue to view the future with optimism, albeit tempered with caution and a determination to husband our resources for our stakeholders' sakes and to ensure that we continue to prosper and to deliver consistently rising shareholder value.

2010 Review

The Group's income from jointly financed accounts and investments, together with its share as Mudarib, was $299.9 million, some 5% below that for 2009. Income from self-financed contracts and investments and Mudarib share from managing restricted investment accounts was however 11% higher at $152.5 million. Including other operating income and revenues from banking services, the Group's total operating income was $658.6 million, 4% higher than that for 2009. Operating expenses of $342.3 million brought the net income before provisions and taxation to $316.3 million compared with $324.6 million the previous year. After allocating prudential provisions and taxation, the net income of the Group for the year was $193.2 million, a rise of 15% over the $167.4 million earned in 2009.

An 23% expansion of the customer deposit – including URIA, which grew to $13.6 billion, reflects the international market's confidence in the Al Baraka name, fuelled a general expansion in the Group's banking assets in all categories other than the Salam portfolios, and in its cash and liquid assets which ended the year 22% higher at $4.3 billion. The Group's total assets consequently rose to $15.9 billion, a 21% increase over 2009.

We were pleased to note that despite the negative impact on the incomes of those of our units operating in currencies other than the US dollar, brought about by the decline of their local currencies vis-à-vis the dollar over the year, all but two reported a positive net outcome. Moreover, both of these subsidiaries – Al Baraka Lebanon and the newly established Al Baraka Syria - managed a significant improvement over the previous year. It is also noteworthy that, when viewed through the prism of their own local currencies, only one unit – Al Baraka South Africa - reported a reduced position compared with last year which, in what was a difficult year in the majority of the economies in which the Group operates, was no mean feat.

In light of the Group's performance in 2010, the Board of Directors has recommended a cash dividend distribution to the shareholders of 5% of the paid up capital, amounting to $39.5 million, and a bonus dividend of one share for every 10 shares held. The Board has also recommended a transfer of $10.6 million to legal reserves, with $55.5 million being allocated to retained earnings. The Board has further recommended a remuneration distribution of $750 thousand, to be charged to expenses following the approval of shareholders at the Annual General Meeting.

Looking Ahead...

ABG has emerged from 2010 stronger than before. Its liquidity is sound and its core business is healthy. The events of 2010 have set a positive tone for ABG's continuing growth and organic expansion, enabling it to take advantage of the opportunities in the markets where it is present whilst looking ahead towards new ones. Having met its early targets, the Group is now well on track to meet its medium term strategic objectives:

- **Planned geographical expansion:** ABG's new subsidiary in Syria further consolidated its advent into this market, following the opening of its head office and one branch in 2010, by completing the establishment of its back office operations, now boasting a brand new core banking system and having absorbed the knowledge transfer of procedures and practices from other ABG units. The intention is to open more branches in 2011 in order to continue to gain market share. In addition to expansion in Syria, ABG completed the merger of the branch operations of Al Baraka Islamic Bank in Pakistan with Emirates Global Islamic Bank, to form one of the largest Islamic banks in Pakistan. The future augers well for 2011 as the Group expects to further consolidate its presence under the new banner of Al Baraka Bank (Pakistan) Limited. We are also in the process of opening a representative office in Libya and expect the formalities in this regard to be completed during 2011. Thus, we maintain our consistent search for expansion opportunities, both within and outside of our established markets.

- **Increased profitability:** 2010 was a year when we continued to strengthen our internal and external operation and business capabilities in order to enhance profitability, as amply reflected in our results for the year. With prudent management and cautious, low risk growth, we are confident of maintaining the trend towards sustainable, increasing profitability.

- **Product innovation:** The strength of the Group's well-knit operations was further evidenced in 2011 by the exchange of innovative product ideas between its units, with many of the subsidiaries introducing new products offering new and exciting financing options to customers. We confidently anticipate the continuing spread of this symbiotic relationship to continue.

- **Advanced IT systems and processes:** State-of-the-art systems have been implemented in most operating units, designed to meet the Group's demands into the next decade and achieve optimum management efficiency and customer satisfaction.

- **Continuous strengthening of the risk management and corporate governance culture:** Our risk management processes and corporate governance practices are continuously being upgraded to ensure that they remain at the level of best industry practice.

In conclusion, I should like as always to take this opportunity to extend, on behalf of the Board and Executive Management, our appreciation to our Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Commerce and Industry and all of our subsidiaries' regulatory authorities, for their support and guidance during 2010.

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

President & Chief Executive's Report

(All figures in US dollars unless otherwise stated)

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

Introduction

In 2010 the Group's total assets in US dollars expanded by 21%, despite the effect of the depreciation of many of the local currencies in which our subsidiaries operate – the impact of which is estimated at an overall 2.8%. Growth was, moreover, unevenly spread, ranging widely among the established units between Al Baraka Pakistan's 104% expansion (due in part to its acquisition of Emirates Global Islamic Bank), to Al Baraka Turkey's 27% asset build up, to Al Baraka Sudan whose assets – in US dollar terms – declined by a net 5% over the year despite achieving 6% growth in local currency terms.

The reasons were as varied as that of the growth. Al Baraka Turkey has now reached the position of being a 'big hitter' in the Turkish market and is capitalising on the public perception to expand rapidly. During the year it raised $240 million through a highly successful syndicated murabaha facility, which alone was responsible for 5.6% of the expansion in its asset base. Jordan Islamic Bank grew its assets by 19% via the expansion of its murabaha and Ijara Muntahia Bittamleek portfolios. Al Baraka Egypt's assets expanded by 11% through the combined growth of its murabaha and mudaraba portfolios and its non-trading investments. Al Baraka Algeria's assets rose by 18%, despite Central Bank curbs on personal finance, due to expansion of its Ijara Muntahia Bittamleek business. Bahrain's 10% asset base growth reflected increased mudaraba and Ijara Muntahia Bittamleek business and in its non-trading investments, compensating for a fall in its murabaha portfolio. Our South African subsidiary managed to expand its base by 32% in US dollar terms – but less so in Rand terms as the local currency strengthened against the dollar – mainly through a 39% increase in its musharaka product line and a 21% increase in its traditional murabaha business. Lebanon reported a 10% overall asset rise reflecting its successful entry into musharaka financing, adding to a 29% growth in its murabaha portfolio. Sudan's drop in total assets reflected a 22% reduction in its murabaha portfolio and a 30% decrease in its non-trading investments, compensated by the introduction of its new mudaraba business. Finally, our newest Group member, Syria, got off to a good start with a 92% growth in total assets.

Of the Group's financing portfolio, the largest increase in absolute terms occurred in the traditional murabaha sales financings, with mudaraba following. In relative terms, however, growth was highest in the Group's mudaraba financings, which expanded by 60%. The musharaka portfolios also exhibited relatively high growth, at 47%, while Istisna'a financings rose by 43%. Ijara Muntahia Bittamleek financings grew by 31%, murabaha financings by 15%, while Salam financings fell by 31% in aggregate compensated in part by an increase in Ijara Muntahia Bittamleek, the last two a consequence of the restrictions on personal financing imposed in Algeria.

This growth was fuelled by an average growth of 23% in the Group's customer deposits (including unrestricted investment accounts), which rose to $13.57 billion. Unrestricted investment accounts grew by 24% to $10.24 billion and equalled 75% of total customer deposits. Off balance sheet, aggregate restricted investment accounts grew by 8% to $553 million, while contingencies and commitments increased by 16% to $4.5 billion.

President & Chief Executive's Report (Continued)

Total operating income of the Group rose by 4% to $659 million. This result was affected by an estimated 1% average rate of decline in our subsidiaries' respective local currencies against the US dollar. Total operating expenses, on the other hand, increased by 12% mainly on account of increases in staff and other operating costs in support of the Group's branch network expansion. The net operating income therefore decreased by 4% to $313 million. Provisions of $56 million represented a reduction of 46% from those pertaining to 2009, while taxation charge was increased by 20% to $64 million. The net income was therefore $193 million, a healthy 15% increase over 2009.

Despite the continuance of testing economic conditions, albeit amidst growing signs of recovery, it was a matter of pride for ABG to see its rating by Standard & Poors (S&P) maintained at the same level as last year, reflecting the strong improving fundamentals of the Group, its sustainable business model, strong liquidity and growing balance sheet.

2010 saw the beginning of commercial operations by Al Baraka Syria and, in Pakistan, the acquisition of Emirates Global Islamic Bank (EGIB), a Pakistan based Islamic Bank, by our Bahrain based subsidiary Al Baraka Islamic Bank and the merger of EGIB into its own network, to create one of the largest Islamic banks in Pakistan. In addition to these strategic moves, we have also progressed well towards the opening of our second representative office, in Libya during 2011.

During the year the Group continued to demonstrate its leading role in supporting the development of the Islamic finance industry, participating at the Head Office level and through three of its subsidiaries – Al Baraka Bank Egypt, Jordan Islamic Bank and Al Baraka Türk Participation Bank – in the sponsorship of the very successful 7th Islamic Financial Services Board summit which took place in Bahrain in April. We were also immensely proud to be awarded the "Mediterranean Award for Global Excellence in Islamic Finance" during the Malta Islamic Finance Conference held in the Republic of Malta in October 2010 - the first award of this newly created international prize - signalling as it does the recognition by our peers of the distinguished regional and global position in Islamic banking held by our Group and the part it plays as a role model for the pure and perfect approach to Islamic banking for which it stands.

The Group was also honoured to receive the top prize awarded at the Growth of Corporate Governance in the Region conference held in the Sultanate of Oman in November 2010, for its "implementation of and compliance with corporate governance principles". The Group was chosen for the prize - the Hawkamah Union of Arab Banks 2010 Bank Corporate Governance award – from 35 competing banks from the MENA region by a distinguished panel of corporate governance experts. Finally, Al Baraka Banking Group was distinguished by the accolade "Best Regional Bank" at the prestigious Annual Islamic Business & Finance Awards ceremony held in Bahrain in December 2010.

Review of Units

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

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

Libya Representatvie Office (under formation)

Al Baraka Global Network

President & Chief Executive's Report (Continued)

Al Baraka Türk Participation Bank

Founded 1985 - Turkey

A vibrant Turkish economy bounced back from the fall of -4.75% of GDP in 2009, exhibiting a solid performance in 2010 culminating in an estimated growth rate of 8.1%. The authorities' quick and effective action in 2009, introducing early tax incentives and steadily reducing interest rates throughout the year, aided the expansion of credit demand, the beneficial effect of which continued through 2010, raising domestic demand for goods and services in an atmosphere of high consumer confidence and surging private sector investment. However, this did have an adverse impact on the rate of inflation, pushing consumer prices up by 8.6% year-on-year, significantly above 2009's 6.5% and the 6.0% anticipated at the start of the year. The current account deficit, which had been successfully and steadily reduced to only about -1.9% of GDP by the end of 2009, trended upwards in 2010 to end the year at an estimated -6.4% of GDP. Fuelled by negative real interest rates, and despite an appreciating currency but with a stable political scenario, the Turkish economy is currently enjoying growth unequalled in the region and even rivalling the bigger global emerging economies. Nevertheless its very success exposes its weaknesses, as the divergence between the strong domestic performance and weak external demand continues to drive capital inflows, leading to an ever-widening current account deficit. It is likely, though, that 2011 will see a gradual falling off of the growth rate, encouraging a belief in an ultimately soft landing.

In 2010 Al Baraka Turkey's total assets rose by 27% in US dollar terms to $5.45 billion, as aggregate financings and investments rose by 30% to $4.36 billion. The impact of local currency devaluation on asset growth was around 3%. While the bank's traditional murabaha business continued to expand, with related sales receivables increasing by 31% to reach $3.98 billion, the musharaka portfolio and non-trading investments also grew steadily, by 72% and 27% respectively, compensating for a 53% decline in the Ijarah Muntahia Bittamleek portfolio. The bank increased its liquid assets by 14% to $0.93 billion. The growth was funded mainly by a 29% increase in its customer deposits (including unrestricted investment accounts) to $4.70 billion together with the proceeds of a highly successful syndicated murabaha facility, which raised $240 million, reflecting the bank's status as a major player on the Turkish banking scene.

Notwithstanding the portfolio growth, Al Baraka Turkey's total income from jointly financed accounts and investments fell back a little, by 5% to $318 million. After distribution to the unrestricted investment account holders of their share of the income, amounting to $230 million, the same as in 2009, the bank's share as fund owner and as Mudarib of $89 million was 16% lower than that for 2009. With the inclusion of income from its own sales and investments – which grew by 31% - and from banking services and other operating income, however, its total operating income was 3% higher at $281 million. After operating expenses, 14% higher at $127 million and mainly reflecting the bank's continuing network expansion, net operating income was $154 million, 5% below that of the previous year. However, after accounting for significantly lower provisions and notwithstanding an increased taxation charge, the net profit realised was $94 million, 35% up on 2009's result.

The unit also showed a significant increase in its Letters of Credit and Letters of Guarantee during the year, which in aggregate increased by 16% to reach $3.8 billion. Consequently, the revenue from banking services increased by 9%. On the other hand, there was little or no impact on 2010's earnings from local currency devaluation against the dollar.

With Al Baraka Turkey's continuing and steady growth over the past decade, reflected in 2010 by the opening of 8 new branches and the addition of 13 more ATMs, the bank has now passed the threshold of a small bank and can be said to qualify as a major player in the Turkish participation banking market. Reaching such maturity has prompted the bank to review both its Vision and its Mission, with a view to redefining its ambitions and future growth aspirations. This exercise in turn has required that it revise its organisational structure and all its internal processes, a major task which will engage it for some time to come. It has commenced the restructuring by systematically centralising all its operations, intending thereby to increase efficiency and productivity. Another outcome of the review has been the initiation of a major restructuring of its IT systems and hardware, while yet another is its embarkation on a new phase of organic growth, as it aims to expand its branch network from the present 109 to 200 within the next 5 years.

In focusing on growth, Al Baraka Turkey intends to concentrate more on musharaka projects and retail credit, initially targeting a 30% increase in the latter category. It will also shortly be launching a new credit card, called 'Albaraka World Card', in addition to bringing in new services such as money transfer, bill payment and gold trading by Internet, participation accounts for children and minors and a Gold Participation account. New products already initiated include a Gold Deposit account, a Flexible Term Participation account and a variety of special funds to assist its customers in planning for retirement and saving towards their pension, in addition to facilities to enable payment of their utility bills and social security payments at any branch of the bank. As its ongoing expansion will naturally require an increase in staff levels both centrally and in its branch network, thus leading to greater demand for space, the bank has moved to a new headquarters building in the last quarter of 2010, fully fitted out with state of the art technologies and facilities.

In July 2010 Al Baraka Turkey was proud to be able to announce that Standard & Poor's had reaffirmed its long term counterparty credit rating of BB/B (Short Term), with Stable Outlook. S&P remarked that the ratings reflected the good track record of the bank in the participation banking market in Turkey, its adequate funding resources supported by a strong deposit franchise and limited market risk and that it expected the bank to maintain its asset quality and capitalisation at current levels. S&P further pointed out that the bank's ratings were themselves only constrained by the BB country rating of Turkey.

Al Baraka Turk Participation Bank

Al Baraka Türk Participation Bank was established in 1985 and started operations in the same year. Al Baraka Türk currently renders its services through its 109 branches throughout Turkey, 44 of which are in Istanbul and 65 in the leading industrial and commercial cities.

Unit Head	Mr. Faherettin Yahsi
Title	Board Member & General Manager
Address	Buyukdere Cad No.78 34394 Mecidiyekoy, Istanbul, Turkey
Telephone	+90 212 274 99 00
Fax	+90 212 272 44 70
Website	www.albarakaturk.com.tr

President & Chief Executive's Report (Continued)

Jordan Islamic Bank

Founded 1978 - Jordan

Building on the previous year's 3.2% GDP growth, the Jordanian economy expanded by an estimated 4.1% in 2010, supported by a reduction in the Central Bank of Jordan's rediscount rate to 4.25%. However, inflationary trends reasserted themselves as consumer prices rose on average by some 5.0% compared with the -0.7% year-on-year enjoyed in 2009 as a result of the drop in international commodity prices. The current account deficit, although improved over 2009, remained stubbornly high.

The results of the November elections to Jordan's lower house represented a vote of confidence in the government, with pro-government loyalists capturing a large proportion of the seats. Despite some local demonstrations following recent events in Tunisia and Egypt, Jordan continues to enjoy relative peace and stability, which in turn should ensure the continuation of international donors' support.

Meanwhile, a new tax law enacted in 2010 reduced the rate of taxation on banks' profits by 5% to 30%, which will have done much to encourage credit expansion by Jordan's established banks, as well as the three new foreign banks – one of them a major Islamic banking competitor – which opened for business in 2010.

Total assets at Jordan Islamic Bank (Al Baraka Jordan) expanded over the year by 19% to $3.67 billion as its outstanding financings and investments rose in aggregate by 16% to $2.06 billion, of which the main contributors were the murabaha sales receivables and the Ijara Muntahia Bittamleek portfolios. This expansion was in turn funded by a 21% increase in its total customer deposits and unrestricted investment accounts which ended the year at $3.30 billion in aggregate, as the URIAs ended the year at $2.30 billion or 21% up on the previous year while customers' current and other accounts rose in total to $943 million, an increase of 12%.

The bank's total income from jointly financed contracts and investments rose slightly to $142 million. After accounting to the URIA investors for their share, which amounted to $66 million, the balance earned by the bank including its share as Mudarib was 11% higher than in 2009 at $76 million. The income earned from its own sales and investments, Mudarib share from the restricted investment accounts, revenue from banking services and other operating income contributed a further $25 million, bringing the total operating income for the year to $101 million, 6% higher than 2009's $96 million. Operating expenses at $44 million were nearly identical to those for 2009, leaving the bank with a net operating income of $57 million which, after provisions and taxation charge, produced a net profit for the year of $41 million, 4% higher than the profit recorded for 2009.

During 2010 Al Baraka Jordan opened four new branches and three new cash offices, expanding its network to 60 branches and 12 cash offices. It also added 9 machines to its ATM network, bringing the total to 84, all linked to the Jordanian national payment network and to Visa International worldwide. It intends to further expand these networks over the next 5 years, opening 3 more branches in 2011 followed by a further 8 by 2015.

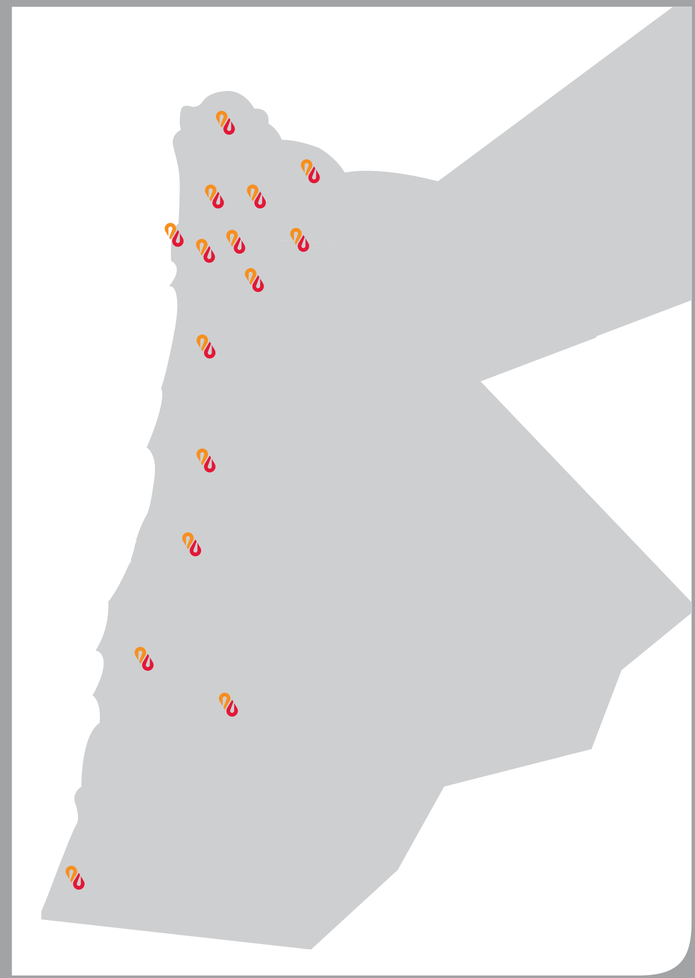
Adding to Al Baraka Jordan's already successful product range, the bank set up a brokerage subsidiary which was well received in the market. It also extended its SMS and e-banking services, in addition to expanding its Ijara Muntahia Bittamleek and murabaha portfolios. Meeting its Basel II implementation deadlines, it completed the integration of Pillar 2 and the internal capital adequacy assessment process (ICAAP), while also strengthening its Know Your Customer (KYC) and Anti-Money Laundering (AML) processes.

In accordance with the Groupwide Unified Corporate Identity programme, the bank successfully completed its transition to the Group's unified identity in June 2010 and unveiled its new Al Baraka logo. This move will undoubtedly help to reinforce the already strong brand equity enjoyed by Jordan Islamic Bank in the Jordanian market.

In August Al Baraka Jordan was rated by Standard & Poor's for the first time. S&P assigned it a long term counterparty credit rating of BB/B (Short Term) with Stable Outlook. However, in view of the political developments in the country in February 2011 S&P lowered Jordan's sovereign long term and short term local currency ratings to BB+/B and the outlook to Negative from Stable. Due to these changes in the sovereign ratings for Jordan, the outlook for Al Baraka Jordan was lowered in tandem from Stable to Negative. However, in view of Al Baraka Jordan's strong financial position, S&P nevertheless affirmed its original ratings, in doing so remarking on the bank's overall resilience, good track record in terms of asset quality, satisfactory funding and liquidity profile supported by a strong retail franchise and its leading position in the Islamic banking market in Jordan. S&P also hailed the bank's strategy, with its emphasis on sustained growth, the further enhancement of its systems and integration within the Group.

Jordan Islamic Bank

Jordan Islamic Bank was the first Islamic bank in Jordan that was established in 1978 to carry on all types of financing, banking and investment activities in compliance with the provisions of the glorious Islamic Shari'a. The bank offers its banking, investment and financing services through its 60 branches and 12 cash offices, in addition to a bonded office, distributed through out Kingdom of Jordan.



Unit Head	Mr. Musa Shihadeh
Title	Vice Chairman & Chief Executive Officer
Address	P.O Box 926225, Amman, Jordan
Telephone	Tele: + 9626 567 7377
Fax	Fax: + 9626 566 6326
Website	www.jordanislamicbank.com

President & Chief Executive's Report (Continued)

Al Baraka Bank Egypt S.A.L

Founded 1980 - Egypt

2010 saw the Egyptian economy growing by an estimated 5.1% compared with 4.7% in 2009. The rate of inflation also fell back a little from the 12.6% recorded in fiscal 2009 to around 11.4%. The current account deficit was little changed at an estimated -2.0% of GDP. Whilst the events of February 2011 have brought about a momentous change in both the leadership and the political organisation of the country, and no doubt these will be followed by further changes of great significance, it is to be hoped that the economy will soon recover its momentum and return to its normal health. Al Baraka Egypt, in the meantime, does not foresee any substantial hiatus in the economic activity as a result of the developments, both recent and yet to come.

Total assets at Al Baraka Egypt grew in 2010 by 11% to reach $2.36 billion, driven by a 10% increase in total financings and investments to $2.05 billion, despite the impact on the asset base value of the depreciation of the Egyptian Pound against the US dollar of some 5.5%. The growth was fuelled in turn by 12% overall growth in the customer deposits and unrestricted investment accounts to $2.09 billion (of which URIAs accounted for $1.89 billion).

The bank's total income from joint financings and investments rose by 10% to $166 million, of which the investors' share amounted to $116 million, increasing their return by 17% compared with 2009's $99 million. The bank's share, including its share as Mudarib, amounted to $50 million, some 3% less than in 2009. Including its income from fees and commissions, including Mudarib fees from RIAs, together with other operating income, the total operating income was $64 million compared with $65 million in 2009. After accounting for operating expenses of a little under $32 million - an increase of 8% - net operating income was 9% lower than the previous year at $33 million. Following deductions for (substantially lower) provisions together with taxation charge, however, the net profit for the bank amounted to $20 million, a noteworthy result compared with the $14 million recorded in 2009 and notwithstanding the impact of local currency depreciation against the dollar, estimated to have been about 2.5%.

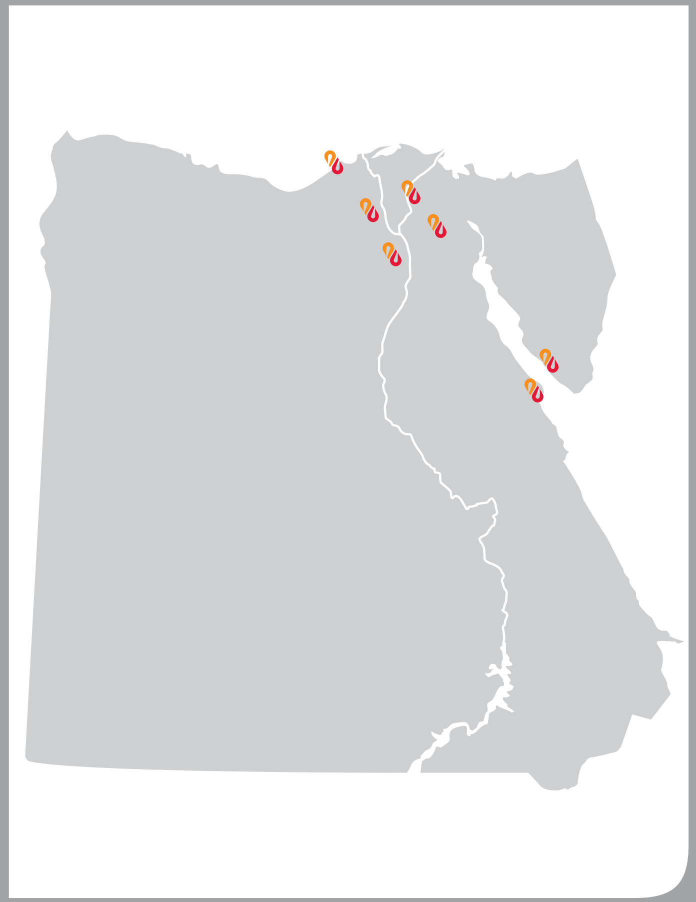
Al Baraka Egypt opened 2 new branches during the year, bringing the total network to 21 branches and foreign exchange bureaus, while its ATM network was expanded to 20 from 18 the year before. During the year it launched several new products, including its E£50 million Al Mutawazin investment fund – which met with an enthusiastic response and was oversubscribed 125% - as well as a time share leasing finance scheme to assist customers in the purchase of real estate, together with (non-profit) Umrah and Hajj loan schemes. It also progressed in its plans for its MasterCard debit and credit card services, which it will be launching in 2011. The bank's strong social commitment, evidenced through its Zakat Fund, was also evidenced through the establishment of three new medical units to provide medical treatment free of charge to the poor and the needy.

During the year Al Baraka Egypt increased its issued share capital by $6.0 million to reach a total paid up capital of $92 million. Under its strategic 5-year expansion plan, Al Baraka Egypt means to open a further 19 branches and foreign exchange bureaus to create a total network of 40 by 2015. It aims to continue expanding its overseas correspondent bank associations, the better to service its business customers. Its range of specialist financial services offered to retail customers will also be broadened over the medium term. Amongst the planned products to be introduced are prepaid cards, for use in ATM machines worldwide, telephone banking and e-banking services, Ijarah facilities for its corporate clients and new savings and investment products. It intends to expand its syndicated loan portfolio, including Islamic syndicated facilities arranged on behalf of its own clients, whilst growing its musharaka book, concentrating especially on diminishing musharaka for its key customers.

The bank completed the rebranding process under the Group's unified corporate Identity programme in March 2010, announcing the change of identity along with the name change.

Al Baraka Bank Egypt S.A.L

Al Baraka Bank – Egypt commenced its activities in accordance with Shari'a principles over 20 years ago and has grown as an Islamic institution to become one of the foremost in the Egyptian market. It provides a variety of services, products and savings deposit options to suit different requirements and financing programmes to meet the requirements of various sectors of the Egyptian market, in addition to credit facilities for companies and joint financings for large and important national projects. The bank currently has 21 branches and 4 foreign exchange offices, spread across the major Egyptian cities.



Unit Head	Mr. Ashraf Al Ghamrawi
Title	Vice Chairman & Chief Executive Officer
Address	60, Mohie Elddin Abu Elezz Street P.O. Box 455 Dokki, Cairo, Egypt
Telephone	+2023 748 1222
Fax	+2023 761 1436/7
Website	www.albaraka-bank.com.eg

President & Chief Executive's Report (Continued)

Banque AlBaraka D'Algerie S.P.A

Founded 1991 - Algeria

Algeria's economic growth rebounded somewhat in 2010 from the 2.1% slump experienced in 2009 (compared with an average for 2003-08 of 3.5% annual growth), to an estimated 3.8% growth in 2010. The current account surplus, which had fallen in 2009 to only 2.7% of GDP compared with over 22% in each of the prior two years, likewise rose, to an estimated 20.7% of GDP or $34.5 billion. Algeria's foreign exchange reserves now stand at $148.1 billion, compared with total external debt of $5.5 billion. The average rate of inflation however deteriorated, to an estimated 5.5% from 4.6% in 2009.

The latest 5-year plan (2011-15) envisages aggregate public expenditure rising to $286 billion. As part of this plan, the government has permitted a slight relaxation in foreign trade procedures, in that manufacturers will now be allowed to import raw materials to the value of DZD2 million each year without the need for an import letter of credit to be established (in 2009 it had decreed that all imports had to be backed by letters of credit). Under other recent changes, the State will in future own a share in all banks and financial institutions and will be represented on their boards (albeit without voting).

Al Baraka Algeria's total assets rose in 2010 by 18% to $1.6 billion, despite a drop of 10% in its total financings and investments to $726 million resulting from Central Bank regulations introduced in 2009 to curb personal financings, and the impact of local currency depreciation against the US dollar, estimated to have reduced the dollar value of assets by 3.5%. The impact of the new regulations was to cause the murabaha and Salam portfolios to decline by 11% and 38% respectively. However, the bank was able to expand its Ijara Muntahia Bittamleek portfolio partly in compensation, and this portfolio grew by some 44% in total. Also as a consequence, liquid assets grew by 62% to $761 million. Asset growth was funded by the rise in unrestricted investment accounts and customer current and other accounts which together rose by 13% to $1.20 billion (unrestricted investment accounts expanding by 21% to $613 million).

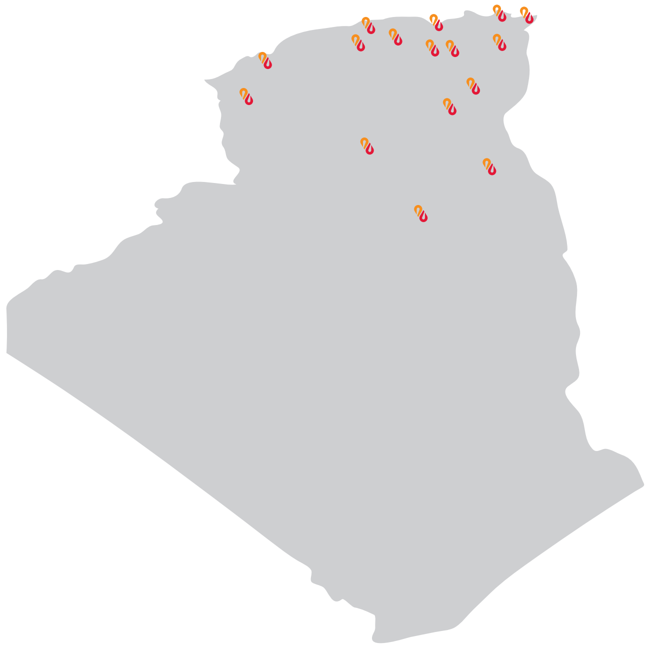
Due to the impact of the restrictions on new financings, the bank's joint income from sales receivables and jointly financed contracts and investments aggregated $62 million, 3% below the equivalent for 2009. After accounting for the investors' share of this income, which however rose by 11% over the year to $17 million, the bank's own share including its share as Mudarib amounted to $44 million, 8% less than the previous year. Including revenue from banking services and other operating income, however, its total operating income was 17% higher than in 2009 at $105 million. Largely due to reduced staff costs, the operating expenses were 7% lower at $27 million, leaving a net operating profit of $78 million, 28% higher than the previous year's $61 million. Following deductions for the year's provisions and taxation charges, both of which were higher than in 2009, the net profit arrived at was $44 million, 10% above 2009's result. Overall, the Algerian dinar's depreciation against the US dollar had a 3.5% negative impact on the bank's net income.

The unit significantly expanded its trade finance business over the year, showing a significant increase in its issuance of Letters of Credit and Letters of Guarantee, which surged by 179% to reach $1.04 billion in aggregate. Consequently, its revenues from banking services increased 64% in 2010.

Al Baraka Algeria also returned to network expansion in 2010, as the year saw preparatory work completed on 5 branches, one of which opened for business in 2010 while 4 others awaited only the approval of the authorities before opening. Under its strategic plan the bank intends to expand its network from the present 21 branches to 47 by 2015, all with ATMs installed. Products newly introduced in 2010 included musharaka, Qard Hasan and Ijarah micro finance loans (under which scheme small loans more than doubled over the course of the year) and real estate finance (which expanded by nearly 30%). Looking to 2011 and beyond, the bank intends to launch Takaful insurance, Hajj and Umrah savings accounts and to promote lease purchase facilities, a new international withdrawal card and e-banking services. It will also start work on its new 15-storey headquarters building, which should be ready for occupation in 2013.

Banque Al Baraka D'Algerie S.P.A

Banque Al Baraka D'Algerie was incorporated in May 1991 as an Islamic Bank and operates under a commercial banking license issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 21 branches.



Unit Head	Mr. Mohammed Seddik Hafid
Title	Board Member & General Manager
Address	Hai Bouteldja Houidef, Villa No.1 Rocade Sud, Ben Aknoun, Algiers, Algeria
Telephone	+21321916 450 to 56 +21321 916 458/57
Fax	+21321 91 27 63
Website	www.albaraka-bank.com

President & Chief Executive's Report (Continued)

Al Baraka Islamic Bank B.S.C.

Founded 1984 - Bahrain

Al Baraka Bahrain operates in Bahrain, where it was one of the first Islamic banks to be established, under a retail banking licence, and in Pakistan, where it commenced operations in 1991 as a foreign bank established under a commercial banking licence from the State Bank of Pakistan. As part of its growth strategy, in October 2010 the bank completed the acquisition of Emirates Global Islamic Bank (EGIB), merging the Pakistan branch networks to create one of the largest Islamic banks in Pakistan, the resultant new entity emerging as a subsidiary of Al Baraka Bahrain: Al Baraka Bank (Pakistan) Limited.

The Bahraini economy maintained the steady growth pattern seen over recent years, as the rate of GDP expansion rose from 2009's 3.0% to an estimated 4.0% in 2010. Per capita GDP now stands at some $27,500, up from an estimated $25,000 in 2009. At the same time, efforts to contain inflationary trends proved quite successful, with the rate of inflation recorded over the year falling to around 2.6% compared with 2.8% in 2009. The current account surplus rose from 2.7% of GDP to an estimated 5.2% of GDP. Efforts continue to reduce the extent of dependency on the oil and gas sector and to reduce the country's unemployment rate by encouraging greater direct investment. In light of recent events in the MENA region, the government is seeking greater stability and security for the country, given the huge strides that have been made in the Kingdom over the last decade and more to encourage overseas investment, in particular in the area of banking which enjoys the grounding of legal and regulatory infrastructure which has been put in place and which is second to none in the region.

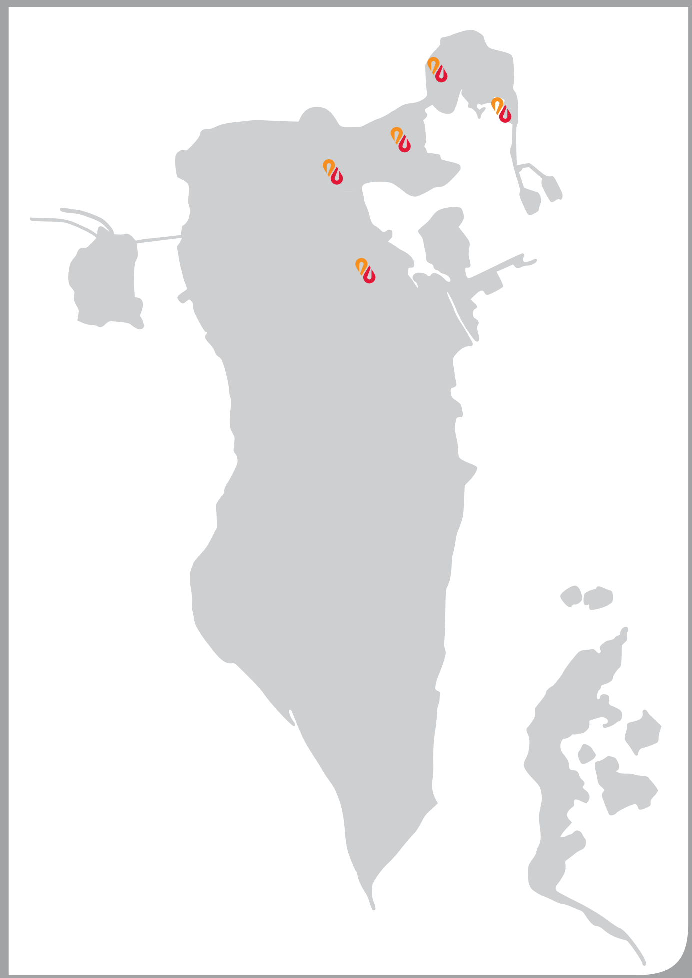
The impact of the devastating floods that hit Pakistan in 2010 not only resulted in huge human suffering at the time, but continues today to affect everyday life: frequent power outages and a deteriorating security situation being among the consequences. Some 310,000 businesses are estimated to have suffered, quite apart from the agricultural sector – accountable for some 20% of the national economy – and especially the cotton fields, which have suffered some 14 million bales lost through damage. Sugar, chipboard, paper, leather, rice, livestock, power plants were also deeply affected. At the same time, in accordance with Pakistan's agreement with the IMF, the removal of fuel subsidies and, accordingly, the upward adjustment of electricity tariffs, continue to bring rising energy costs, which naturally have a knock-on effect on those industries that are heavy energy users – textiles and cement for example. Higher commodity prices are unavoidable in the short term. Continuing worries over inflation – 13.6% in 2009 and currently projected to be around 13.9% year-on-year - have compelled the State Bank of Pakistan to raise its policy rate (which directly affects the inter-bank rate) to 13.5%. Consequently, current economic growth is estimated to have fallen to 4.8%.

Following a comprehensive internal review, Al Baraka Bahrain is in the process of adopting a new Strategic Plan, the implementation of which has occupied and will continue to occupy much of its attention. The acquisition of EGIB and merger of its Pakistan branches represented an important part of its plan to go for growth, in addition to demonstrating its ongoing commitment to the Pakistan market. For the Bahrain operations, its growth strategy has involved the introduction of new products to broaden the product portfolio and thereby increase its customer base. The success of this exercise can be judged by the 18% increase in the number of financings and investments accounts; likewise, the number of deposit accounts expanded by over 6%. Building on the success of its Taqseet (instalment) product introduced last year, the bank launched a new product in November 2010 - the Taqseet Card, believed to be unique in the market; this product offers multiple murabaha finance transactions through a single card, which has so far evinced solid interest from the retail market. Residential mortgage finance, launched in 2009, remained in demand. The bank has also introduced several new financing products related to car financing and goods financing. On the commercial side, letter of credit issuance increased by over 50% above that of 2009. Revenues from banking services meanwhile almost doubled due to the increase in the bank's foreign trade business and increased income from packaging and booking transactions.

As a consequence of this increased activity, Al Baraka Bahrain's total Bahrain-based assets increased by 10% over 2009 to reach $690 million, as total financings and investments grew by 28% to $608 million. Deposits and unrestricted investment accounts grew by 12% to $522 million, mostly on account of a 22% rise in URIAs. Income from jointly financed contracts and investments however declined by 11% to $19 million, of which the bank's share, including its share as Mudarib, was $9 million, compared with $10 million from this source in 2009. Together with income from its own sales and investments, however, which soared to $12 million from $2 million in 2009, mainly attributable to $9.8 million arising from the merger of its Pakistan based branches with EGIB, and revenue from banking services and other income, the bank's total Bahrain-based operating income rose by 77% to $26 million. Operating expenses meanwhile fell by nearly 2% to $17 million, producing a net operating profit of $8 million compared with a $3 million operating loss in 2009. After application of provisions – significantly lower than had been necessary in 2009 - Bahrain operations recorded a small net profit of $1 million, compared with 2009's net loss of $24 million.

Al Baraka Islamic Bank B.S.C.

Al Baraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as a retail and investment Islamic bank. It obtained a commercial banking license in Pakistan in 1991.The bank operates 5 branches in Bahrain and 89 branches in Pakistan.



Unit Head	Mr. Mohammed Al Mutaweh
Title	Board Member & Chief Executive Officer
Address	Al Baraka Tower, P.O. Box 1882 Manama, Kingdom of Bahrain
Telephone	+97317 535 300
Fax	+97317 533 993
Website	www.barakaonline.com

President & Chief Executive's Report (Continued)

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

Al Baraka Bank (Pakistan) Ltd.
Founded 2010 - Pakistan

The Pakistan-based operations, on the other hand, closed the year with total assets of $701 million, compared with $344 million a year earlier, primarily due to consolidation of the EGIB assets into the accounts. The absorption of the new branches together with organic growth in the original branches' operations resulted in a 158% increase in total financings and investments to $496 million, of which murabaha sales receivables accounted for the largest share at $215 million, but non-trading investments at $183 million recorded the greatest overall growth. These assets were funded by the unrestricted investment accounts and customers' current and other accounts which together equalled $613 million. Income from jointly financed contracts and investments grew 9% to $33 million, of which the investors' share was $24 million, while the bank's income from this source, including its share as Mudarib, was $8 million or 72% higher than that for 2009. After including income from its own sales and investments, fees and commission income and other operating income, the bank's total Pakistan-based operating income was $14 million, 41% above that for 2009. Operating expenses rose by 16% to exceed $8 million, leaving a net operating income of $5 million. After accounting for provisions and taxation charge, moreover, the bank's net profit from Pakistan operations amounted to $3 million, comparing well with 2009's loss of $2 million.

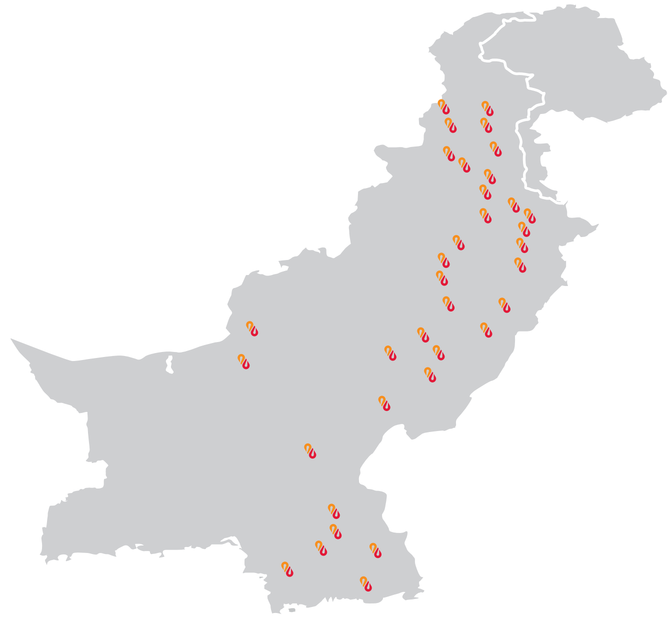
As presaged in last year's annual report, Al Baraka Bahrain recommenced network growth, opening one new branch in Bahrain to add to the existing 4-branch network there. The merger in Pakistan added EGIB's 60 branches to the bank's existing 29. The ATM network was also expanded through the installation of 3 more units in Bahrain; EGIB meanwhile contributed a further 31 units in Pakistan. The bank's 5-year programme now envisages having some 186 branches spread between the two countries by 2015.

For 2011 Al Baraka Bahrain intends to make substantial inroads into its operating costs, through the streamlining of current processes and controls by leveraging on its new, modern, core banking system. It will also be increasingly focusing on expansion of the mortgage financing product and the provision of more facilities to the middle-sized and small enterprises in Bahrain, including trade finance.

Meanwhile, integration of the two parts of the new Al Baraka Pakistan is progressing well under several different committees dealing with Human Resources, IT, Operations, Finance, Credit and other areas of operation. Implementation of the new Misys Islamic Equation core banking system is proceeding on schedule, as is Disaster Recovery implementation.

Al Baraka Bank (Pakistan) Ltd.

Has been present in its erstwhile form of 29 branches of Al Baraka Islamic Bank B.S.C. since 1991. In October 2010, it acquired Emirates Global Islamic Bank to form Al Baraka Bank (Pakistan) Ltd with a total of 89 branches.



Unit Head	Mr. Shafqaat Ahmed
Title	Board Member & Chief Executive Officer
Address	162, Bangalore Town, Main Shahrah-e-Faisal, Karachi, Pakistan
Telephone	+92 21 34315851
Fax	+92 21 34546465
Website	www.albaraka.com.pk

President & Chief Executive's Report (Continued)

Al Baraka Bank Tunisia

Founded 1983 - Tunisia

From a lacklustre 3.0% GDP growth in 2009 in the wake of the global slowdown, the Tunisian economy improved in 2010, growing by an estimated 3.8% over the year. This growth reflected the emergence from recession of its most important European Union trading partners and the resulting increase in trade activity. Its current account deficit, which had reached a low point of $1.7 billion or -4.2% of GDP in 2008, improved upon 2009's $1.5 billion or -3.8% of GDP to end the year at $1.2 billion or -2.9%. Inflation increased a little to an estimated 4.5% compared with 3.5% the previous year.

As expected, the government established 'Tunisia Holding' during the year to act as holding company for three of its largest national banks, in order to better control the strategies and activities of the constituent public sector banks. It also created a mega financial institution, called 'Al Mubadarah' (meaning 'taking initiative') to specialise in financing small and medium sized enterprises in addition to acting as holding company for the state's ownership of the SME financing bank 'Tunisian Dhaman' and other investment companies. The government also completed the first phase of the setting up of the Tunisian Foreign Bank, involving the restructuring of the capital of the former UTB (Union of Tunisian Banks) and increasing it by Euro 30 million. The Tunisian Foreign Bank meanwhile has prepared a 5-year business plan which includes plans for the establishment of a branch network in Europe, commencing with France, Italy and Germany.

It is hoped that the people's revolution of January 2011 which culminated in the removal of President Ben Ali from office has ushered in a new era of transparent and democratic government to the benefit of the people. It awaits to be seen whether the new government will continue to implement the policies of economic reform that were being followed by the last government and, indeed, to renew efforts to reduce unemployment and increase economic activity among small and medium sized businesses.

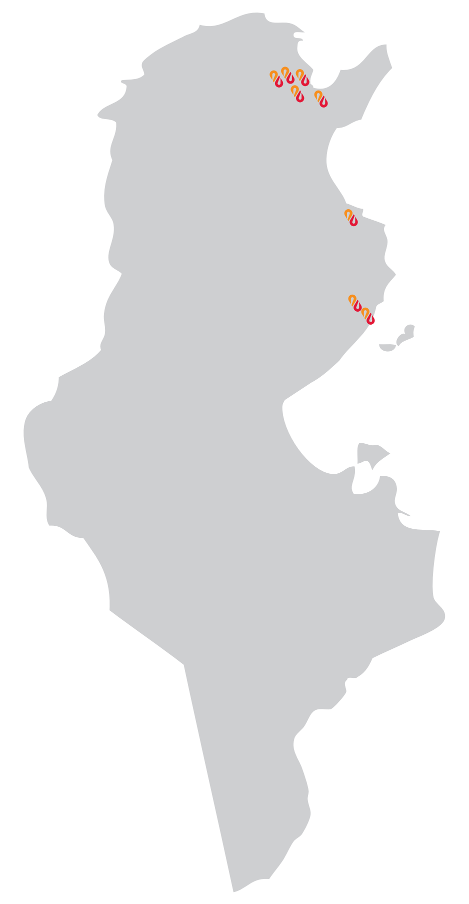
In 2010 Al Baraka Tunisia's total assets grew by 12% to reach $553 million, attributable mostly to the financings and investments portfolios which grew by 7.0% to aggregate $496 million, mostly attributable to the murabaha portfolio, as the sales receivables outstanding at the end of the year rose by 7% to $344 million, and to the mudaraba financings, which also rose by 7% to equal $143 million. The assets were funded primarily by $454 million of customer deposits (including unrestricted investment accounts) which rose in aggregate by 13% as the total number of customer accounts grew to nearly 35,000. The portfolio increase translated into a similar increase in the joint income from sales receivables and jointly financed contracts and investments, which reached $18 million, resulting in a net return to the bank from this source of $13 million. Other sources of income contributed $6 million, mostly from banking services, so that the total operating income ended the year at $19 million. Operating expenses were about the same as in 2009 at $8 million so that, after a net provision write back and a slightly higher taxation charge, the bank reported a net profit of $11 million, the same as that for 2009.

Looking to the future, Al Baraka Tunisia's strategy will be to leverage on its new state-of-the-art core banking systems in order to enhance the banking services offered to its customers, including e-banking. It also plans to launch a Gold MasterCard. Its network will be expanded from the current 8 branches to 13 by 2015, in addition to the installation of ATMs at each of the new branches.

Mr. Laroussi Bayoudh, Vice Chairman & Managing Director of Al Baraka Bank Tunisia retired at the end of his term on 31st March 2011.

Al Baraka Bank Tunisia

Al Baraka Bank Tunisia was established in 1983. The bank has both offshore and local retail activities. The bank operates 8 branches.



Unit Head	Mr. Laroussi Bayoudh
Title	Vice Chairman & Managing Director
Address	88, Avenue Hedi Chaker 1002 Tunis, Tunisia
Telephone	+21671 790000
Fax	+21671 780235
Website	www.albarakabank.com.tn

President & Chief Executive's Report (Continued)

Al Baraka Bank Limited

Founded 1989 - South Africa

The South African economy continued to recover well from the after-effects of the global slowdown in 2008-09, recording an estimated 2.8% growth in GDP compared with an overall 2.2% drop in 2009. The current account deficit was slightly reduced from the previous year's -5.0% of GDP to -4.6%. Inflation, moreover, continued to moderate, closing the year at an estimated 4.4% compared with 2009's 6.3%.

Both tourism revenues and retail sales benefited from the successful staging of the FIFA World Cup in the middle of the year. In addition, gold prices reached record levels, while at the same time crude oil prices tended to remain fairly stable. Partly on account of the improved economic performance, the Rand strengthened substantially over the course of the year, resulting in lower import costs and reduced inflation, in turn permitting the Reserve Bank to start to reduce interest rates.

Pursuant to Basel II implementation, effective 1st January 2010 the Reserve Bank increased the minimum Capital Adequacy Ratio (Pillar 1 and Pillar 2) required of South African banks to 14%. Al Baraka South Africa is in the process of enhancing its capital to meet the minimum CAR requirements. Another development significantly affecting the banking industry was the promulgation of the National Credit Act, which seeks to regulate the manner in which financial institutions operate in order to curtail unhealthy and excessive consumer borrowing.

Al Baraka South Africa's total assets grew by 32% to $426 million, due in part to the effect of an 11.3% appreciation of the Rand in US dollar terms on the total asset base, supported by 30% growth in its financings and investments portfolios, which reached $363 million. The expansion was funded largely by a 34% increase in the bank's unrestricted investment accounts and customer current and other accounts, which rose in aggregate to $387 million. This business growth resulted in 16% higher income from jointly financed contracts and investments to $30 million. After accounting for the investors' share, the bank's income from this source, including its share as Mudarib, was likewise 16% higher, at $13 million. Including income from self financing and investment, revenue from banking services and other operating income, its total operating income rose by 21% to $15 million. After operating expenses – which rose by 25% to $13 million, reflecting the higher staff costs and investment in infrastructure over the past year, the net operating income was unchanged at $2 million and, following provisions and a taxation charge, the bank returned a net profit of $1.5 million compared with $2.0 million in 2009. Rand appreciation accounted for a 14% enhancement of the bank's net income in US dollar terms.

Full implementation of the new Misys Islamic Equation banking system was achieved during the year, Equation going live in August 2010. As a consequence, Al Baraka South Africa was able, after completing the process of converting savings accounts to electronic banking via debit cards, to commence offering e-banking products to its customers. The first to benefit were its small business customers, but the bank is working towards extending these products to its corporate customers early in 2011. It will also now be able to conduct a re-evaluation exercise to leverage up on its new state-of-the-art core banking system and reduce its operating expenses, aiming for a cost to income ratio of less than 60% within 4 years.

It has meanwhile submitted an application to the authorities for a full foreign exchange licence, which it hopes will be granted by the end of the year. Among a number of new products to be introduced shortly are a Hajj investment account and a property diminishing musharaka financing facility, both of which it expects will be well received by clients.

Al Baraka Bank Ltd

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

Unit Head	Mr. Shabir Chochan
Title	Board Member & Chief Executive Officer
Address	Kingsmead Office Park, Stalwart Simelane (Stanger) Street Durban 4001, South Africa
Telephone	+2731 364 9000
Fax	+2731 364 9001
Website	www.albaraka.co.za

President & Chief Executive's Report (Continued)

Al Baraka Bank Sudan

Founded 1984 - Sudan

Against an actual increase in GDP for 2009 of 4.0% - which in itself had been a substantial shortfall in the originally targeted growth rate of 10.0%, subsequently revised to 6.0% - the Sudanese economy grew by an estimated 5.5% in 2010, a not inconsiderable achievement in a year of reduced foreign currency earnings as oil prices stabilised at lower levels than had obtained the previous year. The current account deficit also improved, from -11.2% of GDP to -9.1%, while the rate of inflation fell back slightly from 11.0% to around 10.0%.

As a result of 2010's lower foreign currency earnings, the exchange rate of the Sudanese pound on the international exchanges declined, prompting the authorities to implement a number of defensive measures, notable among which were the raising of customs duties on a range of goods and an increase to 100% to the cash margins required on letters of credit opened for purposes other than importation of agricultural, industrial and medicinal goods. The Central Bank of Sudan also imposed a limit of four branches per bank on the number of bank branches in the capital authorised to deal in foreign currencies.

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

2011 was a turning point in the history of Sudan, as the people of south Sudan voted in January in a referendum to break away from the north and form a separate state. The vote for secession, the details of which are expected to be worked out in negotiations over the next 6 months, will undoubtedly adversely impact the economy of north Sudan due to the loss of the major part of the foreign exchange revenues from oil production, as the greater proportion of the current oil development fields lay in the south. This in turn will impact on Sudan's balance of payments and the international exchange rate of the Sudanese pound. However, drilling operations are currently under way in north Sudan which, it is hoped, will lead to the identification of new oil reserves in economic quantities, while mining operations are also expanding in the north, especially in the development of gold and chromium reserves. These measures, together with intensification of existing efforts to develop further the agricultural and livestock export markets, should lead to an improvement over the period 2013-15.

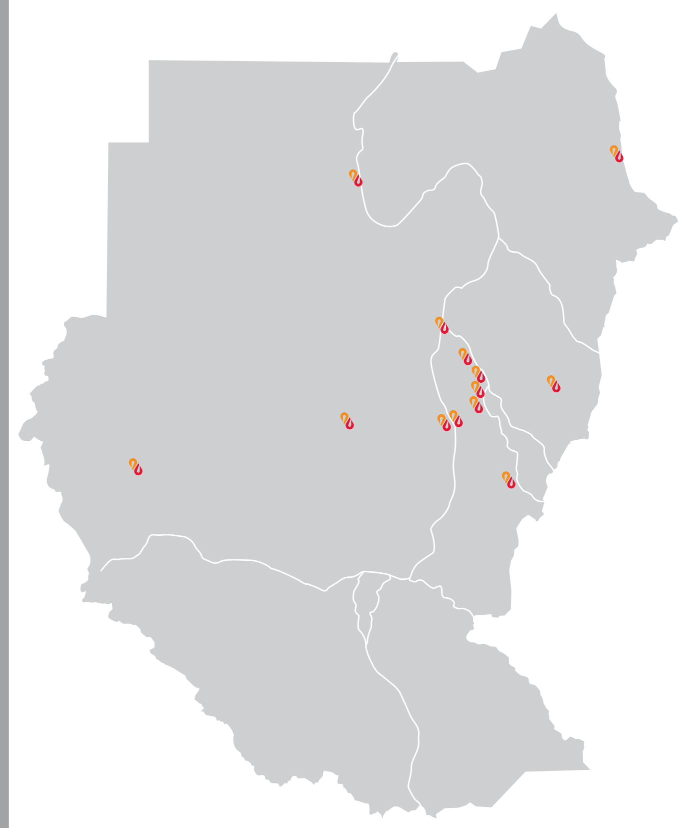
Al Baraka Sudan's total assets grew in 2010 by 6% in Sudanese pound terms. However in US dollar terms the value of total assets fell by 5% to $303 million on account of the 10.6% decline of the Sudanese pound against the US dollar over 2009. In US dollar terms, its total financings and investments suffered a 15% reduction, to $192 million. The assets were funded chiefly by customer deposits, 12% lower at $220 million again on account of the fall in the value of the Sudanese pound. In view of this, the joint income from sales receivables and jointly financed contracts and investments was 10% less than in 2009 so that, after accounting to the investors for their share and including its own share as Mudarib, the bank's income from this source was also 10% lower at $16 million. When added to its income from own sales and investments, revenues from banking services and other income, the total operating income was 7% lower at $26 million and, after operating expenses of $20 million, net operating profit was $6 million or 31% below that applicable to 2009. However, after a net write back of prior years' provisions and a lower taxation charge, the bank returned a net profit of just over $7 million, 12% up on the equivalent result for 2009, despite the negative impact of local currency depreciation against the US dollar, accounting for 5% of net income.

Al Baraka Sudan launched a number of new products during the year. It added to its Takaful (insurance) products introduced in 2009 and now offers a range of products covering, amongst others, income protection, mortgage protection, debt or finance protection, medical and education costs and Hajj and Umrah costs. Internet banking, SMS banking and Parallel Salam were also introduced and have all made a good start. For the future, it is to introduce an education financing product and is currently awaiting Central Bank approval before offering Ijarah Muntahia Bittamleek. It is presently preparing for the issuance of Hajj and Umrah cards, which it hopes to be able to launch in the medium term. Its plans for network expansion remain in place, as it intends to open at least 5 new branches and cash offices over the next 5 years.

Al Baraka Sudan completed the rebranding of its operations during April 2010, in accordance with the Groupwide Unified Corporate Identity strategy.

Al Baraka Bank Sudan

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



Unit Head	Mr. Abdullah Khairy Hamid
Title	General Manager
Address	Al Baraka Tower, P.O. Box 3583, Khartoum, Sudan
Telephone	+249183 780 688
Fax	+249183 788 585
Website	www.albaraka.com.sd

President & Chief Executive's Report (Continued)

Al Baraka Bank Lebanon S.A.L.

Founded 1991 - Lebanon

Driven largely by tourism and construction activity, Lebanon's economy grew by an estimated 8.0% in 2010, a little up on the growth of 7.0% recorded in 2009. At the same time, its current account deficit remained stable at $3.7 billion or -10.5% of GDP, a small improvement over the -11.3% of GDP recorded in 2009. The average rate of inflation increased moderately to 3.5% from 2.5%, although on a year-to-year basis it was unchanged at 2.9%. Lebanon continues to benefit from inward capital transfers arising from expatriate Lebanese remittances and some foreign direct investment emanating from the Gulf states. Its public debt remains high at $50 billion, although much of this is held by domestic banks and the Central Bank holds over $30 billion in foreign currency reserves to ensure that it can always meet local demand for dollars.

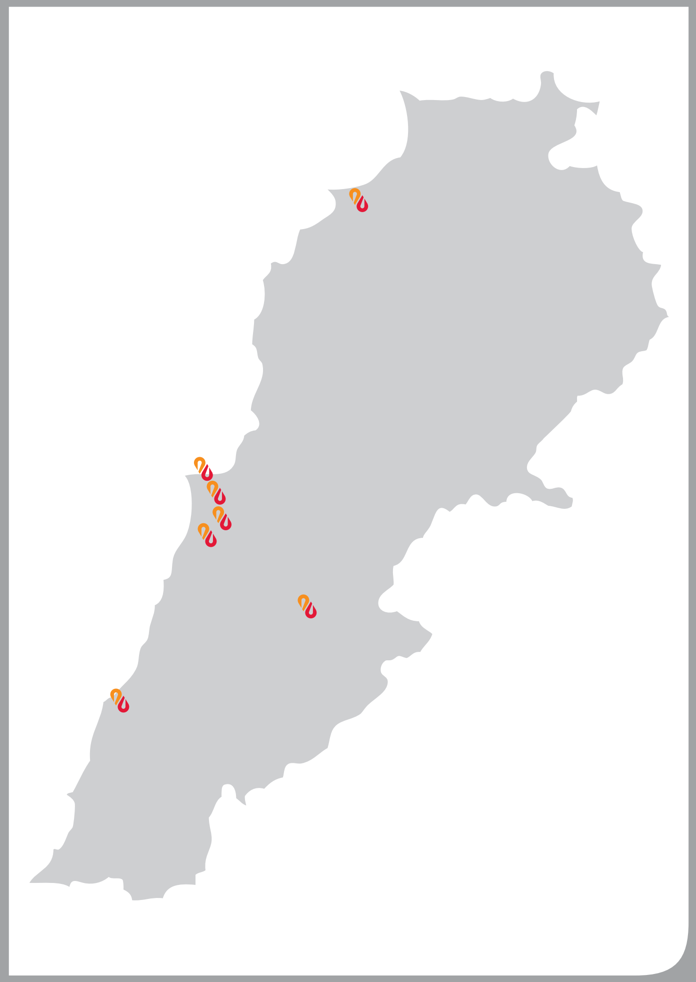
The year saw a 10% rise in assets to $200 million at Al Baraka Lebanon, as its financings and investments portfolios rose by 84% to $123 million, marking a shift away from the inter-bank market. On the liabilities side, customer deposits including the unrestricted investment accounts grew by 13% to reach $162 million. The actual number of current and other customer accounts nevertheless grew by some 20%, reflecting the success of the bank's drive to widen its customer base. Income from jointly financed contracts and investments in turn grew, by 55% to a little less than $9 million and, after accounting for the unrestricted investment account holders' share, the bank's share including that as Mudarib rose to over $4 million, more than double the revenue from this source in 2009. This income, together with income from its own investments and sales and banking services, amounted to a little under $8 million. Operating expenses on the other hand rose by only 2% to slightly more than $8 million, resulting in a substantially reduced operating loss of only $0.4 million which, as there was no taxation charge and only a small provision charge for the year, resulted in a net loss for the year of $0.9 million, a significant improvement over the $2.5 million loss realised in 2009.

Products introduced during the year include ATM Online services; Baraka Surf – which enables clients to access the Internet at reduced cost; Baraka Net – a rechargeable prepaid Internet card enabling clients to purchase goods and services over the Internet within a preset limit and Baraka Dental – a programme to finance dentists' equipment and patients' serious dental work. Several more new products are planned to be launched in 2011, amongst the most important are a credit card specifically tailored for women, featuring free gifts and store discounts among other benefits; a Hajj prepaid card carrying a variety of benefits; a murabaha financing scheme introduced for young couples getting married to finance the ceremonies, home set-up costs and similar expenditure, featuring special discounts from photographers, travel agencies, wedding planners, etc.; Al Baraka Green – to finance the installation of solar panels to produce electricity in the home and Baraka Online – a safe Web application permitting clients to access their accounts and execute transactions from anywhere in the world.

In the meantime, implementation of the new Misys Islamic Equation core banking system has been largely completed. Full implementation in early 2011 will then enable the bank to expand its Internet banking services, including SMS banking. The bank's medium term network expansion strategy aims at increasing the number of branches from the present 7 offices to 12, whilst adding a further 11 ATM units, by 2015.

Al Baraka Bank Lebanon S.A.L.

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



Unit Head	Mr. Mutasim Mahmassani
Title	Board Member & General Manager
Address	Rashid Karameh Street, Verdun 2000 Centre, Beirut, Lebanon
Telephone	+ 9611 808008
Fax	+ 9611 806499
Website	www.al-baraka.com

President & Chief Executive's Report (Continued)

Al Baraka Bank Syria s.a.

Founded 2009 - Syria

Syria's GDP expanded in 2010 by an estimated 5.0% compared with 3.0% in 2009. However, its current account deficit rose to -4.3% of GDP from -3.2%. Inflation continued to be managed downward and is estimated to have averaged 5.0% in 2010, down from an estimated 7.5% in 2009 and 15.2% in 2008.

At the close of its first year of operations, Al Baraka Syria had increased its total assets by 92% to $108 million, including financings and investments aggregating $55 million. This growth was funded by its equity of $53 million and customer deposits including unrestricted investment accounts totalling $58 million. Its total operating income was just above $2 million and, with operating expenses totalling nearly $5 million, the bank managed to reduce its net loss from $4 million in 2009 to a little over $2 million, a not inconsiderable achievement for a new operation.

Al Baraka Syria is the first of ABG's subsidiaries to have been founded since the Group came into existence through the merger of the individual banks established by Shaikh Saleh Abdullah Kamel. Since its foundation in 2009, Al Baraka Syria has opened one branch, in the Al Mazzeh area of Damascus, in addition to its head office premises in the Saba Bahrat area of Damascus. Plans are at an advanced stage for the unveiling of branches in Aleppo (3), Homs and Hama, so that by the end of the first quarter of 2011 the bank should have 6 operating branches in addition to its head office. Its rolling 5-year plan aims to have 50 branches established by the end of 2015, of which 12 will be in place by the end of 2011.

The bank has commenced business offering a range of facilities to assist clients in the purchase of real estate, equipment, furniture and motor vehicles. From this base it plans to extend the range by introducing musawama (the purchase from retailers of specific goods at a discount which are then offered to consumers for payment over a period) and to introduce to targeted large corporates its payroll system which will be handled by its new core banking system. A money exchange and remittance service will also be offered to Syrian expatriates working in the Kingdom of Saudi Arabia, via its correspondent bank there.

In addition to the implementation of its core banking system, Al Baraka Syria also plans to have implemented Basel II in full by 2012.

Al Baraka Bank Syria s.a.

Al Baraka Bank Syria s.a. was formally incorporated in December 2009 and started commercial operations in 2010.

Unit Head	Mr. Mohammed Halabi
Title	Chief Executive Officer
Address	Abdel Rahman Shahabnder Street, P. O. Box: 100, Damascus, Syria
Telephone	+96311 4437820
Fax	+96311 4437810
Website	www.albarakasyria.com

Al Baraka Banking Group Indonesia (Representative Office)

Founded 2008 - Indonesia

In 2010 the Indonesian economy grew by an estimated 6.1%, compared with a growth rate of 4.5% in 2009 and an average 5.7% annual rate over the 5-year period 2003-08. The current account was essentially in balance but inflation, estimated to have exceeded 5.5% in 2010, compared with 4.6% in 2009, has recently been rising fast, forcing the Central Bank to increase interest rates in early 2011.

The Indonesian government has over the years taken several regulatory steps to encourage the expansion of Islamic banks in the country. The target is to increase Islamic banking assets to 5% of total banking assets over time. Due to the favourable regulatory environment, the growing economy and the largest Muslim population in the world, Indonesia thus offers a very attractive destination for Islamic banks.

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

Al Baraka Banking Group Indonesia (Representative Office)

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

President & Chief Executive's Report (Continued)

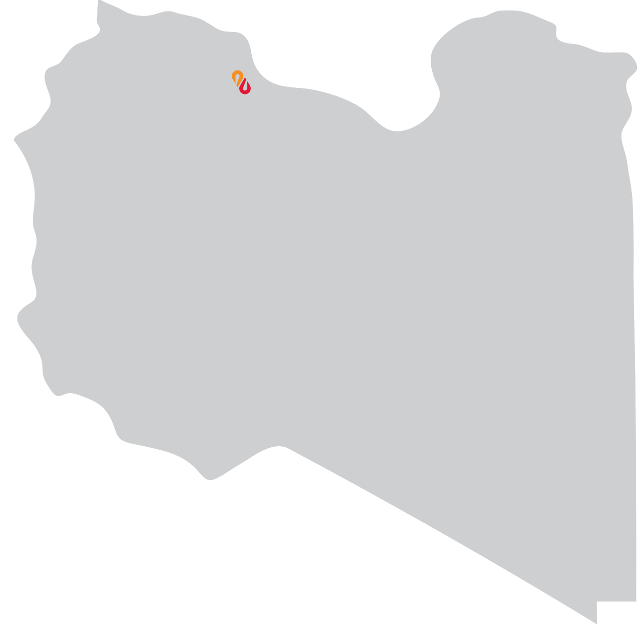
Al Baraka Banking Group Libya (Representative Office)

Under Formation

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

However, the political events of early 2011 have given rise to much uncertainty concerning the near term future in this country, although it is to be hoped that ultimately these events will find a peaceful solution. ABG intends to pursue its application for a licence and participating in the future development and prosperity of Libyan people in the fullness of time.

Al Baraka Banking Group Libya (Representative Office)
(Under Formation)



Unit Head	Mr. Wafik Al Shater
Title	Chief Representative
Address	Office No.144, 14th Floor, Al Fatah Tower 1, P.O. Box 91331, Tripoli, Libya
Telephone	+218 (21) 336 2310 +218 (21) 336 2311
Fax	+218 (21) 336 2312
Website	www.albarakalibya.com.ly

MSAYLHA BRIDGE

Lebanon

Corporate Governance

The Board of Directors

The Board of Directors is responsible for the Group's overall management; in particular, the Board is responsible for approving the Group's business strategy, monitoring its operations and making critical business decisions.

Under ABG's Articles of Association the Board of Directors shall consist of not less than five and not more than fifteen members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain, The current Board commenced its present term on 26 March 2008 except Dr. Bassem Awadallah and Mr. Moheydin Saleh Kamel who joined the Board on 24 March 2010.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, such as the original appointment being found to be contrary to the provisions of ABG's Articles of Association, or the abuse by the individual of his/her position as director, or the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board, or upon the individual's formal resignation from the Board following reasonable prior notice, or occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

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

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. Other than the President & Chief Executive all Directors are non-executive. The posts of Chairman and President & Chief Executive are held by different Directors and each has separate, clearly defined responsibilities. The Board, its Committees and individual Directors are regularly assessed with respect to their effectiveness and contribution.

In line with international best practice, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of seven independent non-executive directors, defined as a person who is not:

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

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of Executive Management Among other responsibilities, the Board is responsible for setting the Group's overall strategy and for:

- setting corporate goals and objectives, which it reassesses periodically;
- establishing policies to further the achievement of corporate goals and objectives;
- monitoring management effectiveness including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment i.e. that compliance, risk management and financial control and reporting functions are well resourced and structured;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its units, periodically reviewing internal control procedures and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- ensuring that the Group's operations are supported by a reliable, sufficient and well integrated information system;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- ensuring the preparation of the Group's financial statements on a regular and consistent basis and reviewing and approving its periodic financial statements and annual reports;
- approving strategic investments by ABG and/or its subsidiaries;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and AAOIFI standards;
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is at all times in full compliance therewith;
- performing any other functions required of the Board of Directors under applicable laws and regulations; and
- approving material transactions outside the normal course of business.

The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to Executive Management, external consultants and advisors and the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

As part of the Board's responsibility to ensure efficient governance in all matters related to ABG, it has established a written compliance policy governing ABG's compliance with all laws and regulations, in particular those enunciated by the Central Bank of Bahrain and other local regulators, which inter alia cover risk-taking appetite, capital adequacy and liquidity thresholds, reporting requirements and protection against unsafe and unsound banking practices. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive, which responsibility is carried out through a dedicated Compliance Department, whose mandate covers all aspects of compliance including assisting Executive Management and staff in managing risk, advising on laws and regulations and applicable standards, disseminating compliance guidelines to ABG staff members, ensuring an effective compliance methodology, providing periodical reports to the Board in connection with compliance controls and implementing operational controls, Know Your Customer (KYC) and other anti-money laundering methodologies.

In October 2010 the CBB introduced new requirements to be met by all licensees under Module HC of its Rule Book, with respect to corporate governance principles in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high level controls and policies. ABG has conducted detailed internal assessments to ensure compliance with these new requirements and has set specific milestones for implementation of any identified shortfalls. The Board of Directors and Executive Management have been fully apprised of the amendments to the requirements and the specific milestones set.

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

In 2010 the members of the Board were:

Non-Executive Directors

1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Yousef Ali Fadil bin Fadil
5. Mr. Mohyedin Saleh Kamel

Independent Non-Executive Directors

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

Corporate Governance (Continued)

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

Board Committees

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

Board Executive Committee

The Executive Committee is chaired by Mr. Abdullah Saleh Kamel and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive, Mr. Abdul Elah Sabbahi and Mr. Yousef Ali Fadil bin Fadil. The Executive Committee comprises a minimum of four Directors and meets at least two times a year. The Board has delegated to the Executive Committee the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall policies and procedures, strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments. The Executive Committee's primary purpose is to consider and recommend for approval of the Board the overall policies and procedures, strategies and business plan of the Group.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee is chaired by Mr. Ebrahim Fayez Al Shamsi and its other members are Mr. Jamal bin Ghalaita and Mr. Yousef Ali Fadil bin Fadil. The Board Affairs and Remuneration Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration and incentivisation of the Board and recommendation to the Board of the level of remuneration of the Executive Management members and other ABG employees and makes recommendations to the board accordingly based on the total performance of the Group. The Committee also performs the role of a Nominations Committee.

The Committee conducts an annual evaluation of the Board, Board Committees and the President & Chief Executive. It is also responsible for inducting, educating and orienting new Directors and for conducting seminars and other training programmes from time to time for Members of the Board.

Audit & Governance Committee

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

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

The various internal and financial controls and processes are subject to independent review by the Group's Internal Audit Department and external auditors and regulators as appropriate. The reports of all these bodies are forwarded to the Audit & Governance Committee, who, acting on behalf of the Board, ensures that appropriate corrective action is taken where required. The Committee is informed directly by Internal Audit's reports submitted to it and by its discussions with external auditors of the work undertaken by them and their conclusions and recommendations.

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

Board Risk Committee

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

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

The number of meetings held in 2010 by the Board of Directors and its Committees, and those attending, were:

Name of Board/Committees	Members' name	No. of meetings in 2010	Dates of the meetings	No. of meetings Attended
Board of Directors	Sh. Saleh Abdullah Kamel	6	24/02/2010 24/03/2010 11/05/2010 17/08/2010 10/11/2010 29/12/2010	1
	Mr. Abdullah A. Saudi			5
	Mr. Abdullah Saleh Kamel			4
	Mr. Saleh Al Yousef			6
	Mr. Adnan Ahmed Yousif			6
	Dr. Anwar Ibrahim			3
	Mr. Abdul Ellah Sabbahi			4
	Mr. Ebrahim Fayez Al Shamsi			6
	Mr. Jamal bin Ghalita			4
	Mr. Yousef Ali Fadil Bin Fadil			6
	Mr. Samer Mohammed Farhoud			6
	Dr. Bassem Awadallah			4*
	Mr. Mohyedin Saleh Kamel			3*
Board Executive Committee	Mr. Abdullah Saleh Kamel	3	06/02/2010 27/06/2010 13/12/2010	3
	Mr. Abdul Ellah Sabbahi			3
	Mr. Yousef Ali Fadil Bin Fadil			3
	Mr. Adnan Ahmed Yousif			3
Audit & Governance Committee	Mr. Saleh Al Yousef	5	23/02/2010 11/05/2010 16/08/2010 10/11/2010 29/12/2010	5
	Dr. Anwar Ibrahim			3
	Mr. Ebrahim Fayez Al Shamsi			5
	Dr. Bassem Awadallah			4**
Board Affairs & Remuneration Committee	Mr. Ebrahim Fayez Al Shamsi	3	21/01/2010 24/06/2010 19/10/2010	3
	Mr. Jamal bin Ghalita			3
	Mr. Yousef Ali Fadil Bin Fadil			3
Risk Committee	Mr. Abdul Elah Sabbahi	3	21/01/2010 24/06/2010 21/10/2010	3
	Mr. Jamal bin Ghalita			2
	Mr. Samer Mohammed Farhoud			2
	Mr. Mohyedin Saleh Kamel			1***

*** Board of Directors: Was not a Member at time of Meetings No. 1 & 2**
**** Audit & Governance Committee: Was not a Member at time of Meeting No. 1**
***** Risk Committee: Was not a Member at time of Meeting No. 1**

Corporate Governance (Continued)

Executive Management

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

As at the end of 2010, the Team consisted of the President & Chief Executive, the Deputy Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury and Investment, Operations and Administration, Legal Affairs & Compliance and Financial Institutions.

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

Executive Management Committee

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

Asset & Liability Committee

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

Head Office Credit Committee

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

Management Risk Committee

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

Head Office IT Steering Committee

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

Human Resources & Compensation Committee

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

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Stock Exchange (BSE) aimed at ensuring the maintenance of a fair, orderly and transparent securities market and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and other similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Deputy Chief Executive and the Heads of Internal Audit, Legal affairs & Compliance, Operations and Administration and Investors' Relations.

Brand Guardians

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

Other committees

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

Compliance, Policies and Procedures

Group Disclosure Policy

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

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

Examples of information that may constitute material information are given below:

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

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

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

As a listed company, ABG adheres to a strict policy which delegates to certain specific individuals the authority to issue press releases or

Corporate Governance (Continued)

announce to the public information, financial or non-financial, on the Group. Only the following persons are authorised to make public information via the media:

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

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

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

Press releases are posted on the Group's Website and published in a minimum of one local newspaper either in Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's Website or in local newspapers.

The Group is committed to adhering to all the requirements outlined in the CBB's Rulebook, Volume 2, Part A, Public Disclosure Requirements section.

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

Regulation

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

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

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

The Group took all necessary steps to achieve in time the required degree of sophistication in risk assessment to enable it to comply with the requirements of Basel II as stipulated by the CBB. It has adopted the Standardised Approach applicable to Islamic Banks under the CBB's Rule Book and, following a period of satisfactory parallel reporting to the CBB covering a year from June 2007, the Group has since July 2008 been adhering solely to the requirements of the CBB under Basel II.

Pursuant to the Group's Compliance Policy which was approved and adopted by ABG's Board of Directors in November 2009, ABG has appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice. The Compliance Officer's position is currently held by a senior officer in the Legal Affairs & Compliance Department.

Anti-Money Laundering

The Group has implemented the CBB's anti-money laundering regulations, including the appointment of a Group Money Laundering Reporting Officer (MLRO) - which position is held by the Head of Operations and Administration - who also oversees the individual MLROs in each of the constituent banks. Groupwide overall policies for Know Your Customer (KYC) and anti-money laundering at the Head Office level, complying with CBB regulations, have been disseminated to all subsidiaries for implementation.

Financial Performance Monitoring

Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively, whereunder all subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). These are consolidated quarterly and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Risk Management

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

Risk management is an integral part of the Group's decision-making process. The Board of Directors defines and sets the Group's overall levels of risk appetite, risk diversification and asset allocation strategies. The Management Risk Committee and other executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors. These risks and the processes employed to mitigate them have not altered significantly over the past year.

The Group's risk management has the following objectives:

a. Unified Groupwide risk management to enable the Group to calculate risk adjusted return on capital;
b. Inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk- taking based on comprehensive Groupwide policies, processes and limits;
c. Professionally qualified staff and ongoing credit training;
d. Investing in technology and systems enabling best practice risk management;
e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business;
f. Strict compliance with all Shari'a and legal requirements and regulatory directives; and
g. Maintaining clear, well documented policies via a Group Risk Management Manual and Risk Management Manual in each of the subsidiaries, incorporating the uniform policies and procedures of the Group in addition to the local requirements.

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

An extensive review of the Group's risk management framework was carried out in 2008 by an independent risk management expert at the behest of Executive Management and in line with CBB guidelines. The review entailed a close examination of all policies, procedures, systems and organisation structures within the Group. A number of recommendations were made by the expert consultant, which were accepted by ABG and suitable amendments to policies or processes put in place.

In early 2009 ABG completed the selection process in respect of a consolidating system for the calculation of capital adequacy taking into account credit, market and operational risk, all in accordance with Basel II requirements. Following implementation of this system during 2010 the required data is now retrievable automatically at Head Office.

During the year the Group made determined efforts to maintain the momentum towards achieving optimal risk management policies, practices and procedures. Pursuing five key objectives established at its 8th Group Strategy Meeting in 2009, it was able to mark the 9th GSM with the following achievements:

1. Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts have resulted in a further improvement in the Group's NPL ratio and provisioning coverage.
2. All subsidiaries have ensured that their non-performing loans provisioning policies have been brought into line with Group policies and local regulatory requirements.
3. Subsidiaries have worked hard to fill vacant positions in their risk management departments and to improve the level of cooperation between their business arms and risk management departments. However, further hiring and training of credit and risk management staff remains an ongoing priority at all units.
4. Each subsidiary has its own approved Credit and Risk Management Manual, covering credit, liquidity, market, operational, profit rate and reputation risk, which accords with Group policies and procedures.

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

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

Credit Risk

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

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

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

Liquidity Risk

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

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

Equity Price Risk

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

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including mudaraba, musharaka and other investments. Based on Group policies issued during 2010, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

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

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of the rate of exchange over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2010 are detailed in Note 25 to the Financial Statements.

Operational Risk

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

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

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

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

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

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and is therefore akin to reputation risk. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, the internal Shari'a auditors, and the Group's Shari'a auditors, who conduct Shari'a audit and prepare their observations and report to the respected units' Shari'a Supervisory Board. The overall objective is to ensure full compliance with all Shari'a rules and principles.

Capital Management/Capital Adequacy

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

Optimum capital management also addresses such crucial issues as:

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

The Group's capital adequacy ratio as at 31 December 2010 was 19.69%, comfortably above the CBB's minimum regulatory requirement of 12%.

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

Information Technology

The role of the Head Office IT Steering Committee is to govern and support IT strategies, projects and initiatives across all ABG subsidiaries and to ensure that they are in-line with the Group's overall strategic aims as well as each subsidiary's own strategies.

The Group's short, medium and long term IT strategies are now well established, building on the decision made in 2008 to standardize around a few carefully chosen core banking solutions for Group-wide implementation. Consequently, the Committee has now approved the formulation of the next stage of the Group's IT strategy and governance framework, which will be developed in collaboration with the subsidiaries and with the assistance of a leading advisory firm.

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

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

The Strategy Management module was integrated into the Financial Consolidation module to enable retrieval of the required financial data; in this way it has been possible to apply historical financial performance data in constructing the Group's strategic planning scenarios.

Following an intensive evaluation of the Group's requirements for risk management systems from both Islamic and regulatory perspectives, the Risk Management team has selected the most suitable of those reviewed; the selection carried with it the additional weight that the product comes highly recommended by several other Islamic institutions using it, both in the Kingdom of Bahrain and abroad. The module relating to capital adequacy calculation based on credit, market and operational risk was implemented during 2010 at the Head Office and at Al Baraka Islamic Bank Bahrain, with implementation being planned at the remaining subsidiaries throughout 2011 and beyond.

ABG aims to be in the top tier of banks that are leveraging advanced technologies in communications and progressing towards a totally paperless work environment. As an initial step in this direction, ABG's IT Department has recently implemented a document management system that is integrated with the current collaboration system, which has already proven its efficiency and effectiveness at the Head Office level and has been extended to Al Baraka Islamic Bank Bahrain.

Following careful selection by the IT Steering Committee of an approved list of core banking system solutions available to the subsidiaries, each subsidiary has made its own choice of system to suit its individual requirements. Several subsidiaries have chosen the Equation Islamic core banking system from Misys, while other subsidiaries, operating in different markets with different priorities, have adopted iMAL from Path Solutions.

Three subsidiaries whose legacy system was the MIDAS core banking system – Al Baraka Islamic Bank Bahrain, Al Baraka Bank Limited South Africa and Al Baraka Bank Lebanon – opted for the Equation Islamic system, later joined by Al Baraka Islamic Bank Pakistan and Al Baraka Bank Egypt. Al Baraka Islamic Bank Bahrain achieved full implementation during the course of 2009, while Al Baraka Lebanon went live with Equation Islamic during 2010 and achieved full project completion in January 2011 and Al Baraka South Africa is expecting project completion in the first quarter of 2011. Al Baraka Bank Egypt and Al Baraka Islamic Bank Pakistan are meanwhile anticipating going live in the first quarter of 2011.

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

Al Baraka Bank Sudan, who also selected iMAL as its new core banking system, is now live with the application and expects to achieve project sign off by the first quarter of 2011. Al Baraka Bank Tunisia has successfully upgraded its existing core banking system (TEMENOS-T24), which now incorporates e-banking services. Al Baraka Turk Participation Bank, who employed an in-house solution some time ago and which is working well, is however currently defining a strategy to move to a new core application in the future. Finally, the newly-established Al Baraka Bank Syria, who selected iMAL, has gone live with the application and the project final stage is currently under way, with the first quarter 2011 targeted for final sign off.

In 2009 the Group IT Department launched a new initiative to achieve "Business Excellence through IT" in partnership with leading and respected IT advisory firms. ABG IT has also focused on establishing a standardised global Disaster Recovery Plan (DRP) throughout the Group. Once the new core applications have been fully implemented at all ABG subsidiaries in 2011, and both a global DR Centre and individual local DR centres have been established, each subsidiary will be fully protected against any sudden, unexpected service loss.

Corporate Social Responsibility

The success of the contemporary Islamic banking and finance movement owes much to the contribution and patronage of Sheikh Saleh Kamel, the founder of Al Baraka Banking Group. Although the Group is young as a single legal entity, its antecedents go back to the late 1960s, when Sheikh Kamel directed the devising of Islamic contracts for use in his business operations when dealing with conventional banks (there being no Islamic banks in existence at that time), which was his preferred route for doing business with them. This early insistence on strict adherence to fundamental Islamic principles was then quickly overtaken by the next stage of development when, in the early 1970s, Sheikh Kamel oversaw the establishment across the Arab world of a series of Islamic financial institutions bearing the Al Baraka name. Today, Al Baraka Banking Group brings together under one unified grouping the accumulated experience of 11 banks delivering Islamic products and services over three decades. We at ABG are proud to look back on this heritage, whilst at the same time we keenly look forward to the next stage in our development, as we gradually expand into new regions and new markets and build a wider customer base. As members of a banking group founded on Islamic principles and values, we at ABG believe that we have a particular obligation to society, through patronage and sponsorship of educational and social projects, to enhance the living conditions and quality of life of needful individuals in the local communities of which we are part. In meeting this commitment to society we make all possible effort to apply one of the important philosophical pillars of Islamic banking: the concept of "construction of land", which means adding tangible value to assets. This concept has a direct relevance to the development of society and its social and economic progress and we seek to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large. We consider the role of CSR in our organisation to be essential to the application of the principles derived from divine power and on which our business activities in all the countries in which we operate are based. All our subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services. These principles may be summarised as:

First:

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

Second:

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

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

Third:

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

BOSPHORUS BRIDGE

Turkey

Unified Shari'a Supervisory Board Report

For the year ended 31 December 2010

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

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

To: Al Baraka Banking Group Shareholders

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

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

We have reviewed the principles applied by the Group and reviewed the 2010 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2010 and Statement of Income and their notes. We have queried from some of the Technicals on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) issued by the Accounting and Audit of the Islamic Financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

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

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

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

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31st December 2010 are made in compliance with Shari'a Rules and Principles.

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.

3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.

4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to Shari'a Standard number (35) issued by the Accounting and Audit of the Islamic Financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board. Since the Group and the Units are not empowered to pay Zakah, shareholders should pay their share of Zakah. The Zakah per share is 2.18 US cents. In case of unavailability of liquidity, it is allowed to postpone the Zakah and become a debt until the liquidity become available.

Praise be to God

Issued on 14 Rabi'a Al Awal 1432 H, corresponding to 17 February 2011 AD.

Shaikh Dr. Abdul Sattar Abu Guddah
Chairman

Shaikh Abdulla Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Al Fowzan
Member

Shaikh Dr. Ahmed Mohiyeldin Ahmed
Member

Zakah Calculation for the year ended 31 December 2010	**US Dollars ('000)**
Equity Attributable to Shareholders	1,224,665
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt and Al Baraka Bank Sudan	(138,054)
Net Zakatable Equity Attributable to Shareholders	1,086,611
Less:	
Musharaka underlined by unzakatable assets	(53,813)
Investment in Islamic Sukook underlined by unzakatable assets	(48,888)
Ijarah Muntahia Bittamleek	(49,552)
Long-term investment in real estate	(7,507)
Properties and equipment	(166,523)
Intangible assets	(86,887)
Investment in Associates	(63,454)
Add:	
Shareholders share on Zakatable Assets by Associates	53,324
Sale of long-term investment in real estate during the year	129
Zakatable amount	**663,440**
Zakah Percentage	2.5775%
Total Zakah due	**17,100**
Number of Shares (thousands)	783,972
Zakah per share (US$ cents)	**2.18**

Independent Auditors' Report to the Shareholders of Al Baraka Banking Group B.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, cash flows, changes in equity and restricted investment accounts for the year then ended, notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Group and the consolidated financial statements, and the contents of the Report of the board of directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking license and has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

23 February 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
ASSETS			
Cash and balances with banks	3	**3,813,903**	3,158,273
Receivables	4	**8,063,331**	7,027,064
Mudaraba and Musharaka financing	5	**1,538,632**	981,112
Investments	6	**1,350,481**	1,088,036
Ijarah Muntahia Bittamleek	7	**439,801**	335,333
Property and equipment	8	**298,852**	227,101
Other assets	9	**374,933**	349,358
TOTAL ASSETS		**15,879,933**	13,166,277
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customer current and other accounts		**2,906,172**	2,607,844
Due to banks		**424,477**	152,662
Other liabilities	10	**490,988**	430,302
Total liabilities		**3,821,637**	3,190,808
UNRESTRICTED INVESTMENT ACCOUNTS	11	**10,240,106**	8,238,624
EQUITY	12		
EQUITY ATTRIBUTABLE TO PARENT'S SHAREHOLDERS			
Share capital		**790,500**	744,000
Treasury shares		**(6,528)**	-
Share premium		**15,866**	99,390
Reserves		**96,738**	82,293
Cumulative changes in fair values		**(2,876)**	17,301
Foreign currency translations		**(24,360)**	(9,165)
Retained earnings		**236,750**	189,401
Proposed appropriations		**118,575**	91,140
Equity attributable to parent's shareholders		**1,224,665**	1,214,360
Non-controlling interest		**593,525**	522,485
Total equity		**1,818,190**	1,736,845
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**15,879,933**	13,166,277

Saleh Abdullah Kamel
Chairman

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

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

Consolidated Statement of Income

Year ended 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
Income			
Net income from jointly financed contracts and investments	13	808,707	812,647
Gross return to unrestricted investment accounts		(745,405)	(709,417)
Group's share as a Mudarib	14	236,627	213,421
Return on unrestricted investment accounts		(508,778)	(495,996)
Group's share of income from jointly financed contracts and investments (as a Mudarib and as fund owner)		299,929	316,651
Mudarib share for managing restricted investment accounts		4,702	6,850
Net income from self financed contracts and investments	13	147,827	130,905
Other fees and commission income	15	151,067	123,865
Other operating income	16	55,049	55,242
TOTAL OPERATING INCOME		658,574	633,513
Staff expenses		196,583	179,619
Depreciation and amortisation	17	22,798	20,882
Other operating expenses	18	122,902	108,440
TOTAL OPERATING EXPENSES		342,283	308,941
NET INCOME FOR THE YEAR BEFORE PROVISIONS AND TAXATION		316,291	324,572
Provisions	19	(59,581)	(104,068)
NET INCOME BEFORE TAXATION		256,710	220,504
Taxation		(63,547)	(53,118)
NET INCOME FOR THE YEAR		193,163	167,386
Attributable to:			
Equity shareholders of the parent		105,607	91,758
Non - controlling interest		87,556	75,628
		193,163	167,386
Basic and diluted earnings per share - US cents	20	13.46	11.61

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

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		256,710	220,504
Adjustments for:			
Depreciation and amortisation	17	22,798	20,882
Impairment loss	9(a)	762	353
Depreciation on Ijarah Muntahia Bittamleek	13.4	49,676	63,709
Unrealised gain on trading securities	13.3	(611)	(52)
Gain on sale of property and equipment	16	(9,961)	(2,347)
Gain on sale of investment in real estate		(2,729)	-
Gain on sale of available for sale investments	13.3	(139)	(273)
Gain on sale of trading securities	13.3	(132)	(731)
Provisions	19	59,581	104,068
Income from associates	13.3	(2,629)	(3,376)
Gain on sale of associates		(22)	-
Operating profit before changes in operating assets and liabilities		373,304	402,737
Net changes in operating assets and liabilities:			
Reserves with central banks		(217,180)	10,179
Receivables		(1,101,417)	(942,645)
Mudaraba and Musharaka financing		(563,194)	(182,445)
Ijarah Muntahia Bittamleek		(154,144)	(94,218)
Other assets		(27,022)	(24,488)
Customer current and other accounts		298,328	529,089
Due to banks		271,815	91,802
Other liabilities		21,217	(37,951)
Unrestricted investment accounts		2,020,603	1,512,899
Taxation paid		(32,871)	(87,365)
Net cash from operating activities		889,439	1,177,594
INVESTING ACTIVITIES			
Net purchase of investments		(301,214)	(272,824)
Net purchase of property and equipment		(83,522)	(83,535)
Net sale (purchase) of investment in associate		13,622	(13,072)
Dividend received from associates		244	2,457
Net cash used in investing activities		(370,870)	(366,974)
FINANCING ACTIVITIES			
Dividends paid to equity holders of parent		(44,640)	(27,900)
Movement in treasury shares		(10,700)	-
Net changes in non-controlling interest		2,322	15,080
Net cash used in financing activities		(53,018)	(12,820)
Foreign currency translation adjustments		(27,101)	16,800
INCREASE IN CASH AND CASH EQUIVALENTS		438,450	814,600
Cash and cash equivalents at 1 January		2,550,250	1,735,650
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	2,988,700	2,550,250

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

Consolidated Statement of Changes in Equity

Year Ended 31 December 2010

	Attributable to equity holders of the parent											
			Reserves									
	Share capital	Treasury shares	Share premium	Statutory reserve	Other reserves	Cumulative changes in fair values	Foreign currency translations	Retained earnings	Proposed appropriations	Total	Non-controlling interest	**Total equity**
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	**US$ '000**
Balance at 1 January 2010	744,000	-	99,390	42,986	39,307	17,301	(9,165)	189,401	91,140	1,214,360	522,485	**1,736,845**
Bonus shares issued (note 12)	46,500	-	-	-	-	-	-	-	(46,500)	-	-	**-**
Movement in treasury shares	-	(6,528)	(4,474)	-	-	-	-	302	-	(10,700)	-	**(10,700)**
Net movement in cumulative change in fair value	-	-	-	-	-	(20,177)	-	-	-	(20,177)	(6,932)	**(27,109)**
Net movement in other reserves	-	-	-	-	3,884	-	-	(8,474)	-	(4,590)	(3,399)	**(7,989)**
Foreign currency translation	-	-	-	-	-	-	(15,195)	-	-	(15,195)	(11,906)	**(27,101)**
Net income for the year	-	-	-	-	-	-	-	105,607	-	105,607	87,556	**193,163**
Transfer to statutory reserve	-	-	-	10,561	-	-	-	(10,561)	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	-	(44,640)	(44,640)	-	**(44,640)**
Proposed dividends	-	-	-	-	-	-	-	(39,525)	39,525	-	-	**-**
Proposed bonus shares	-	-	(79,050)	-	-	-	-	-	79,050	-	-	**-**
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(23,990)	**(23,990)**
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	29,711	**29,711**
Balance at 31 December 2010	**790,500**	**(6,528)**	**15,866**	**53,547**	**43,191**	**(2,876)**	**(24,360)**	**236,750**	**118,575**	**1,224,665**	**593,525**	**1,818,190**

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

Consolidated Statement of Changes in Equity

Year Ended 31 December 2010

	Attributable to equity holders of the parent										
			Reserves								
	Share capital	Share premium	Statutory reserve	Other reserves	Cumulative changes in fair values	Foreign currency translations	Retained earnings	Proposed appropriations	Total	Non-controlling interest	Total equity
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2009	697,500	145,890	33,810	29,650	9,435	(18,118)	157,615	74,900	1,130,682	419,479	1,550,161
Bonus shares issued (note 12)	46,500	-	-	-	-	-	-	(46,500)	-	-	-
Directors' remuneration paid	-	-	-	-	-	-	-	(500)	(500)	-	(500)
Net movement in cumulative change in fair value	-	-	-	-	7,866	-	-	-	7,866	2,634	10,500
Net movement in other reserves	-	-	-	9,657	-	-	(6,156)	-	3,501	1,817	5,318
Foreign currency translation	-	-	-	-	-	8,953	-	-	8,953	7,847	16,800
Net income for the year	-	-	-	-	-	-	91,758	-	91,758	75,628	167,386
Transfer to statutory reserve	-	-	9,176	-	-	-	(9,176)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(27,900)	(27,900)	-	(27,900)
Proposed dividends	-	-	-	-	-	-	(44,640)	44,640	-	-	-
Proposed bonus shares	-	(46,500)	-	-	-	-	-	46,500	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(25,621)	(25,621)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	40,701	40,701
Balance at 31 December 2009	744,000	99,390	42,986	39,307	17,301	(9,165)	189,401	91,140	1,214,360	522,485	1,736,845

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

Consolidated Statement of Changes in Restricted Investment Accounts

Year Ended 31 December 2010

	Cash	*Sales receivables*	*Mudaraba financing*	*Investment in real estate*	*Investments*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2010	**48,482**	**276,277**	**17,786**	**27,156**	**110,624**	**29,726**	**510,051**
Deposits	**1,350**	**109,498**	**95,906**	**1,197**	**25,926**	**217,033**	**450,910**
Withdrawals	**(4,912)**	**(251,787)**	**(67,887)**	**(362)**	**(26,632)**	**(171,160)**	**(522,740)**
Income net of expenses	**-**	**15,605**	**606**	**326**	**4,256**	**2,043**	**22,836**
Mudarib's share	**-**	**(2,500)**	**-**	**(62)**	**(1,491)**	**(649)**	**(4,702)**
Foreign exchange translations	**-**	**-**	**-**	**-**	**(626)**	**(391)**	**(1,017)**
Balance at 31 December 2010	**44,920**	**147,093**	**46,411**	**28,255**	**112,057**	**76,602**	**455,338**
Balance at 1 January 2009	52,815	325,534	33,509	19,314	112,073	27,269	570,514
Deposits	56,887	105,240	2,988	12,192	57,887	4,551	239,745
Withdrawals	(61,220)	(166,405)	(19,012)	(4,653)	(62,376)	(2,845)	(316,511)
Income net of expenses	-	17,007	339	400	4,630	1,017	23,393
Mudarib's share	-	(5,099)	(38)	(97)	(1,350)	(266)	(6,850)
Foreign exchange translations	-	-	-	-	(240)	-	(240)
Balance at 31 December 2009	48,482	276,277	17,786	27,156	110,624	29,726	510,051

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

1 ACTIVITIES

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

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

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

The consolidated financial statements were approved by the Board of Directors on 23 February 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, trading and available for sale investments that have been measured at fair value. The consolidated financial statements are presented in United States Dollars being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated.

b. Statement of compliance
The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Bank	Ownership for 2010	Ownership for 2009	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2010
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	55.90%	55.90%	1991	Algeria	21
Al Baraka Islamic Bank - Bahrain (AIB)	91.12%	91.12%	1984	Bahrain	94*
Al Baraka Bank Tunis (ABT)	78.40%	78.40%	1983	Tunisia	8
Al Baraka Bank Egypt [formerly Egyptian Saudi Finance Bank (ESFB)]	73.68%	73.68%	1980	Egypt	21
Al Baraka Bank Lebanon (ABBL)	98.50%	99.98%	1991	Lebanon	7
Jordan Islamic Bank (JIB)	66.01%	66.50%	1979	Jordan	72
Al Baraka Turk Participation Bank (ATPB)	56.64%	56.64%	1985	Turkey	109
Al Baraka Bank Limited (ABL)	56.29%	56.29%	1989	South Africa	10
Al Baraka Bank Sudan (ABS)	82.08%	82.08%	1984	Sudan	25
Al Baraka Bank Syria (ABBS)	23.00%	23.00%	2009	Syria	2

* Including 89 branches of Al Baraka Bank (Pakistan) Limited.

Company/ Bank	Subsidiary held through	Effective Ownership for 2010	Effective Ownership for 2009	Year of incorporation	Country of incorporation
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited *	AIB	58.90%	-	2010	Pakistan
Al- Rizq Trading Company	JIB	59.40%	59.85%	1994	Jordan
Al-Omariya School Company	JIB	62.31%	63.04%	1987	Jordan
Al-Samaha Real Estate Company	JIB	66.01%	66.50%	1998	Jordan
Future Applied Computer Technology Company	JIB	66.01%	66.50%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	66.01%	66.50%	2006	Jordan
Dar Al Baraka	BAA	-	55.90%	2003	Algeria
Al Baraka Properties (Pty) Ltd.	ABL	56.29%	53.60%	1991	South Africa

* During the year, the shareholders of Al Baraka Islamic Bank approved the merger of Pakistan branches of AIB with and into the Emirates Global Islamic Bank Limited (EGIBL) under a "Scheme of Amalgamation" after necessary approval from the regulatory authorities. The effective date of amalgamation was announced by the State Bank of Pakistan (SBP) as close of business on 29 October 2010. Further, the name of EGIBL was changed to Al Baraka Bank (Pakistan) Limited with effect from close of business on 29 October 2010 as notified by SBP and the separate existence of Pakistan branches ceased. The merger resulted in a goodwill of US$ 21,598 thousand and a gain of US$ 9,833 thousand which are disclosed in note 9(a) and 16 respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Cash and cash equivalents

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

e. Receivables

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

Sales (Murabaha) receivables

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

Ijarah receivables

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

Salam receivables

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

Istisna'a receivables

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

f. Mudaraba and Musharaka financing

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

g. Investments

Investments comprise investment in real estate, investment in associates, trading securities, available for sale investments and held to maturity investments.

Investment in real estate

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

Investment in associates

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investments (continued)

Trading securities

These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale investments

Subsequent to acquisition, available for sale investments are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and unrestricted investment accounts until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity or unrestricted investments accounts is recognised in consolidated statement of income.

Held to maturity investments

Investments which have fixed or determinable payments and where the Group has both the intent and ability to hold to maturity are classified as held to maturity. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

h. Ijarah Muntahia Bittamleek

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

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

i. Property and equipment

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

The calculation of depreciation is on the following basis:

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

j. Fair values

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

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

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

k. Goodwill

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Goodwill (continued)

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

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

l. Intangible assets

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

m. Collateral pending sale

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

n. Employees' end of service benefits

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

o. Provisions

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

p. Dividends

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

q. Unrestricted investment accounts

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

r. Investment risk reserve

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

s. Profit equalisation reserve

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

t. Restricted investment accounts

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Treasury shares

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

v. Revenue recognition

Sales (Murabaha) receivables

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

Salam and Istisna'a receivables

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

Mudaraba and Musharaka financing

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

Ijarah Muntahia Bittamleek

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

Fee and commission income

Fee and commission income is recognised when earned.

Other Income

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

Group's share as a Mudarib

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

Mudarib's share of restricted investment accounts

The Group shares profit for managing restricted investment accounts based on the terms and conditions of related contracts.

w. Return on unrestricted investment accounts

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

x. Joint and self financed

Investments, financing and receivables that are jointly owned by the Group and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

y. Taxation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Shari'a supervisory board

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

aa. Zakah

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

bb. Earnings prohibited by Shari'a

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

cc. Impairment of financial assets

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

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

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

dd. Offsetting

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

ee. Foreign currencies

Foreign currency transactions at the subsidiary level

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

Foreign currency translations

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ff. Judgments

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as trading, held to maturity or available for sale.

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

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, available for sale investments, ijarah receivable and other assets.

hh. Derecognition

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

(i) the right to receive cash flows from the asset have expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

3 CASH AND BALANCES WITH BANKS

	2010 US$ '000	2009 US$ '000
Balances with central banks*	2,737,421	2,157,750
Balances with other banks	842,568	775,562
Cash and cash in transit	233,914	224,961
	3,813,903	3,158,273

* Balances with the central banks include mandatory reserves amounting to US$ 825,203 thousand (2009: US$ 608,023 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2010 US$ '000	2009 US$ '000
Sales (Murabaha) receivables (4.1)	7,939,881	6,882,870
Ijarah receivables (4.2)	18,496	10,964
Salam receivables (4.3)	80,292	115,954
Istisna'a receivables (4.4)	24,662	17,276
	8,063,331	7,027,064

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
International commodity murabaha	58,401	417,854	476,255	97,941	410,755	508,696
Other murabaha	678,020	8,056,025	8,734,045	486,229	7,039,904	7,526,133
Gross Sales (Murabaha) receivables	736,421	8,473,879	9,210,300	584,170	7,450,659	8,034,829
Provisions (note 19)	(50,343)	(274,872)	(325,215)	(30,838)	(246,169)	(277,007)
	686,078	8,199,007	8,885,085	553,332	7,204,490	7,757,822
Deferred profits	(84,817)	(860,387)	(945,204)	(65,277)	(809,675)	(874,952)
	601,261	7,338,620	7,939,881	488,055	6,394,815	6,882,870

	2010 US$ '000	*2009 US$ '000*
Non-performing	459,317	431,276

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

4.2 Ijarah receivables

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross Ijarah receivables	1,496	20,402	21,898	1,598	12,353	13,951
Provisions (note 19)	(887)	(2,515)	(3,402)	(887)	(2,100)	(2,987)
	609	17,887	18,496	711	10,253	10,964

	2010 US$ '000	*2009 US$ '000*
Non-performing	14,335	3,738

4 RECEIVABLES (continued)

4.3 Salam receivables

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross Salam receivables	-	83,911	83,911	-	119,478	119,478
Provisions (note 19)	-	(3,619)	(3,619)	-	(3,524)	(3,524)
	-	80,292	80,292	-	115,954	115,954

	2010 US$ '000	*2009 US$ '000*
Non-performing	3,949	4,110

4.4 Istisna'a receivables

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross Istisna'a receivables	-	24,958	24,958	-	17,427	17,427
Provisions (note 19)	-	(296)	(296)	-	(151)	(151)
	-	24,662	24,662	-	17,276	17,276

	2010 US$ '000	*2009 US$ '000*
Non-performing	483	386

5 MUDARABA AND MUSHARAKA FINANCING

	2010 US$ '000	*2009 US$ '000*
Mudaraba financing (5.1)	1,186,564	740,798
Musharaka financing (5.2)	352,068	240,314
	1,538,632	981,112

5.1 Mudaraba financing

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Gross Mudaraba financing	105,709	1,086,908	1,192,617	70,612	670,804	741,416
Provisions (note 19)	(1,955)	(4,098)	(6,053)	-	(618)	(618)
	103,754	1,082,810	1,186,564	70,612	670,186	740,798

	2010 US$ '000	*2009 US$ '000*
Non-performing	6,645	5,971

Notes To The Consolidated Financial Statements

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.2 Musharaka financing

	2010			2009		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Musharaka financing	90,584	272,293	362,877	54,839	187,333	242,172
Provisions (note 19)	-	(10,809)	(10,809)	-	(1,858)	(1,858)
	90,584	261,484	352,068	54,839	185,475	240,314

	2010 US$ '000	2009 US$ '000
Non-performing	25,269	6,449

6 INVESTMENTS

	2010 US$ '000	2009 US$ '000
Investment in real estate (6.1)	116,304	101,324
Investment in associates (6.2)	26,876	38,091
Trading securities (6.3)	8,966	8,192
Available for sale investments (6.4)	485,270	354,297
Held to maturity investments (6.5)	713,065	586,132
	1,350,481	1,088,036

6.1 Investment in real estate

	2010			2009		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
At cost	5,747	82,877	88,624	8,689	74,670	83,359
At fair value	3,040	113,264	116,304	5,982	95,342	101,324

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

	2010			2009		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	1,560	40,006	41,566	4,614	28,198	32,812
Buildings	1,480	73,258	74,738	1,368	67,144	68,512
	3,040	113,264	116,304	5,982	95,342	101,324

6 INVESTMENTS (continued)

6.2 Investment in associates

Investments in associates comprise the following:

	2010					
	Ownership % 2010	Country of incorporation	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.7	Jordan	-	6,697	6,697	6,622
Insurance						
The Islamic Insurance Company	33.2	Jordan	-	7,459	7,459	10,350
Others						
Jordan International Trading Centre	28.4	Jordan	-	1,886	1,886	1,264
Arabian Steel Pipes Manufacturing Company Limited	26.0	Jordan	-	5,461	5,461	8,086
			-	21,503	21,503	26,322
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	392	392	
Insurance						
Aman Takaful Insurance	38.7	Lebanon	1,583	-	1,583	
Others						
BEST Lease	28.0	Tunisia	3,398	-	3,398	
			4,981	392	5,373	
			4,981	21,895	26,876	

6 INVESTMENTS (continued)

6.2 Investment in associates (continued)

	Ownership % 2009	Country of incorporation	2009 Self financed US$ '000	2009 Jointly financed US$ '000	2009 Total US$ '000	2009 Market value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.7	Jordan	-	10,138	10,138	6,957
Sanabel for Financial Investment Company	20.0	Jordan	591	-	591	591
Insurance						
The Islamic Insurance Company	33.2	Jordan	-	12,378	12,378	10,963
Others						
Jordan International Trading Centre	28.4	Jordan	-	1,569	1,569	1,713
Arabian Steel Pipes Manufacturing Company Limited	26.0	Jordan	-	7,232	7,232	7,756
			591	31,317	31,908	27,980
Unquoted						
Real Estate						
Baraka Development Immobile	20.0	Algeria	421	-	421	
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	1,245	1,245	
Insurance						
Aman Takaful Insurance	38.7	Lebanon	1,138	-	1,138	
Others						
BEST Lease	28.0	Tunisia	3,379	-	3,379	
			4,938	1,245	6,183	
			5,529	32,562	38,091	

6 INVESTMENTS (continued)

6.3 Trading securities

	2010 Self financed US$ '000	2010 Jointly financed US$ '000	2010 Total US$ '000	2009 Self financed US$ '000	2009 Jointly financed US$ '000	2009 Total US$ '000
Quoted equities	**5,966**	**3,000**	**8,966**	2,955	5,237	8,192

6.4 Available for sale investments

	2010 Self financed US$ '000	2010 Jointly financed US$ '000	2010 Total US$ '000	2009 Self financed US$ '000	2009 Jointly financed US$ '000	2009 Total US$ '000
Quoted investments						
Equities	**4,042**	**21,221**	**25,263**	10,249	48,861	59,110
Sukook	**-**	**55,858**	**55,858**	-	33,734	33,734
Managed funds	**12,192**	**33,775**	**45,967**	9,948	39,318	49,266
	16,234	**110,854**	**127,088**	20,197	121,913	142,110
Unquoted investments						
Equities	**84,359**	**15,364**	**99,723**	102,998	36,563	139,561
Sukook	**164,099**	**71,882**	**235,981**	19,054	30,052	49,106
Managed funds	**808**	**31,309**	**32,117**	919	28,915	29,834
	249,266	**118,555**	**367,821**	122,971	95,530	218,501
Provisions (note 19)	**(4,343)**	**(5,296)**	**(9,639)**	(5,028)	(1,286)	(6,314)
	261,157	**224,113**	**485,270**	138,140	216,157	354,297

6.5 Held to maturity investments

	2010 Self financed US$ '000	2010 Jointly financed US$ '000	2010 Total US$ '000	2009 Self financed US$ '000	2009 Jointly financed US$ '000	2009 Total US$ '000
Unquoted investments						
Sukook and similar items	**284,761**	**428,806**	**713,567**	230,621	355,511	586,132
Provisions (note 19)	**-**	**(502)**	**(502)**	-	-	-
	284,761	**428,304**	**713,065**	230,621	355,511	586,132

Notes To The Consolidated Financial Statements

31 December 2010

7 IJARAH MUNTAHIA BITTAMLEEK

	2010			2009		
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land and building						
Cost	22,249	408,335	430,584	23,455	298,133	321,588
Accumulated depreciation	(15,719)	(105,769)	(121,488)	(13,313)	(72,410)	(85,723)
Net book value	6,530	302,566	309,096	10,142	225,723	235,865
Equipment						
Cost	16,621	344,434	361,055	17,123	297,030	314,153
Accumulated depreciation	(16,533)	(235,558)	(252,091)	(16,141)	(211,174)	(227,315)
Net book value	88	108,876	108,964	982	85,856	86,838
Others						
Cost	2,714	30,611	33,325	2,714	17,251	19,965
Accumulated depreciation	(2,560)	(9,024)	(11,584)	(2,288)	(5,047)	(7,335)
Net book value	154	21,587	21,741	426	12,204	12,630
TOTAL						
Cost	41,584	783,380	824,964	43,292	612,414	655,706
Accumulated depreciation	(34,812)	(350,351)	(385,163)	(31,742)	(288,631)	(320,373)
Net book value	6,772	433,029	439,801	11,550	323,783	335,333

8 PROPERTY AND EQUIPMENT

	Land and buildings US$ '000	*Office furniture and equipment US$ '000*	*Vehicles US$ '000*	*Others US$ '000*	*Total US$ '000*
Cost:					
At 1 January 2009	141,510	102,011	9,245	19,606	272,372
Additions	59,616	17,290	991	7,485	85,382
Disposals	(708)	(2,143)	(461)	(2,789)	(6,101)
Foreign exchange translations	2,452	951	63	462	3,928
At 31 December 2009	202,870	118,109	9,838	24,764	355,581
Additions	67,390	28,084	3,408	10,221	109,103
Disposals	(3,401)	(3,683)	(1,644)	(3,037)	(11,765)
Foreign exchange translations	(4,759)	(2,151)	(355)	(731)	(7,996)
At 31 December 2010	**262,100**	**140,359**	**11,247**	**31,217**	**444,923**
Depreciation:					
At 1 January 2009	30,994	67,500	4,614	8,914	112,022
Provided during the year (note 17)	5,826	9,286	1,425	2,594	19,131
Relating to disposals	(47)	(1,758)	(353)	(1,742)	(3,900)
Foreign exchange translations	310	636	24	257	1,227
At 31 December 2009	37,083	75,664	5,710	10,023	128,480
Provided during the year (note 17)	6,378	10,620	1,514	3,220	21,732
Relating to disposals	(58)	(31)	(738)	(806)	(1,633)
Foreign exchange translations	(899)	(1,112)	(228)	(269)	(2,508)
At 31 December 2010	**42,504**	**85,141**	**6,258**	**12,168**	**146,071**
Net book values:					
At 31 December 2010	**219,596**	**55,218**	**4,989**	**19,049**	**298,852**
At 31 December 2009	165,787	42,445	4,128	14,741	227,101

Notes To The Consolidated Financial Statements

31 December 2010

9 OTHER ASSETS

	2010 US$ '000	2009 US$ '000
Bills receivables	123,924	153,403
Goodwill and intangible assets (note 9(a))	93,770	69,911
Collateral pending sale	60,237	49,625
Good Faith Qard	15,256	18,120
Deferred taxation	43,865	26,998
Prepayments	24,255	17,948
Others	27,897	29,683
	389,204	365,688
Provisions (note 19)	(14,271)	(16,330)
	374,933	349,358

9 (a) Goodwill and intangible assets

	Goodwill 2010 US$ '000	Intangible assets 2010 US$ '000	Total 2010 US$ '000	Goodwill 2009 US$ '000	Intangible assets 2009 US$ '000	Total 2009 US$ '000
At 1 January	62,423	7,488	69,911	46,906	5,770	52,676
Additions	21,598	4,016	25,614	15,517	3,304	18,821
Amortisation charge for the year	-	(1,066)	(1,066)	-	(1,751)	(1,751)
Impairment loss for the year	-	(762)	(762)	-	(353)	(353)
Foreign exchange translations	(229)	302	73	-	518	518
At 31 December	83,792	9,978	93,770	62,423	7,488	69,911

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

	2010 US$ '000	2009 US$ '000
Al Baraka Turk Participation Bank	33,084	33,380
Al Baraka Bank Egypt	2,464	2,532
Jordan Islamic Bank	26,646	26,511
Al Baraka Bank (Pakistan) Limited	21,598	-
	83,792	62,423

10 OTHER LIABILITIES

	2010 US$ '000	2009 US$ '000
Payables	208,024	169,855
Cash margins	96,835	90,245
Other provisions (note 19) *	12,128	6,180
Current taxation **	52,643	32,279
Deferred taxation **	11,743	18,298
Accrued expenses	48,779	28,729
Charity fund	5,035	10,486
Others	55,801	74,230
	490,988	430,302

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

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

11 UNRESTRICTED INVESTMENT ACCOUNTS (URIA)

	2010 US$ '000	2009 US$ '000
Unrestricted investment accounts	10,140,981	8,151,379
Profit equalisation reserve (note 11.1)	2,667	2,304
Investment risk reserve (note 11.2)	87,004	65,226
Cumulative changes in fair value attributable to unrestricted investment accounts (11.3)	9,454	19,715
	10,240,106	8,238,624

11 UNRESTRICTED INVESTMENT ACCOUNTS (URIA) (continued)

11.1 Movement in profit equalisation reserve

	2010 US$ '000	2009 US$ '000
Balance at 1 January	2,304	2,271
Amount apportioned from income allocable to unrestricted investment account holders	424	62
Amount used during the year	-	-
Foreign exchange translations	(61)	(29)
Balance at 31 December	2,667	2,304

11.2 Movement in investment risk reserve

	2010 US$ '000	2009 US$ '000
Balance at 1 January	65,226	58,371
Amount appropriated to provision (note 19)	(19,121)	(6,736)
Amount apportioned from income allocable to unrestricted investment account holders	42,363	12,717
Foreign exchange translations	(1,464)	874
Balance at 31 December	87,004	65,226

11.3 Movement in accumulated changes in fair value attributable to URIA

	2010 US$ '000	2009 US$ '000
Balance at 1 January	19,715	24,563
Change in fair values during the year	(9,936)	(7,442)
Realised gain transferred to consolidated statement of income	(946)	(10,543)
Deferred taxation effect	(859)	(5,493)
Transfer from shareholders equity	1,480	18,630
	9,454	19,715
Attributable to investment in real estate	8,958	14,281
Attributable to available for sale	496	5,434
	9,454	19,715

12 EQUITY

	2010 US$ '000	2009 US$ '000
Share capital		
Authorised 1,500,000,000 shares of US$ 1 each	1,500,000	1,500,000

	2010 US$ '000	2009 US$ '000
Issued and fully paid up		
At beginning of the year 744,000,000 (2009: 697,500,000) shares of US$1 each	744,000	697,500
Issued during the year 46,500,000 Bonus shares (2009: 46,500,000) of US$1 each	46,500	46,500
At end of the year 790,500,000 (2009: 744,000,000) shares of US$1 each	790,500	744,000

The Bank issued bonus shares at one bonus share for each 16 (2009: 15) shares held following shareholders' approval and the Board of Directors' resolution in its meeting on 24 February 2010 (2009: 25 February 2009). This was also approved by the Ministry of Industry and Commerce and the CBB.

Treasury shares

	No. thousand	US$ '000
Purchase of treasury shares	7,295	7,295
Sale of treasury shares	(767)	(767)
At 31 December 2010	6,528	6,528

The market value of the treasury shares is US$ 9,792 thousand and it represents 0.8% of the outstanding shares.

Additional information on shareholding pattern

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

At 31 December 2010

Names	*Nationality/ Incorporation*	*No. of shares*	*% holding*
Saleh Abdulla Kamel	Saudi	238,023,291	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	194,746,842	24.64%
Altawfeek Company For Investment Funds	Cayman Island	163,166,649	20.65%
Abdulla AbdulAziz AlRajihi	Saudi	53,822,253	6.81%

At 31 December 2009

Names	*Nationality/ Incorporation*	*No. of shares*	*% holding*
Saleh Abdulla Kamel	Saudi	224,021,921	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	183,291,145	24.64%
Altawfeek Company For Investment Funds	Cayman Island	153,661,796	20.65%
Abdulla AbdulAziz AlRajihi	Saudi	50,656,238	6.81%

12 EQUITY (continued)

Additional information on shareholding pattern (continued)

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

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

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

At 31 December 2009			
Categories:	*No. of shares*	*No. of shareholders*	*% of total outstanding shares*
Less than 1%	40,171,130	1,139	5.40%
1% up to less than 5%	92,197,770	8	12.39%
5% up to less than 10%	50,656,238	1	6.81%
20% up to less than 50%	560,974,862	3	75.40%
	744,000,000	1,151	100.00%

a. Share premium/Equity transaction cost

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

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

The Bank proposed issuance of bonus shares from the share premium at one bonus share for each 10 shares held. This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

b. Statutory reserve

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

c. Cumulative changes in fair values

This represents the net unrealised fair value gains relating to the equity of the parent on available-for-sale investments and investment in real estate.

d. Foreign currency translations

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

e. Other reserves

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

12 EQUITY (continued)

Additional information on shareholding pattern (continued)

f. Proposed Appropriations

	2010 US$ '000	*2009 US$ '000*
Cash dividend 5% (2009: 6%)	**39,525**	44,640
Bonus shares	**79,050**	46,500
	118,575	91,140

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

The proposed appropriations for the year 2009 was approved at the Annual General Meeting on 24 March 2010 and was effected in 2010 following that approval.

g. Net movement in non-controlling interest

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

13 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2010 US$ '000	*2009 US$ '000*
Receivables (note 13.1)	**781,282**	782,717
Mudaraba and Musharaka financing (note 13.2)	**40,006**	34,089
Investments (note 13.3)	**91,492**	88,531
Ijarah Muntahia Bittamleek (note 13.4)	**34,512**	27,649
Others	**9,242**	10,566
	956,534	943,552
Net income from jointly financed contracts and investments	**808,707**	812,647
Net income from self financed contracts and investments	**147,827**	130,905
	956,534	943,552

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

13.1 Receivables

	2010 US$ '000	2009 US$ '000
Sales (Murabaha) receivables	772,050	771,867
Salam receivables	5,913	9,495
Istisna'a receivables	3,319	1,355
	781,282	782,717

13.2 Mudaraba and Musharaka financing

	2010 US$ '000	2009 US$ '000
Mudaraba financing	18,633	11,306
Musharaka financing	21,373	22,783
	40,006	34,089

13.3 Investments

	2010 US$ '000	2009 US$ '000
Available for sale investments	20,271	29,083
Held to maturity investments	66,784	52,226
Unrealised gain on trading securities	611	52
Gain on sale of available for sale investments	139	273
Gain on sale of trading securities	132	731
Rental income	926	2,790
Investment in associates	2,629	3,376
	91,492	88,531

13.4 Ijarah Muntahia Bittamleek

	2010 US$ '000	2009 US$ '000
Income from Ijarah Muntahia Bittamleek	84,188	91,358
Depreciation on Ijarah Muntahia Bittamleek	(49,676)	(63,709)
	34,512	27,649

14 GROUP'S SHARE AS A MUDARIB

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

15 OTHER FEES AND COMMISSION INCOME

	2010 US$ '000	2009 US$ '000
Banking fees and commissions	73,498	61,848
Letters of credit	40,073	28,166
Guarantees	36,077	32,357
Acceptances	1,419	1,494
	151,067	123,865

16 OTHER OPERATING INCOME

	2010 US$ '000	2009 US$ '000
Foreign exchange gain	33,799	34,923
Gain on sale of property and equipment	9,961	2,347
Gain arising on merger of Pakistan branches	9,833	-
Others	1,456	17,972
	55,049	55,242

17 DEPRECIATION AND AMORTISATION

	2010 US$ '000	2009 US$ '000
Property and equipment depreciation (note 8)	21,732	19,131
Intangible assets amortisation (note 9(a))	1,066	1,751
	22,798	20,882

18 OTHER OPERATING EXPENSES

	2010 US$ '000	2009 US$ '000
General and administration	74,560	64,988
Professional and business expenses	18,202	22,046
Premises related expenses	30,140	21,406
	122,902	108,440

19 PROVISIONS

2010	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.4 & 6.5)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 10)*	*Total US$ '000*
Provisions at 1 January	277,007	2,987	3,524	151	618	1,858	6,314	16,330	6,180	314,969
Charged during the year	82,066	962	915	169	5,635	1,740	4,614	1,117	8,295	105,513
Written back during the year	(36,937)	(373)	(749)	(1)	(49)	(1,675)	(558)	(1,498)	(4,092)	(45,932)
	45,129	589	166	168	5,586	65	4,056	(381)	4,203	59,581
	322,136	3,576	3,690	319	6,204	1,923	10,370	15,949	10,383	374,550
Written off during the year	(15,053)	-	-	(3)	-	(289)	(87)	(2)	(128)	(15,562)
Amount appropriated from investment risk reserve (note 11.2)	19,098	-	-	-	-	23	-	-	-	19,121
Foreign exchange translations/others	(966)	(174)	(71)	(20)	(151)	9,152	(142)	(1,676)	1,873	7,825
Provisions at 31 December	325,215	3,402	3,619	296	6,053	10,809	10,141	14,271	12,128	385,934

2009										
Provisions at 1 January	196,543	3,202	4,466	236	561	2,396	5,026	16,249	7,151	235,830
Charged during the year	131,592	1,796	748	4	17	-	812	4,566	1,582	141,117
Written back during the year	(28,329)	(355)	(1,622)	(34)	(38)	(688)	(125)	(5,623)	(235)	(37,049)
	103,263	1,441	(874)	(30)	(21)	(688)	687	(1,057)	1,347	104,068
	299,806	4,643	3,592	206	540	1,708	5,713	15,192	8,498	339,898
Written off during the year	(30,710)	(1,633)	(2)	(50)	-	(62)	-	-	(2,345)	(34,802)
Amount appropriated from investment risk reserve (note 11.2)	6,183	(4)	-	-	78	12	471	(4)	-	6,736
Foreign exchange translations/others	1,728	(19)	(66)	(5)	-	200	130	1,142	27	3,137
Provisions at 31 December	277,007	2,987	3,524	151	618	1,858	6,314	16,330	6,180	314,969

19 PROVISIONS (continued)

These provisions relate to the following geographical areas:

2010	*Sales (Murabaha) receivables US$ '000*	*Ijarah receivables US$ '000*	*Salam receivables US$ '000*	*Istisna'a receivables US$ '000*	*Mudaraba financing US$ '000*	*Musharaka financing US$ '000*	*Investments US$ '000*	*Other assets US$ '000*	*Other liabilities US$ '000*	*Total US$ '000*
Middle East	**167,826**	**2,068**	**-**	**-**	**5,411**	**286**	**7,085**	**4,922**	**11,598**	**199,196**
North Africa	**30,850**	**-**	**3,543**	**112**	**642**	**54**	**2,570**	**3,167**	**513**	**41,451**
Europe	**102,466**	**-**	**-**	**-**	**-**	**-**	**143**	**610**	**18**	**103,237**
Others	**24,073**	**1,334**	**76**	**184**	**-**	**10,469**	**343**	**5,572**	**(1)**	**42,050**
Total	**325,215**	**3,402**	**3,619**	**296**	**6,053**	**10,809**	**10,141**	**14,271**	**12,128**	**385,934**
2009										
Middle East	127,884	1,477	-	-	-	263	2,588	5,079	5,894	143,185
North Africa	30,401	1,327	3,505	2	618	-	2,509	4,298	267	42,927
Europe	100,802	-	-	-	-	-	710	696	19	102,227
Others	17,920	183	19	149	-	1,595	507	6,257	-	26,630
Total	277,007	2,987	3,524	151	618	1,858	6,314	16,330	6,180	314,969

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2010 amounts to US$ 373.7 million (31 December 2009: US$ 347.2 million). The collateral consists of cash margin, securities and properties.

20 BASIC AND DILUTED EARNINGS PER SHARE

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

	2010	2009
Net income attributable to the equity shareholders of the parent for the year - US$ '000	105,607	91,758
Weighted average number of shares outstanding at the beginning of the year (in thousands)	790,500	744,000
Treasury shares effect (in thousands)	(5,956)	-
Bonus shares effect (in thousands)*	-	46,500
Weighted average number of shares outstanding at the end of the year (in thousands)	784,544	790,500
Earnings per share - US cents	13.46	11.61

*The weighted average number of shares of the previous year has been adjusted on account of the bonus issue made in 2010 and 2009.

21 CASH AND CASH EQUIVALENTS

	2010 US$ '000	2009 US$ '000
Balances with central banks excluding mandatory reserve	1,912,218	1,549,727
Balances with other banks	842,568	775,562
Cash and cash in transit	233,914	224,961
	2,988,700	2,550,250

22 RELATED PARTY TRANSACTIONS

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

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

	Associated companies US$ '000	Parent and its major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2010 US$ '000	2009 US$ '000
Net income from jointly financed contracts and investments	3,668	127	61	90	3,946	3,532
Net income from self financed financing and investments	713	-	-	-	713	2,024
Return on unrestricted investment accounts	593	31	6	179	809	99
Other fees and commission income	-	-	-	-	-	107
Other operating income	376	-	-	-	376	-

22 RELATED PARTY TRANSACTIONS (continued)

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

	2010 US$ '000	2009 US$ '000
Short term employee benefits	4,519	4,156
Long term employee benefits	340	317

Director's remuneration for the year ended 31 December 2010 amounted to US$ 750 thousand.

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

	Associated companies US$ '000	Parent and its major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2010 US$ '000	2009 US$ '000
Assets:						
Cash and balances with banks	177	-	-	-	177	255
Receivables	43,569	-	644	181	44,394	26,816
Mudaraba and Musharaka financing	34,425	-	305	2,033	36,763	32,822
Investments	81,020	305	-	297	81,622	89,323
Ijarah Muntahia Bittamleek	-	-	97	24	121	174
Other assets	532	-	205	212	949	1,324
Liabilities:						
Customer current and other accounts	20,887	1,987	1,310	139	24,323	12,617
Other Liabilities	2,056	-	-	25	2,081	2,382
Unrestricted investment accounts	11,008	3,158	571	4,359	19,096	7,056
Restricted investment accounts	10,611	8,130	613	-	19,354	8,130

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

Details of Directors' interests in the Bank's shares as at the end of the year were:

	2010		2009	
Categories:	No. of shares	No. of directors	No. of shares	No. of directors
Less than 1%	546,440	4	338,136	3
20% up to less than 50%	238,023,291	1	224,021,921	1
	238,569,731	5	224,360,057	4

As of 31 December 2010, Executive Management owned 51,823 shares of the Bank.

23 COMMITMENTS AND CONTINGENCIES

	2010 US$'000	2009 US$ '000
Letters of credit	1,144,767	945,241
Guarantees	2,854,794	2,486,035
Acceptances	72,353	49,251
Undrawn Commitments	361,067	296,392
Others	17,247	48,674
	4,450,228	3,825,593

24 SEGMENTAL ANALYSIS

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

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

Middle East
North Africa
Europe
Others

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

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

Segment assets, liabilities and unrestricted investment accounts was as follows:

	2010			2009		
	Assets	Liabilities	Unrestricted investment accounts	Assets	Liabilities	Unrestricted investment accounts
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Segment						
Middle East	6,920,049	1,528,672	4,608,896	6,051,048	1,219,473	4,030,776
North Africa	2,105,346	852,847	920,957	1,855,912	780,986	770,778
Europe	5,425,503	1,104,352	3,763,013	4,273,508	769,257	3,026,560
Others	1,429,035	335,766	947,240	985,809	421,092	410,510
	15,879,933	3,821,637	10,240,106	13,166,277	3,190,808	8,238,624

24 SEGMENTAL ANALYSIS (Continued)

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

	2010			2009		
	Total operating income	Net operating income	Net income	Total operating income	Net operating income	Net income
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Segment						
Middle East	217,817	82,944	15,871	189,402	68,776	14,752
North Africa	124,216	82,140	66,257	108,599	69,384	56,754
Europe	274,486	143,966	103,482	283,120	172,045	88,946
Others	42,055	7,241	7,553	52,392	14,367	6,934
	658,574	316,291	193,163	633,513	324,572	167,386

25 RISK MANAGEMENT

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

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

a) Liquidity risk

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

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

25 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

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

	Up to 1 Month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
ASSETS											
Cash and balances with banks	2,967,891	20,809	-	-	-	-	-	-	-	825,203	3,813,903
Receivables	1,165,644	1,050,981	1,154,247	1,484,525	2,034,115	990,869	177,865	3,787	1,298	-	8,063,331
Mudaraba and Musharaka financing	649,938	418,728	23,856	32,019	182,736	136,647	88,954	5,754	-	-	1,538,632
Investments	426,072	45,935	62,296	96,525	254,513	120,366	-	8,551	255,359	80,864	1,350,481
Ijarah Muntahia Bittamleek	9,597	9,243	51,384	26,681	60,663	77,139	107,407	97,687	-	-	439,801
Property and equipment	-	-	-	-	-	-	-	-	-	298,852	298,852
Other assets	64,689	19,604	3,923	23,785	84,938	16,624	2,231	-	36,523	122,616	374,933
Total assets	5,283,831	1,565,300	1,295,706	1,663,535	2,616,965	1,341,645	376,457	115,779	293,180	1,327,535	15,879,933
LIABILITIES											
Customer current and other accounts	2,906,172	-	-	-	-	-	-	-	-	-	2,906,172
Due to banks	424,477	-	-	-	-	-	-	-	-	-	424,477
Other liabilities	229,288	15,685	13,785	28,637	66,693	30,045	701	-	106,154	-	490,988
Total Liabilities	3,559,937	15,685	13,785	28,637	66,693	30,045	701	-	106,154	-	3,821,637
Unrestricted investment accounts	3,569,685	1,157,237	772,190	1,597,402	2,225,289	870,070	48,233	-	-	-	10,240,106
Total liabilities and unrestricted investment accounts	7,129,622	1,172,922	785,975	1,626,039	2,291,982	900,115	48,934	-	106,154	-	14,061,743
Net liquidity gap	(1,845,791)	392,378	509,731	37,496	324,983	441,530	327,523	115,779	187,026	1,327,535	1,818,190
Cumulative net liquidity gap	(1,845,791)	(1,453,413)	(943,682)	(906,186)	(581,203)	(139,673)	187,850	303,629	490,655	1,818,190	
Restricted Investment Accounts	89,420	68,823	35,591	47,993	11,903	106,061	-	-	-	95,547	455,338

25 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The consolidated maturity profile at 31 December 2009 was as follows:

	Up to 1 Month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
ASSETS											
Cash and balances with banks	2,541,026	9,224	-	-	-	-	-	-	-	608,023	3,158,273
Receivables	986,377	868,964	1,021,340	1,100,921	1,748,716	1,179,995	113,120	5,682	1,949	-	7,027,064
Mudaraba and Musharaka financing	465,189	99,214	21,324	28,089	129,060	174,267	48,955	15,014	-	-	981,112
Investments	436,495	43,726	183,981	92,306	134,244	81,641	2,556	480	14,331	98,276	1,088,036
Ijarah Muntahia Bittamleek	6,870	6,126	10,658	24,955	45,493	37,070	55,793	148,368	-	-	335,333
Property and equipment	-	-	-	-	-	-	-	-	-	227,101	227,101
Other assets	72,785	8,637	9,242	6,540	67,354	36,156	21,398	-	58,520	68,726	349,358
Total assets	4,508,742	1,035,891	1,246,545	1,252,811	2,124,867	1,509,129	241,822	169,544	74,800	1,002,126	13,166,277
LIABILITIES											
Customer current and other accounts	2,607,844	-	-	-	-	-	-	-	-	-	2,607,844
Due to banks	152,662	-	-	-	-	-	-	-	-	-	152,662
Other liabilities	136,942	24,821	25,492	69,192	23,000	140,102	10,753	-	-	-	430,302
Total Liabilities	2,897,448	24,821	25,492	69,192	23,000	140,102	10,753	-	-	-	3,190,808
Unrestricted investment accounts	2,929,437	1,229,794	684,537	835,642	2,174,099	345,373	39,742	-	-	-	8,238,624
Total liabilities and unrestricted investment accounts	5,826,885	1,254,615	710,029	904,834	2,197,099	485,475	50,495	-	-	-	11,429,432
Net liquidity gap	(1,318,143)	(218,724)	536,516	347,977	(72,232)	1,023,654	191,327	169,544	74,800	1,002,126	1,736,845
Cumulative net liquidity gap	(1,318,143)	(1,536,867)	(1,000,351)	(652,374)	(724,606)	299,048	490,375	659,919	734,719	1,736,845	
Restricted Investment Accounts	81,651	28,756	28,272	147,808	91,381	132,183	-	-	-	-	510,051

25 RISK MANAGEMENT (continued)

b) Credit risk

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

Type of credit risk

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

Sales (Murabaha) receivables

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

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

Ijarah Muntahia Bittamleek

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

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

	Maximum exposure	
	2010 US$ '000	*2009 US$'000*
Receivables	**8,063,331**	7,027,064
Mudaraba and Musharaka financing	**1,538,632**	981,112
Investments	**1,350,481**	1,088,036
Ijarah Muntahia Bittamleek	**439,801**	335,333
Other assets	**152,806**	184,876
Total	**11,545,051**	9,616,421
Commitments and contingencies	**4,450,228**	3,825,593
	15,995,279	13,442,014

25 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality by type of islamic financing contracts

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

	31 December 2010			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$'000*	*Past due but performing US$'000*	*non performing islamic financing contracts US$'000*	*Total US$'000*
Receivables	**7,854,313**	**63,466**	**478,084**	**8,395,863**
Mudaraba and Musharaka financing	**1,479,068**	**44,512**	**31,914**	**1,555,494**
Other assets	**142,198**	**383**	**24,496**	**167,077**
	9,475,579	**108,361**	**534,494**	**10,118,434**

	31 December 2009			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$'000*	*Past due but performing US$'000*	*non performing islamic financing contracts US$'000*	*Total US$'000*
Receivables	6,686,912	184,311	439,510	7,310,733
Mudaraba and Musharaka financing	964,539	6,629	12,420	983,588
Other assets	179,713	1,710	19,783	201,206
	7,831,164	192,650	471,713	8,495,527

Aging analysis of past due but performing Islamic financing contracts

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

	31 December 2010			
Type of Islamic Financing Contracts	*Less than 30 days US$'000*	*31 to 60 days US$'000*	*61 to 90 days US$'000*	*Total US$'000*
Receivables	**34,172**	**10,515**	**18,779**	**63,466**
Mudaraba and Musharaka financing	**34,424**	**6,132**	**3,956**	**44,512**
Other assets	**3**	**7**	**373**	**383**
	68,599	**16,654**	**23,108**	**108,361**

	31 December 2009			
Type of Islamic Financing Contracts	*Less than 30 days US$'000*	*31 to 60 days US$'000*	*61 to 90 days US$'000*	*Total US$'000*
Receivables	9,323	79,628	95,360	184,311
Mudaraba and Musharaka financing	5	40	6,584	6,629
Other assets	42	8	1,660	1,710
	9,370	79,676	103,604	192,650

25 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Risk Mitigation

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

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

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

1. Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the subsidiary has recourse to the deposit.

2. Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable of investment grade rating.

3. Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defence for the subsidiary if the purchaser or lessee breaches the contract.

4. Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

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

5. Cash deposit free from any legal encumbrance with the subsidiary either in the form of restricted or unrestricted investment accounts.

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

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business i.e. obligors or counterparties with more than US$663,130 in total credit facilities. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

25 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Quality (continued)

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

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

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

c) Concentration risk

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

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

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

	2010			*2009*		
	Assets US$ '000	*Liabilities US$ '000*	*URIA US$ '000*	*Assets US$ '000*	*Liabilities US$ '000*	*URIA US$ '000*
Manufacturing	**1,873,433**	**49,827**	**173,660**	1,526,887	27,165	113,741
Mining and quarrying	**228,785**	**14**	**504**	116,970	1	70
Agriculture	**92,884**	**2,270**	**22,165**	81,518	348	1,447
Construction and real estate	**2,176,827**	**8,481**	**36,621**	1,658,632	8,012	7,659
Financial	**1,990,192**	**260,201**	**1,335,235**	2,362,513	190,342	911,642
Trade	**1,725,507**	**42,714**	**246,975**	890,982	35,790	1,862,741
Personal and consumer finance	**1,726,214**	**1,810,525**	**6,411,571**	1,474,447	1,627,077	3,652,896
Government	**3,718,712**	**24,237**	**44,835**	2,912,215	18,465	70,675
Other Services	**2,347,379**	**1,623,368**	**1,968,540**	2,142,113	1,283,608	1,617,753
	15,879,933	**3,821,637**	**10,240,106**	13,166,277	3,190,808	8,238,624

25 RISK MANAGEMENT (continued)

d) Market risk

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

Profit rate risk

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

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

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US$ 494,236 thousand (2009: US$ 362,489 thousand) comprising of available for sale investments amounting to US$ 485,270 thousand (2009: US$ 354,297 thousand) and trading securities amounting to US$ 8,966 thousand (2009: US$ 8,192 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's net income or equity.

25 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign exchange risk

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

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

	2010		
	Operational equivalent Long (short) US$ '000	*Strategic equivalent Long (short) US$ '000*	*Total equivalent Long (short) US$ '000*
Currency			
Turkish Lira	**(48,072)**	**316,155**	**268,083**
Jordanian Dinar	**16,563**	**186,241**	**202,804**
Egyptian Pound	**(20,184)**	**98,681**	**78,497**
Sudanese Pound	**(2,233)**	**39,373**	**37,140**
Algerian Dinar	**(89,994)**	**131,192**	**41,198**
Lebanese Pound	**23,419**	**16,551**	**39,970**
Pound Sterling	**17,917**	**-**	**17,917**
Tunisian Dinar	**2,104**	**-**	**2,104**
Euro	**(4,153)**	**-**	**(4,153)**
South African Rand	**-**	**19,758**	**19,758**
Pakistani Rupees	**(892)**	**40,363**	**39,471**
Syrian Pound	**(39,223)**	**10,983**	**(28,240)**
Others	**1,856**	**-**	**1,856**

	2009		
	Operational equivalent Long (short) US$ '000	*Strategic equivalent Long (short) US$ '000*	*Total equivalent Long (short) US$ '000*
Currency			
Turkish Lira	11,394	270,586	281,980
Jordanian Dinar	87,217	190,245	277,462
Egyptian Pound	(28,163)	92,955	64,792
Sudanese Pound	(850)	40,573	39,723
Algerian Dinar	(85)	119,480	119,395
Lebanese Pound	(16,347)	14,642	(1,705)
Pound Sterling	(2,799)	-	(2,799)
Tunisia Dinar	(242)	-	(242)
Euro	(2,555)	-	(2,555)
South African Rand	-	17,350	17,350
Pakistani Rupees	(21,195)	35,159	13,964
Syrian Pound	(14,978)	14,978	-
Others	26,278	-	26,278

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

25 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign exchange risk (continued)

Foreign currency risk sensitivity analysis

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

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of equity. The impact of a similar increase in exchange rates will be approximately opposite to the impact disclosed below.

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

At 31 December 2009	Currency	Particular	*Exposures in US$ '000*	*Variance %*	*Change in net income and equity US$ '000*
	Algerian Dinar	Net Income	46,365	(5%)	(2,208)
		Total Equity	94,263	(5%)	(10,178)
	Egyptian Pound	Net Income	13,486	(5%)	(642)
		Total Equity	33,204	(5%)	(6,008)
	Turkish Lira	Net Income	88,946	(15%)	(11,602)
		Total Equity	207,105	(15%)	(62,308)
	Sudanese Pound	Net Income	7,039	(5%)	(335)
		Total Equity	8,860	(5%)	(2,354)
	S.African Rand	Net Income	2,263	(15%)	(295)
		Total Equity	13,473	(15%)	(4,020)
	Syrian Pound	Net Income	(3,147)	(10%)	286
		Total Equity	36,669	(10%)	(4,695)

25 RISK MANAGEMENT (continued)

e) Operational Risk

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

Operational Risk Management Framework

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

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

The Operational Risk framework will be subject to periodic Internal Audit.

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

Infrastructure Risks

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

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

Information Technology Risks

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

Staff risk

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

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.

2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.

3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

25 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

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

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

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

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

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

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Included under investments are unquoted available for sale investments amounting to US$ 367.8 million (2009: US$ 218.5 million) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

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

27 EARNINGS PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 6.8 million (2009: US$ 9 million). This amount has been taken to charity.

28 COMPARATIVE FIGURES

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

29 EVENT AFTER FINANCIAL POSITION DATE

The Group has operations in Egypt and Tunis. Subsequent to the year end these countries have witnessed unparalleled political crisis that may have far reaching effect on the world economy in general and the regional economy in particular. The management is closely monitoring the situation in these two countries and have done an assessment of its operations in these two countries and can confirm that the crisis has no impact on the Group's operations and results as at 31 December 2010. The Group has formed a high level committee consisting of senior management personnel to closely monitor the situation and assess its affect on the future operations and performance. The team is to advise the Board of Directors and the President & Chief Executive of the necessary steps to be taken to minimize the risks associated with such events.

THE 6TH OCTOBER BRIDGE

Egypt

Additional Public Disclosures

31 December 2010

(Unaudited)

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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

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

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

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

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

The following table summarises the eligible capital after deductions for calculation as of:

	31 December 2010		*31 December 2009*	
	Tier 1	*Tier 2*	*Tier 1*	*Tier 2*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Tier 1 Capital Components				
Issued and fully paid up ordinary shares	**783,972**	**-**	744,000	-
Disclosed reserves				
Legal / statutory reserves	**53,547**	**-**	42,986	-
Share premium	**15,866**	**-**	99,390	-
Others	**137,335**	**-**	121,282	-
Retained profit brought forward	**236,739**	**-**	189,401	-
Unrealized gains arising from fair valuing equities (45% only)	**5**	**-**	4,542	-
Non-controlling interest in consolidated subsidiaries	**593,525**	**-**	522,485	-
Less:				
Goodwill	**83,792**	**-**	62,423	-
Unrealized gross losses arising from fair valuing equity securities	**38,545**	**-**	114	-
Tier 1 Capital before PCD deductions	**1,698,652**	**-**	1,661,549	-
Tier 2 Capital Components				
Asset revaluation reserve - Property, plant, and equipment (45% only)	**-**	**-**	-	3,294
Unrealized gains arising from fair valuing equities (45% only)	**-**	**16,083**		
Profit equalization reserve	**-**	**2,667**	-	2,304
Investment risk reserve	**-**	**87,004**	-	65,226
Tier 2 Capital before PCD deductions	**-**	**105,754**	-	70,824
Total Available Capital	**-**	**1,804,406**	-	1,732,373
Deduction				
Investment in insurance entity greater than or equal to 20%	**(4,521)**	**(4,521)**	(6,758)	(6,758)
Net Available Capital	**1,694,131**	**101,233**	1,654,791	64,066
TOTAL ELIGIBLE CAPITAL		**1,795,364**		1,718,857

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

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

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

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

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

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

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

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

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

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

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

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

Table - 6. Distribution of ownership of shares by nationality / incorporation (PD-1.3.10 (i))
The following table summarises the distribution of ownership of shares by nationality / incorporation as of 31 December 2010:

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

2 RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2010 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

a) Liquidity risk

The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
b. Establish approval processes to ensure adherence to liquidity risk management processes.
c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.
d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
e. Establish limits on the degree of concentrations that are deemed acceptable. This should:
   i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to mitigate the risk; and
   ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
h. Establish a framework for the composition of assets.
i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

2 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Table – 7. Liquidity Ratios (PD-1.3.37)
The following table summarises the liquidity ratios as of:

	31 December 2010	31 December 2009
Short term assets to short term liabilities	**92%**	97%
Liquid assets to total assets	**27%**	27%

b) Credit risk

General credit policies and guiding principles

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

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

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))
The Group's assets are funded by unrestricted investment accounts (URIA) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations.
The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2010				31 December 2009			
	Self financed		Financed by URIA		Self financed		Financed by URIA	
	Total gross credit exposure US$ '000	Average gross credit exposure over the year* US$ '000	Total gross credit exposure US$ '000	Average gross credit exposure over the year* US$ '000	Total gross credit exposure US$ '000	Average gross credit exposure over the year* US$ '000	Total gross credit exposure US$ '000	Average gross credit exposure over the year* US$ '000
<u>Funded Exposure</u>								
Receivables	**3,184,754**	**2,712,278**	**4,878,577**	**4,779,995**	2,831,180	1,511,267	4,195,884	243,820
Mudaraba and Musharaka financing	**526,778**	**404,504**	**1,011,854**	**767,929**	316,785	265,171	664,327	22,581
Investments	**821,822**	**722,124**	**528,659**	**493,798**	652,751	407,393	435,285	130,799
Ijarah Muntahia Bittamleek	**180,818**	**161,218**	**258,983**	**238,074**	146,869	89,381	188,464	-
Other assets	**75,262**	**58,357**	**77,544**	**101,587**	125,163	68,754	59,713	118,915
<u>Unfunded Exposure</u>								
Commitments and contingencies	**4,391,687**	**4,510,846**	**58,541**	**43,387**	3,825,593	3,146,925	-	-
	9,181,121	**8,569,327**	**6,814,158**	**6,424,770**	7,898,341	5,488,891	5,543,673	516,115

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

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))
The following table summarises the geographic distribution of gross funded exposure as of 31 December 2010, broken down into significant areas by major types of credit exposure:

	Self financed				Financed by URIA			
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
Receivables	**895,205**	**505,340**	**1,646,783**	**137,426**	**1,839,866**	**370,892**	**2,329,793**	**338,026**
Mudaraba and Musharaka financing	**313,274**	**66,925**	**85,150**	**61,429**	**731,457**	**77,099**	**-**	**203,298**
Investments	**304,605**	**9,970**	**283,273**	**223,974**	**476,086**	**-**	**-**	**52,573**
Ijarah Muntahia Bittamleek	**105,188**	**57,191**	**9,875**	**8,564**	**190,974**	**34,906**	**6,913**	**26,190**
Other Assets	**32,781**	**19,485**	**2,660**	**20,336**	**31,433**	**12,759**	**5,643**	**27,709**
	1,651,053	**658,911**	**2,027,741**	**451,729**	**3,269,816**	**495,656**	**2,342,349**	**647,796**

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

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

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

	Funded Exposures										*Unfunded Exposures*		*Funded & Unfunded Expsoures*	
	Receivables		*Mudaraba and Musharaka financing*		*Investments*		*Ijarah Muntahia Bittamleek*		*Other Assets*		*Commitments and contingencies*		*Total*	
	Self	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Claims on soveriegns	89,571	152,869	9,964	-	22,032	27,375	-	-	-	-	88,701	-	210,268	180,244
Claims on multi-lateral development banks	1,691	4,181	-	-	-	-	-	-	-	-	-	-	1,691	4,181
Claims on investment firms	87,219	127,173	-	65,050	5,030	-	-	-	-	-	6	-	92,255	192,223
Claims on banks	138,979	470,852	34,105	70,317	14,825	3,876	2,194	87,475	-	-	65,212	-	255,315	632,520
Claims on corporates	2,089,279	2,681,966	210	22,604	-	-	51,197	40,912	-	-	4,033,497	28,033	6,174,183	2,773,515
Claims on retails	708,336	1,290,027	-	-	-	-	125,795	129,599	-	-	204,271	30,508	1,038,402	1,450,134
Past dues receivables	69,679	151,509	-	11,033	-	-	1,632	997	-	-	-	-	71,311	163,539
Equity investment	-	-	96,353	77,758	543,294	325,025	-	-	-	-	-	-	639,647	402,783
Sukook	-	-	-	-	129,735	52,744	-	-	-	-	-	-	129,735	52,744
Investment in Funds	-	-	-	-	53,764	56,477	-	-	-	-	-	-	53,764	56,477
Specialized Lending	-	-	386,146	765,092	-	-	-	-	-	-	-	-	386,146	765,092
Other assets	-	-	-	-	53,142	63,162	-	-	75,262	77,544	-	-	128,404	140,746
Total	3,184,754	4,878,577	526,778	1,011,854	821,822	528,659	180,818	258,983	75,262	77,544	4,391,687	58,541	9,181,121	6,814,158

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2009:

	Funded Exposures										*Unfunded Expsoures*		*Funded & Unfunded Expsoures*	
	Receivables		*Mudaraba and Musharaka financing*		*Investments*		*Ijarah Muntahia Bittamleek*		*Other Assets*		*Commitments and contingencies*		*Total*	
	Self	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Claims on soveriegns	26,296	43,828	-	-	-	-	-	-	-	-	16,867	-	43,163	43,828
Claims on multi-lateral development banks	9,120	15,200	-	-	-	-	-	-	-	-	-	-	9,120	15,200
Claims on investment firms	94,428	157,381	6,103	10,171	-	-	7,529	12,549	-	-	-	-	108,060	180,101
Claims on banks	189,002	315,003	-	-	375	625	497	827	-	-	127,051	-	316,925	316,455
Claims on corporates	1,656,286	2,237,727	6,166	10,276	871	1,451	20,005	33,342	-	-	3,488,698	-	5,172,026	2,282,796
Claims on retails	735,262	1,225,436	-	-	-	-	116,183	138,008	-	-	178,966	-	1,030,411	1,363,444
Past dues receivables	117,033	195,055	613	1,021	-	-	699	1,166	-	-	74	-	118,419	197,242
Equity investment	-	-	262,592	414,625	124,429	193,729	-	-	-	-	-	-	387,021	608,354
Sukook	-	-	-	-	459,417	126,715	-	-	-	-	-	-	459,417	126,715
Investment in Funds	-	-	-	-	29,662	49,438	-	-	-	-	-	-	29,662	49,438
Specialized Lending	-	-	40,053	226,136	-	-	-	-	-	-	-	-	40,053	226,136
Other assets	3,753	6,254	1,258	2,098	37,997	63,327	1,956	2,572	125,163	59,713	13,937	-	184,064	133,964
Total	2,831,180	4,195,884	316,785	664,327	652,751	435,285	146,869	188,464	125,163	59,713	3,825,593	-	7,898,341	5,543,673

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

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Large Credit Exposure (PD - 1.3.23 (f))
The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

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

Past due, non-performing Islamic financing contracts and provisions (PD - 1.3.22 (a))
Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

Table -11.Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))
The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2010:

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

The following table summarises the total past due and non performing islamic financing contracts disclosed by counterparty type as of 31 December 2009:

					Aging of non performing Islamic financing contracts		
	Total	Neither past due nor non performing	Past due but performing	non performing Islamic financing contracts	90 days to 1 year	1 year to 3 years	Over 3 years
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Sovereign	94,890	93,659	1,231	-	-	-	-
Bank	702,848	701,810	263	775	-	-	775
Investment Firms	108,649	105,354	-	3,295	118	2,616	561
Corporates	5,023,680	4,567,872	143,802	312,006	128,926	66,937	116,143
Retail	2,565,460	2,362,469	47,354	155,637	72,745	71,986	10,906
	8,495,527	7,831,164	192,650	471,713	201,789	141,539	128,385

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))
The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2010:

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

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2009:

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

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

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

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

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))
The following table summarises the total past due and non performing islamic financing contracts and provisions disclosed by geographical area as of:

	31 December 2010			31 December 2009		
	Past due and non performing Islamic financing contracts	Specific provision	General provision	Past due and non performing Islamic financing contracts	Specific provision	General provision
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Middle East	300,282	187,598	11,598	303,751	137,291	5,894
North Africa	68,529	40,938	513	219,036	42,660	267
Europe	120,548	103,219	18	113,730	102,208	19
Others	153,496	42,051	(1)	27,846	26,630	-
	642,855	373,806	12,128	664,363	308,789	6,180

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

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

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

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

The Group has no significant obligations with respect to recourse transaction.

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

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

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

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

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))
The following table summarises the capital requirement for each category of market risk as of:

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

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

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

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

Available for sale investments and investments in real estate are kept for capital gain purposes.

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

2 RISK MANAGEMENT (continued)

c) Market risk (continued)

Table – 18. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))
The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2010:

	Total gross exposure US$ '000	*Average gross exposure over the year US$ '000*	*Publicly held US$ '000*	*Privately held US$ '000*	*Capital requirement US$ '000*
Sukook and similar items	**1.003,100**	**844,386**	**55,858**	**947,242**	**4,904**
Equity Investment	**150,279**	**204,873**	**49,376**	**100,903**	**123,599**
Funds	**77,787**	**61,502**	**45,967**	**31,820**	**16,902**
	1,231,166	**1,110,761**	**151,201**	**1,079,965**	**145,405**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2009:

	Total gross exposure US$ '000	*Average gross exposure over the year US$ '000*	*Publicly held US$ '000*	*Privately held US$ '000*	*Capital requirement US$ '000*
Sukook and similar items	668,973	628,654	33,734	635,240	64,390
Equity Investment	238,166	207,835	98,282	139,884	35,308
Funds	78,645	60,205	49,266	29,378	18,928
	985,784	896,694	181,282	804,502	118,626

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

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

2 RISK MANAGEMENT (continued)

c) Market risk (continued)

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

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

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

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

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

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

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

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

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:
– Risk Management Committee
– Head of Credit and Risk Management
– Head of Operational, Liquidity and Market Risk
– Various departments

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

2 RISK MANAGEMENT (continued)

d) Operational Risk (continued)

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

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

The Operational Risk framework will be subject to periodic Internal Audit.

3 CORPORATE GOVERNANCE

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

Purpose:
The primary objectives of the following Code of Business Conduct and Ethics (the "Code") are to enable each Director to focus on areas of ethical risks, to help him/her to recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within ABG and each of its Units.

Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between his/her interests and those of ABG. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director's personal interest is adverse to or appears to be adverse to the interests of ABG. Conflicts of interest also arise when a Director, or a member of his or her immediate family, receives an improper personal benefit as a result of his or her position as a Director of ABG. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:
1. Engagement in any conduct or activity which may conflict with the best interests of ABG, or which may disrupt or impair ABG's standing with any person or entity with whom or which ABG has to proposes to enter into a business or contractual relationship.
2. Acceptance of compensation (in any form) for services performed in relation to ABG from any source other than from ABG.
3. Acceptance by him or her or any member of his/her family of gifts from persons or entities who or which deal with ABG where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.
4. Utilization of ABG assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

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

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

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

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

3 CORPORATE GOVERNANCE (continued)

Remuneration (continued)

	31 December 2010	*31 December 2009*
	US$ '000	*US$ '000*
Directors remuneration	**750**	600
Executive Management		
Salary and other remuneration, including meeting allowance	**2,997**	2,820
Fees	**83**	76
Bonus	**1,383**	1,218
Behefits-in-kind	**396**	359
	4,859	4,473
Shari'a Committee members fee and remuneration	**206**	216
	5,815	5,289

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

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

4 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES

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

Table – 21. Unrestricted Investment Account (PD-1.3.33 (a), (b), (c) & (g))
The following table summarises the breakdown of unrestricted investment accounts (URIA) and the analysis of profit equalisation reserve, investment risk reserve and return on URIA as of:

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

Return on average URIA		
	31 December 2010	*31 December 2009*
	%	%
Return on average URIA Equity	**5.5**	6.6
Return on average URIA Assets	**8.1**	9.5

4 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES (continued)

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

Ratio by type of URIA	*31 December 2010*	*31 December 2009*
	%	%
URIA - Banks	9	8
URIA - Non-banks	91	92

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

Table - 22. Unrestricted Investment Account by Islamic financing product type (PD-1.3.33 (h))
The following table summarises the percentage of URIA financing for each type of Shari'a-compliant contract to total URIA financing as of:

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

Table - 23. Unrestricted Investment Account by Counterparty Type (PD-1.3.33 (i))
The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2010	*31 December 2009*
	%	%
Soverings	2	-
Bank	8	5
Investment Firms	3	2
Corporates	22	64
Retail	65	29

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

4 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES (continued)

Table - 24. Unrestricted Investment Account by type of Assets (PD-1.3.33 (r) & (s))
The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2010			*31 December 2009*		
	Opening Actual Allocation	*Movement*	*Closing Actual Allocation*	*Opening Actual Allocation*	*Movement*	*Closing Actual Allocation*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cash and balances with banks	2,827,499	548,461	3,375,960	1,488,246	352,534	1,840,780
Receivables	4,349,289	529,287	4,878,576	4,658,859	484,442	5,143,301
Mudaraba and Musharaka financing	639,942	371,912	1,011,854	431,447	173,112	604,559
Investments	460,974	67,686	528,660	349,975	90,219	440,194
Ijarah Muntahia Bittamleek	228,194	30,789	258,983	204,957	4,368	209,325
Other assets	143,371	42,702	186,073	229,172	(228,707)	465
	8,649,269	1,590,837	10,240,106	7,362,656	875,968	8,238,624

Table - 25. Treatment of Assets financed by Unrestricted Investment Account (PD-1.3.33 (v))
The following table summarises the treatment of assets financed by URIA in the calculation of RWA for capital adequacy purposes as of:

	31 December 2010			*31 December 2009*		
Type of Claims	*RWA*	*RWA for Capital adequacy purposes*	*Capital Charges*	*RWA*	*RWA for Capital adequacy purposes*	*Capital Charges*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Claims on Sovereign	14,783	4,435	532	108,533	32,560	3,907
Claims on PSEs	37,577	11,273	1,353	-	-	-
Claims on MDBs	2,091	627	75	8,197	2,459	295
Claims on Banks	281,675	84,503	10,140	82,675	24,803	2,976
Claims on Corporates	4,373,018	1,311,905	157,429	3,469,680	1,040,904	124,908
Claims on Investment Firms	-	-	-	72,241	21,672	2,601
Regulatory Retail Portfolio	679,158	203,747	24,450	803,497	241,049	28,926
Mortgage	392,520	117,756	14,131	234,461	70,338	8,441
Past due facilities	170,497	51,149	6,138	206,677	62,003	7,440
Investment in securities	629,825	188,948	22,674	497,699	149,310	17,917
Holding of Real Estates	156,606	46,982	5,638	29,589	8,877	1,065
Other Assets	907,099	272,130	32,656	769,994	230,998	27,720
	7,644,849	2,293,455	275,216	6,283,243	1,884,973	226,196

5 RESTRICTED INVESTMENT ACCOUNT DISCLOSURES

Restricted investment account (RIA) funds are invested and managed in accordance with Shari,a requirements.

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

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

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

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

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

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

Table - 26. Restricted Investment Account by Islamic Financing product type (PD-1.3.33 (h))
The following table summarises the percentage of RIA financing for each type of Shari'a-compliant contract to total RIA financing as of:

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

Table - 27. Restricted Investment Account by Counterparty Type (PD-1.3.33 (i))
The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2010 %	31 December 2009 %
Multinational Development Banks	5	-
Bank	31	19
Corporates	19	29
Retail	45	52

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

Al Baraka Banking Group (B.S.C)
P.O Box 1882
Manama,
Kingdom of Bahrain
Tel: +973 17541122
Fax: +973 17536533
C.R.: 48915
www.albaraka.com
(Licensed as an Islamic Wholesale Bank by CBB)

Share Registrar:
KPMG Fakhroo
AlHedaya Building (2) - 5th Floor,
Government Avenue, Manama,
Kingdom of Bahrain
Tel: +973 17215080
Fax: +973 17212055
Email: bh-dlsharesusers@kpmg.com.bh

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

Your Partner Bank