ANNUAL REPORT 2012

بنك الإثمار
Ithmaar Bank

THE ITHMAAR PURPOSE

Contents

The Cactus – *a symbol of endurance due to its ability to survive and flourish in the harshest of environments. Its bloom is one of unimaginable beauty when viewed in context with its arid environment and its unprepossessing visual features.*

بنــك الإثمــار
Ithmaar Bank

Your Islamic banking partner

Ithmaar Bank B.S.C. is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain. A subsidiary of Dar Al-Maal Al-Islami Trust, Ithmaar Bank has a paid up capital of BD 264 million, and is listed on the Bahrain Bourse and the Kuwait Stock Exchange.

Ithmaar Bank, formerly an investment bank, completed a comprehensive reorganisation in April 2010 with its then wholly-owned subsidiary, Shamil Bank, to emerge as a premier Islamic retail bank.

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. The Bank also maintains a presence in overseas markets, particularly in the MENA and selected Asian regions, through its subsidiary, associate and affiliate companies.

OUR VISION →

A trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development.

OUR MISSION →

To be the preferred Bank for our customers, counterparties and strategic partners by creating value through innovation. These include: retail and commercial banking, asset management, investment and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing, and real estate development.

OUR VALUES →

- Comply with Sharia principles
- Honesty, integrity and objectivity in all our relationships
- Market and customer focused
- Continuous improvement, creativity, innovation and willingness to bring about changes
- Active role in community

The Mosaic of a Modern Islamic Retail Bank

A panoramic perspective of the transformation that continues to unfold at Ithmaar today. Full Sharia compliance in strategy, product and service delivery underpins the modernity and innovation of a vibrant and fast growing Islamic retail bank.

Evolving a regional Islamic bank

A growing presence beyond Bahrain's borders is helping Ithmaar evolve into a regional Islamic bank of repute.

by expanding our footprint

Our widening footprint encompasses branch and ATM networks, other delivery points and exciting new channels such as our MobiCash cardless operations, online banking based on mobile telephony and social networking media options among others.

drawing on group synergies

The synergies available through the combined strengths of the constituents of Ithmaar Group are invaluable in our journey ahead.

restructuring our balance sheet

Re-aligning our asset portfolio to the more profitable over the less productive, plus the strength of our Islamic retail banking framework are key drivers of growth.

and building capacities...

Building the capacities of people and infrastructure are a constant - from training and empowerment of our staff to leveraging constantly evolving technology.

sustainably

Responsible enterprise and thus environmental, social and economic awareness aren't separate from core business - from mapping our carbon footprint to producing our first ever annual report according to Global Reporting Initiative (GRI) guidelines, our commitment just grows stronger each year.

Financial Highlights

	2012	2011	2010	2009	2008
Net profit/(loss) (BD '000)	**(10,114)**	(23,337)	(52,783)	(94,819)	32,106
Net profit/(loss) attributable to shareholders (BD '000)	**(11,491)**	(23,708)	(56,704)	(93,275)	8,357
Total equity attributable to shareholders (BD '000)	**222,096**	217,464	247,530	268,211	348,314
Book value per share (fils)	**8.28**	8.10	9.05	11.79	16.55
Earnings per share (fils)	**(4.28)**	(8.72)	(22.21)	(42.64)	3.58
Total assets (BD '000)	**2,724,103**	2,601,081	2,543,795	2,301,937	2,028,421
Funds under management (restricted and unrestricted investment accounts) (BD '000)	**985,283**	969,422	1,118,318	831,836	750,861
Return on average shareholders' equity	**-5.23%**	-10.20%	-21.99%	-30.26%	2.20%
Return on average assets	**-0.38%**	-0.91%	-2.18%	-4.13%	1.80%
Return on average paid in capital	**-4.54%**	-9.37%	-24.26%	-45.12%	4.16%
Cost to operating income ratio	**85.38%**	121.71%	72.06%	139.31%	51.51%
Stock dividends	**–**	–	–	–	10%
Capital adequacy ratio	**12.64%**	12.88%	13.20%	12.77%	14.41%
Market price per share (fils)	**6.4**	2.5	4.7	9.0	9.8
Price earnings multiple	**–**	–	–	–	27
Market price per share/Book value per share	**0.77**	0.32	0.52	0.76	0.59

The Moment of Truth

Mohammed Bucheerei - CEO and Member of the Board

HRH Prince Amr Mohammed Al Faisal - Chairman

Our core banking business on a stand-alone basis has done consistently well. We are posting a 26% YoY growth in financing assets (loans) and a 31% YoY growth in customer funds (URIA and current accounts). Our post-April 2010 reorganisation and retail focus has resulted in an 80% surge in new customer relationships. In fact, we grew our customer base by over 18,000 new relationships in FY 2012 alone, which is about 20% of our present total built over a 30-year history.

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

Two full years have passed since we transformed into an Islamic retail bank. It was an intrepid move then, and as will be seen, the events that unfolded thereafter have vindicated our decision.

GETTING IT RIGHT →

Conceptually, we are on the right track. While we continue to witness the contagion effects of developed economies as they grapple with flaws in conventional financing systems, Islamic finance, on the other hand, is gaining global acceptance. The growth of Islamic finance is largely driven by a new awareness of its core principles rooted on equitable risk sharing and abhorrence of usury, coupled with an increasingly harmonised approach with international accounting and regulatory standards. In fact, Islamic finance is now considered as a serious alternative to conventional financing systems that are being challenged in several quarters, more so following the 2008 global financial crisis that was triggered in the US and the ongoing hardships faced by people in the euro area as their deeply indebted governments seek bail outs.

OPERATIONALLY, WE PRESENT A MIXED BAG →

Although we have got our fundamentals right and are moving forward, we are posting yet another consolidated net loss attributable to shareholders amounting to BD 11.5 million for FYE 2012. However, it is less than half the BD 23.7 million loss seen in FYE 2011, and a huge improvement over the preceding two years.

Let’s now look at the pluses on the scorecard.

Our core banking business on a stand-alone basis has done consistently well. We are posting a 26% YoY growth in financing assets (loans) and a 31% YoY growth in customer funds (URIA and current accounts). Our post-April 2010 reorganisation and retail focus has resulted in an 80% surge in new customer relationships. In fact, we grew our customer base by over 18,000 new relationships in FY 2012 alone, which is about 20% of our present total built over a 30-year history. We are investing in people and technology, and our results have been recognised through local and international awards. Our market share, as benchmarked against the statistics of the Central Bank of Bahrain, show gains on all key Retail banking product offerings - current accounts, home financing, vehicle financing and personal financing. That’s not all.

Our other lines of business too are progressing well. Corporate banking is breaking new ground in Saudi Arabia. The weighted average tenor of Mudaraba deposits has almost doubled since Ithmaar’s transformation, while at the same time we were able to significantly reduce the borrowing costs since then, indicating a growing investor confidence.

Looking inwards, we have introduced several measures such as cost rationalisation, an overhaul of internal controls and enhanced our reporting, risk management and audit frameworks.

Our investment on rebranding as an Islamic bank is already bearing fruit, with even more positive developments on the cards.

We were the first bank in Bahrain and perhaps in the GCC to publish its carbon footprint last year, a practice that we have further refined this year. We engage with our local community and society at large through diverse initiatives throughout the year. We adhere to Sharia principles in fulfilling the interests of our various stakeholders, and are demonstrating our commitment to sustainable development by making our maiden attempt at aligning our Annual Report 2012 with the Global Reporting Initiative Sustainability Reporting Guidelines. It's probably yet another first for the Bahraini banking sector.

SOME HARD TALK →

These then beget two fundamental questions - why are we still posting a loss, and when will we break even at Group level?

To put it bluntly, as a consolidated entity we are still saddled with investment issues. They arise from the twin effects of having to bear the carrying costs of non-core underperforming investments coupled with substantial provision charges, both of which are sapping profitability.

The issues and answers are discussed further in the pages that follow. Nevertheless, the picture is not all that gloomy. There are solutions. And faster solutions if shareholders are willing to infuse more capital for the Bank's next wave of growth into full profitability.

THE SILVER LINING →

We are working on several fronts to address the problem. One, the sale of identified investment assets; two, internal cash generation by rapidly but prudently growing our profitable lines of business; three, raising additional capital at an opportune time in the future; and a few others. They are not mutually exclusive.

As for the third approach, we do understand that shareholders will not accept a simple rights issue at this stage when ordinary shares are traded below par value. However, we are heartened that investor confidence continues to grow, as reflected by the near doubling of the share price during the year under review. This means we are heading in the right direction. Nevertheless, we are mindful that further business improvements are vital to create shareholder value.

Our strength lies in Islamic retail banking. We have done exceedingly well in this sphere. As Islamic finance moves forward in the global arena we do not want to miss out our place, more so as a pioneer and thought leader on the subject.

It's a question of seizing the moment before it is lost. In a nutshell, that is our purpose.

ACKNOWLEDGMENTS

A good part of the credit for our post-transformation performance must go to our staff for their unwavering dedication and positive outlook in these challenging times. We also thank all members of our subsidiaries and associates around the globe. The values and sense of purpose we share have indeed stood the test of time.

We are most grateful to the members of the Board of Directors and Sharia Supervisory Board for their wise counsel, oversight and continued support. The Board remains committed to its overarching goal of creating long-term shareholder value and to maintaining the highest standards of business ethics.

In conclusion, we thank our customers for their valued patronage and trust, our shareholders for their loyalty and goodwill, and the Central Bank of Bahrain for its continuing oversight and support.

Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Member of the Board

28 February 2013

THE ITHMAAR SAGA

An account of the translation of Ithmaar Bank's planning and strategy into action across economic, social and environmental parameters

Corporate Profile

THE TURNING POINT →

"The greatest danger in times of turbulence is not the turbulence itself; it is to act with yesterday's logic", observed management guru Peter Drucker.

April 2010 was a watershed for Ithmaar Bank. In the wake of the global financial crisis Ithmaar put itself through a radical reorganisation with its then wholly-owned subsidiary Shamil Bank and transformed itself from a conventional investment bank into an Islamic retail bank.

Here was the future. A powerful alternative to conventional financing where an increasing number of discerning consumers were looking for more equitable risk sharing, for financial institutions that are more resilient to external shocks, and above all a bank that could strike a chord with their moral and cultural roots.

As in any change, the process was not expected to be easy. But there came along new upheavals. The political unrest at home and the sovereign debt crisis in the euro area that followed added to the challenges that Ithmaar had to face. Undaunted, the Bank held true to its mission and charted its course inch by inch, through thick and thin, with a focused sense of purpose.

This, then is the saga of the new Ithmaar Bank. Like the cactus plant in the desert, it is a story of turbulence and endurance, of renewal and survival...and of reaching the threshold to bloom and grow.

LEGAL FORM →

Ithmaar Bank B.S.C. (the 'Bank' or 'Ithmaar') is a Bahrain-based Islamic retail bank, a publicly held company listed on the Bahrain Bourse and the Kuwait Stock Exchange. It is governed by a Board of Directors and a Sharia Supervisory Board, details of which are discussed in the sections on The Ithmaar Force, Corporate Information and Share Ownership of this Annual Report.

OPERATIONS →

Operationally, the Bank's revenue is driven by six lines of business comprising Retail Banking, Corporate Banking, International Banking, Asset Management, Private Banking and Treasury. They are duly supported by key units such as risk management and compliance, business development, finance, strategic planning, information technology, human resources, legal, public relations and corporate communications, administration, remedial management, and investor relations.

The total workforce of the Bank amounted to 295 persons by end 2012 (including two staff members based in Qatar), of which 281 were from the permanent cadre. Females accounted for 29% of the total.

The Bank operates through 16 branches in Bahrain and a representative office in Qatar. As the holding company of a Group, Ithmaar also has subsidiaries and associate companies that have operations in several countries in addition to Bahrain, as disclosed in the sections on Delivering Value and Corporate Information of this Annual Report.

BRANDING →

The Ithmaar brand identifies who we are, what we do and how we do it. It is our new identity following the transformation into an Islamic retail bank.

The Bank has developed a comprehensive branding strategy documented in the form of an 'Ithmaar Identity Guide' and 'Ithmaar Brand Values' handbook for the employees. The latter covers all key aspects of the new Ithmaar, and elaborates on aspects such as Islamic principles, clarity of purpose, responsive action, meaningful innovation, striving for higher ideals and brand essence.

PRODUCTS

All Ithmaar products are Sharia compliant.

- ***Thimaar*** – A best in class prize based savings account that also offers expected profit and free life insurance
- ***Personal Finance*** – A financing solution with exceptionally competitive rates
- ***Auto Finance*** – Financing specifically for motor vehicles
- ***Home Finance*** – Ijara and Morabaha financing that offer flexible options to suit one's real estate financing needs, including the purchase of a plot of land, a house or a building for commercial or residential use
- ***Savings Account*** – Provides liquidity by giving flexible access to one's funds at all times while continuing to earn profit. Profit is paid periodically based on the concept of the 'Mudaraba' contract with monthly distribution of profits
- ***Current Account*** – While giving instant access to one's funds, this type of account is based on the Sharia concepts of Qard Al Hasan and Wadei'ah. Therefore, it does not benefit from any profit payments and the Bank guarantees the repayment of funds at any time
- ***Mudaraba Account*** – Functions under the principle of unrestricted Mudaraba (Al-Mutlaqa), in which the investor (Rub-Al Mall) provides capital and the Bank (Modarib) provides expertise for the investment of capital to earn halal (lawful) profits, which are divided between the two parties in an agreed ratio. This account is ideal for those who are saving for a specific goal, or would like to enjoy periodic payments of a secure investment. It comes with a wide choice of investment tenors
- ***Credit Card (Al Rubban)*** – An Islamic alternative which provides all the benefits of a conventional credit card while being tailored to the cardholder's spending needs

SERVICES

- ***Remittances*** – Fast money transfer services to most countries in the world in all major currencies
- ***Lockers*** – Rentable safe deposit boxes for valuables with full security and access during banking hours
- ***Online Utility Bill Payments*** – Customers may pay telephone, electricity and water bills directly through the Bank's online portal
- ***MobiCash*** – Bahrain's first cardless cash transfer solution that allows remittance to a mobile phone number and withdrawal of cash, without any card, from any Ithmaar ATM
- ***Online Banking*** – Safe and convenient internet banking that allows access to one's accounts through a User ID and PIN
- ***Mobile Online Banking*** – Access to the full suite of Ithmaar Bank's online banking services through one's mobile smart phone
- ***Phone Banking*** – Access to financial information and the ability to execute one's banking transactions quickly, securely and conveniently anytime from anywhere in the world
- ***Ithmaar Premier*** – An exclusive, invitation-only offering for the Bank's most valuable customers, which delivers a full complement of products and services with enhanced features and privileges.

MARKETS SERVED

Customer profile – Financing, FYE 2012

Analysed by territory	
Location	%
Bahrain	76
GCC	5
Others	19
Total	**100**

Analysed by industry sector	
Sector	%
Personal	43
Financial institutions	5
Real estate and construction	18
Trade and manufacturing	16
Services	18
Total	**100**

Customer profile – Deposits, FYE 2012

Analysed by territory	
Location	%
Bahrain	80
GCC	4
Others	16
Total	**100**

Analysed by industry sector	
Sector	%
Personal	48
Financial institutions	7
Real estate and construction	12
Trade and manufacturing	11
Services	15
Government related	7
Total	**100**

FINANCIAL PERFORMANCE

Ithmaar Group's consolidated position as at FYE 2012 shows BD 2.7 billion in total assets, BD 222 million in owners' equity, and BD 2.5 billion in total liabilities. The consolidated total income and operating income for FYE 2012 amounted to BD 183.4 million and BD 87.5 million respectively. The Group is completing a turnaround, having posted a net loss attributable to shareholders amounting to BD 11.5 million for FYE 2012, which is less than half the loss reported in FYE 2011. A discussion on the financial performance is given later in this Annual Report.

There were no significant changes regarding size, structure or ownership during the period under review.

RECOGNITION

Ithmaar Bank's performance – though yet to fully emerge from the red – has won international recognition. They speak volumes for the indomitable spirit and dedication of the Bank and its staff.

Islamic Banker of the Year 2012

Mr. Mohammed Bucheerei, CEO and Member of the Board of Ithmaar Bank, was named Islamic Banker of the Year by the World Islamic Bank Conference 2012. The award inter alia recognises his significant contribution to the Islamic financial services industry through excellence in leadership, strategic direction, and new initiatives and innovations. The award is based on a unique peer-based voting system with the results verified by Ernst & Young, the official award auditors.

Ithmaar Bank Chief Executive Officer and Member of the Board Mohammed Bucheerei (left) receives the prestigious Islamic Banker of the Year award from Ernst & Young Office Managing Partner Essa Al-Jowder during the 19th Annual World Islamic Banking Conference.

World Summit Award - Mobile

Competing with around 400 applicants from over 100 countries Ithmaar Bank's 'MobiCash' won the World Summit Award - Mobile competition in the m-Business & Commerce category. Ithmaar was the sole winner from the GCC region and one of only two from the MENA region to have made it to the top in this category. The Award, launched as part of the United Nations Summit on the Information Society in 2003, is a unique global competition for recognising the best in electronic and mobile content and creativity.

Ithmaar Bank Chief Executive Officer and Member of the Board Mohammed Bucheerei (right) and Ithmaar Bank Executive General Manager, Support Group, Juma Abull, with the World Summit Award mobile (WSA-mobile) and certificate.

ARC Awards

The International ARC Awards, now in its twenty-sixth year, is one of the world's largest international competitions honouring excellence in annual reporting, and is dubbed as the 'Academy Awards of Annual Reports'. Ithmaar Bank won multiple awards across several categories for its 2011 Annual Report at the prestigious awards ceremony held in New York City in 2012.

LACP Vision Awards

Ithmaar Bank earned the Gold Award for its 2011 Annual Report in the Commercial Banks category of the prestigious League of American Communications Professionals (LACP) Vision Awards 2012. In addition, the Annual Report was ranked number 41 in the Top 50 from the Europe, Middle East and Africa region.

Report Parameters

REPORT PROFILE

While retaining all relevant statutory and voluntary disclosures that were customary in the past, we have made this Annual Report go further in terms of transparency and accountability. It is our first attempt at producing a report that is also aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (version G 3.1), with reporting at a self-declared Application Level C. Sustainability aspects are reported as an integral part of the overall Annual Report, and cover the period 1 January 2012 to 31 December 2012, which coincides with the reporting period for financial statements.

REPORT CONTENT

Although the Bank has no formal internal procedure as yet for determining all aspects of report content as per GRI 3.1 Guidelines, several internal policies, practices and procedures are in place on key aspects such as operations, corporate governance, compliance, engagement, risk management and financial reporting. As in the past, separate sections have been devoted to Corporate Governance, Risk Management and Financial Statements, while several new performance indicators have been disclosed and discussed throughout the Annual Report.

REPORT BOUNDARY

Unless otherwise specified the boundary pertaining to business strategy, operational performance and management discussion is limited to Ithmaar Bank in Bahrain ('Ithmaar' or 'Bank'), which includes its branches but excludes the Bank's representative office in Doha, Qatar (except for the inclusion of two staff members in the head count).

A key exception is in relation to disclosures on financial performance given in sections on 'Delivering Value to our Shareholders' and the entire section on 'Consolidated Financial Statements', which encompass Ithmaar Bank and its subsidiaries (the 'Group'), where reporting is on a consolidated basis.

CONTACT POINT FOR CLARIFICATIONS

Any questions regarding this Annual Report may be addressed to Abdulla Nooraldin, Shareholders' Affairs Section, Ithmaar Bank B.S.C., Seef Tower, P.O. Box 2820, Manama, Bahrain; Email: abdulla.noor@ithmaarbank.com

Our Goals and Strategies

THE UPSIDE OF THE DOWNSIDE

As noted previously, the Group is on the brink of a complete turnaround, though posting a loss for FYE 2012 as well. To get a better understanding of the issues, we will first look at where we are today in the context of the April 2010 reorganisation into an Islamic retail bank and then move on to our strategies.

Much has been accomplished in Ithmaar's core banking business on a stand-alone basis since our reorganisation:

- Our branding is firmly in place
- Customer delivery points of the Bank have expanded from 11 in 2010 to 16 branches today, and infrastructure further developed through 39 ATMs and a host of electronic and mobile banking services
- Core banking profit before tax, comprising Ithmaar's retail and corporate banking activities, has nearly doubled to BD 14.3 million
- Financing assets have increased by over 50% to BD 464.2 million
- Customer funds (URIA and current accounts) have also increased by over 50% to BD 847.5 million
- Customer relationships have grown 80%, with over 40,000 new accounts opened since 2010 - of which nearly a half were in FYE 2012 alone.

These are all positive signals that reaffirm that we are getting things right. But challenges remain.

THE SOCIO-ECONOMIC ENVIRONMENT

The broader global issues including the fiscal tightening in the US, euro area debt crisis, weak growth in major economies, coupled with social and political unrest in the MENA region including Bahrain have not augured well for business. Bahrain's real GDP is estimated to have grown 4.1% in 2012 with a forecast 3.6% in 2013, while the Sovereign rating is Baa 1 with a negative outlook[1].

Bahrain's banking sector reflected these trends. Although assets of retail banks showed growth, those of wholesale banks, which account for the largest share, continued to decline at an average 8.4% YoY, highlighting the fallout of political volatility and the consequent difficulty in attracting foreign funding[2]. For Ithmaar, tight liquidity posed a constraint on the growth of its profitable core banking business, while Group profitability was further hampered by legacy issues arising from the carrying costs of underperforming non-core investments and provision charges for their impairment.

Despite this gloomy picture, it is heartening to note that Ithmaar did achieve a turnaround of sorts in 2012 by posting a net income of BD 12.8 million before impairment provisions and taxation (2011: loss of BD 14.3 million). These aspects are discussed further in the section on Delivering Value that follows.

1 *Moody's Investor Service, January 2013*

2 *Barclays Emerging Market Research, October 2012*

STRATEGIC FOCUS →

The single most important factor for the Ithmaar Group to return quickly to full profitability is the infusion of additional capital. The Bank is working on several approaches to address this constraint, which include the sale of identified investment assets, maintaining the value of those that remain and accelerating internal cash generation by growing profitable lines of business. Raising additional capital from shareholders will be considered later after share prices improve further.

Growing our internal cash generation, rapidly but prudently, lies at the very core of our day to day business operations. We have set medium-term goals and mapped our strategies for each of our six lines of business, which are discussed below.

MEDIUM-TERM GOALS →

We have set our sights high for each of our lines of business, and they provide the framework for action in the next 2-3 years:

- *Retail Banking* to transform itself to be the 'Number One Retail Islamic Bank in Bahrain' in terms of product offerings within the next three years
- *Corporate Banking* to expand its geographic footprint to become a dominant player for Islamic banking in the GCC region
- *International Banking* to focus on building relationships and providing financial solutions and facilities to financial institutions and corporate customers in international markets
- *Asset Management* to pursue the twin goals of preserving the value of the existing investment portfolio of the Bank while soliciting bids for assets mandated for sale
- *Private Banking* to grow and become one of the leading providers of Islamic private banking in Bahrain, measured in terms of total liabilities and customer base of high net worth individuals
- *Treasury*, being primarily responsible for cash management of the Bank, to work towards reducing net funding costs while assisting International Banking to further develop inter-bank and money market operations

The sections that unfold discuss our activities and accomplishments during the year under review in aiming for these goals, and how we deliver value to each of our key stakeholder groups.

Delivering Value to Our Stakeholders

Our stakeholders are individuals or entities who can affect or be affected by the activities of the Bank. They essentially comprise our shareholders, customers, counter parties, creditors, employees, our local community and society at large.

The Bank's Corporate Governance Policy provides guidance on engaging with our stakeholder groups. It is based on the Central Bank of Bahrain's Rulebooks on High Level Controls and Public Disclosures, the Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, Islamic Financial Services Board recommendations, AAOIFI standards and international standards. It also includes principles regarding the Bank's responsibility towards the environment.

Readers will note that we have switched from the customary US dollars (USD) of the past to Bahraini Dinars (BD) in our reporting this time. This follows a resolution passed at the Extraordinary General Meeting in October 2012 followed by the approval of the Central Bank of Bahrain. All past figures too have been restated in BD in this annual report to maintain consistency and comparability.

OUR SHAREHOLDERS →

BANK'S POLICY →

✻ Recognising its fundamental stewardship role towards its shareholders, it is the Bank's policy to treat its shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal of the Bank is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term.

Following our April 2010 reorganisation, Ithmaar has come a long way in its transformation from an investment bank to an Islamic retail bank. While some aspects are still work in progress, our astute strategies, insightful business plans and purposeful actions have borne excellent results so far, as will be seen in the paragraphs that follow.

As mentioned previously when defining report boundary, this section on Our Shareholders is at Group level unless otherwise specified.

GROUP PERFORMANCE →

Consolidated total income grew by 7.9% from BD 170 million in 2011 to BD 183 million in 2012, while operating income surged 33% YoY. Administrative expenses were contained at BD 62.3 million, which is marginally lower than the BD 63.5 million in 2011. This achievement is remarkable considering the expansion of the branch network of the Group through nine additional branches in 2012 and the full year impact of the 41 branches opened during 2011 being felt in 2012.

These positive results translated into a net income before impairment provisions and taxation amounting to BD 12.8 million, as against a loss of BD 14.3 million in 2011.

Our core banking business on an Ithmaar stand-alone basis continues to do well and is driving this upward trend towards Group profitability.

We adopted a prudent approach towards provisioning for impairment of our Group asset portfolio. Impairment provisions for 2012 increased to BD 20.4 million compared to BD 8.2 million in 2011, mainly arising from legacy non-core investments. This large increase was responsible for the BD 11.5 million loss attributable to equity holders (2011: loss of BD 23.7 million), though partially offset by a one-off gain totalling BD 10.5 million from Solidarity Group Holdings. This gain mainly arose when Solidarity completed a transaction pertaining to an investment held in its erstwhile associate, Solidarity Saudi Takaful Company.

FINANCIAL POSITION →

Balance Sheet

The Group continued to transform its consolidated balance sheet profile to reflect its growing core retail business. Customer current accounts, which are the cheapest source of funding, increased 21% to BD 361 million during the year. Equity of unrestricted investment accountholders grew 19% to BD 660 million; Murabaha and other financing rose 15% to BD 1.18 billion; and investment securities were pruned down by 14% to BD 397 million during the year. As seen in Note 31 to the Consolidated Financial Statements on segmental information, our core business comprising retail and corporate banking now account for 61% of the Group's total assets (2011: 63%).

Funding

Our funding sources continue to be diverse, with solid growth in current accounts and equity of unrestricted investment accountholders as noted above. Further, a new one-year interbank borrowing of BD 3.8 million was obtained during the third quarter of 2012.

Equity

Shareholders' equity marginally improved to BD 222 million as at 31 December 2012, up from BD 217 million a year ago. This is despite a net loss of BD 11.5 million which was offset through several significant internal adjustments that are explained in Notes 7 and 8 to the Consolidated Financial Statements.

The fair value reserves for investments showed a turnaround, indicating a positive BD 15.8 million against a deficit of BD 4.2 million as at 31 December 2011.

Liquidity

Maintaining adequate liquidity received considerable attention throughout the year. Having raised funds through multiple sources, and refinanced certain existing liabilities, the year ended on a positive note for Ithmaar. Significant progress has also been made by the Bank in generating liquidity through its core retail banking business. The focus on accelerating recoveries of past due financings has also started yielding positive results, while a new one-year interbank borrowing of BD 3.8 million has further strengthened Ithmaar's liquidity position. With improving investor confidence the maturity profile continues to improve with more liabilities being shifted to medium and long-term.

PROFITABILITY

The reduction in the net loss attributable to shareholders was primarily driven by increasing profits from Ithmaar's core banking activities, which resulted in the return on average assets improving from a negative 0.91% to a negative 0.38%, while the return on average equity improved from a negative 10.20% to a negative 5.23%.

ASSET QUALITY

As noted previously, the Bank continued to review the asset portfolio and make impairment provisions on a prudent basis. Details are given in Notes 29 and 37 to the Consolidated Financial Statements. As will be seen, a significant portion of these provisions was in relation to the investment portfolios.

STABILITY

The Capital Adequacy Ratio (CAR), a key indicator of financial stability, was closely monitored and maintained above the statutory minimum. As at 31 December 2012 the consolidated CAR was 12.64% (2011: 12.88%), duly assisted by certain temporary exemptions granted by the Central Bank of Bahrain.

GROUP SUBSIDIARIES AND ASSOCIATES

Faysal Bank Limited

Faysal Bank Limited (FBL), a full-service retail banking institution operating in Pakistan, reported a net profit of BD 4.2 million for 2012, an increase of 11% over the BD 3.8 million achieved in 2011. However, performance was below expectations, with expenses continuing to be high and margins impacted by the rate cut of the State Bank of Pakistan (SBP) during 2012. The Group owns 66.7% of FBL.

To expand its reach FBL opened seven Islamic branches during the year, which took the total from 45 to 52, while the total number of all branches increased from 257 to 265. It also received an Authorised Derivative Dealer (ADD) licence from SBP to conduct business in financial derivatives. There are only five other banks in Pakistan with the ADD licence.

Bank of Baharain and Kuwait (BBK)

BBK is one of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai. BBK turned in excellent results for 2012 with a net profit of BD 42.5 million, an increase of 33% over BD 31.8 million in 2011. BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. BBK's core retail business has continued to grow, while its treasury and investment portfolio performed exceedingly well in 2012. The Group owns 25.4% of BBK.

Ithmaar Development Company

Ithmaar Development Company (IDC) is a wholly-owned subsidiary of the Bank that develops and manages major development, real estate and other infrastructure projects.

Solidarity Group Holdings

Solidarity is one of the largest takaful (Islamic insurance) companies in the world and operates two fully-owned subsidiaries in Bahrain while having business in Jordan, Saudi Arabia and Malaysia. During the year Solidarity acquired and consolidated its stake to 51.4% in First Insurance Company in Jordan, while divesting its wholly-owned subsidiary in Egypt, Solidarity Family Takaful Egypt.

Solidarity achieved a record profit of BD 31.7 million post tax for the year (2011: BD 0.96 million). Looking ahead, Solidarity is well poised to reap the benefits of its presence in some of the most promising takaful markets in the region and beyond. The Ithmaar Group owns 33.8% of Solidarity.

Naseej B.S.C.

Headquartered in Bahrain, Naseej is a fully integrated real estate and infrastructure development company operating in the MENA region. The Group owns 29.5% of Naseej.

First Leasing Bank

Engaged in Sharia compliant equipment leasing in markets covering Bahrain, UAE, Kuwait, Qatar and Oman, First Leasing Bank (FLB) is undergoing a change in ownership, with Ithmaar's transfer of business and share swap. More details are given in Note 7 to the Consolidated Financial Statements.

Sakana Holistic Housing Solutions

Sakana was established to provide both residents and non-residents an opportunity for home ownership through a mortgage finance model based on Islamic Sharia principles.

ITHMAAR SHARE PRICE →

Reflecting the optimism shared by investors following the steady return to profitability, Ithmaar's share price continued to outperform regional market benchmarks and the Bahrain Bourse in particular, albeit starting from a weak below par base. From a price of USD 0.065 per share on 31 December 2011 it rose to USD 0.170 by end December 2012 on the Bahrain Bourse with a resultant market capitalisation of BD 179.7 million. In tandem, the trading volumes in the Kuwait Stock Exchange continued to be significant.

CUSTOMERS AND BUSINESS PARTNERS

BANK'S POLICY

✻ The Bank strives to delight its customers and business partners through Sharia compliant high quality products and services, while protecting their confidential information within the scope of the law. We consider it is our duty to explain clearly to customers about possible risks associated with investment accounts, funds and non-depository businesses.

Likewise, the Bank abides by its financing terms and conditions, and by all legitimate duties to creditors, especially accounts payables, Sukuk holders and depositors; and explains clearly the risks involved with dealing with the Bank.

In dealing with counterparties, the Bank respects actions in accordance with business terms and conditions as contracted, and in fair and acceptable competition, without practising any dishonest actions.

The Group's business broadly falls under the following segments:

- Business of Ithmaar Bank as a stand-alone entity, which is further segregated into
  - Core banking business comprising retail and corporate banking
  - Investment banking assets
- Business of subsidiaries and associates

This section on Customers and Business Partners is on Ithmaar (or Bank) stand-alone basis and not at consolidated level (Group) unless otherwise stated. It follows from a previous definition of report boundary.

REACH IN CORE BANKING BUSINESS

About 76% of the Bank's financing and 80% of the Bank's deposit taking businesses are from Bahrain. The Bank reaches out to its 90,000 customers in Bahrain (91% retail) through 16 branches, 39 ATMs (including 24 off site) and electronic channels.

In line with current trends that are mutually beneficial to both customers and the Bank, we are promoting a shift to paperless electronic transactions for routine operations that do not require a visit to a physical brick and mortar branch. About 25% of the Bank's customers in Bahrain presently transact their routine business through virtual channels such as online banking, mobile banking/SMS and phone banking (integrated voice response – IVR). Ithmaar became the first bank in Bahrain to launch a cardless cash solution in July 2012 through its award winning MobiCash, which eliminates the need for a wallet, let alone a card.

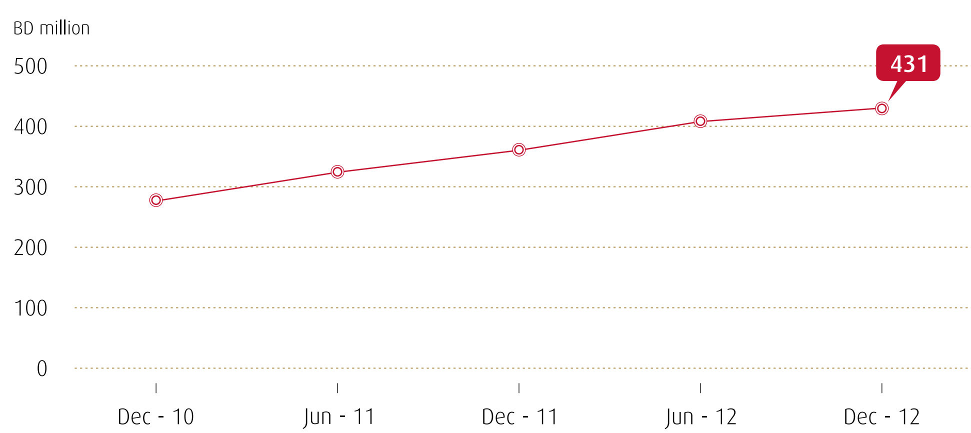
RETAIL BANKING

Ithmaar's core retail banking business did exceedingly well in 2012, driven by the relaunch of products such as Thimaar and the introduction of a staff incentive scheme for Mudarabas.

Total customer current accounts, savings accounts, Thimaar and URIA deposits increased by 25% from BD 344 million to BD 431 million during the year. Our popular Thimaar savings account was improved and relaunched in October 2012 so as to enable even minor accountholders to participate in the monthly draws. We see a comfortable growth in this savings product in the foreseeable future.

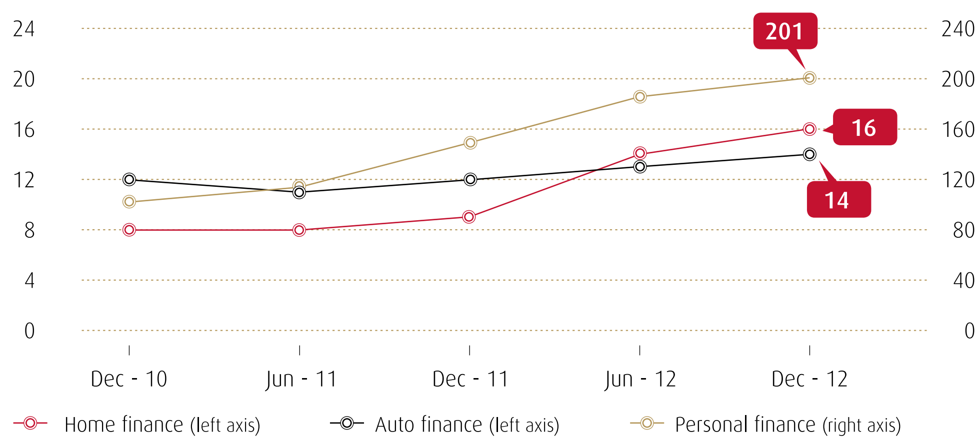
Ithmaar Bank officials present a winning Thimaar customer his prize. Thimaar, a prize-linked saving account, was launched in 2010 to encourage people to adopt a more responsible spending/saving pattern by offering best-in-class cash prizes, along with an expected profit rate. In 2012, Ithmaar was relaunched with an even bigger prize purse as well as an increased number of winners, free life cover and monthly profit for subscribers.

Customer funds

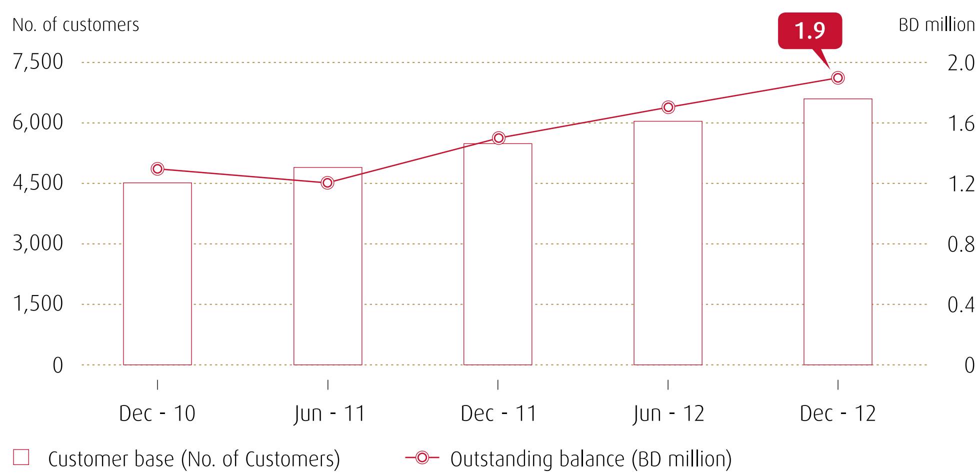


Similarly the Bank continued to expand its financing business, which increased by 36% from about BD 172 million to about BD 233 million during the year.

Financing



Credit cards

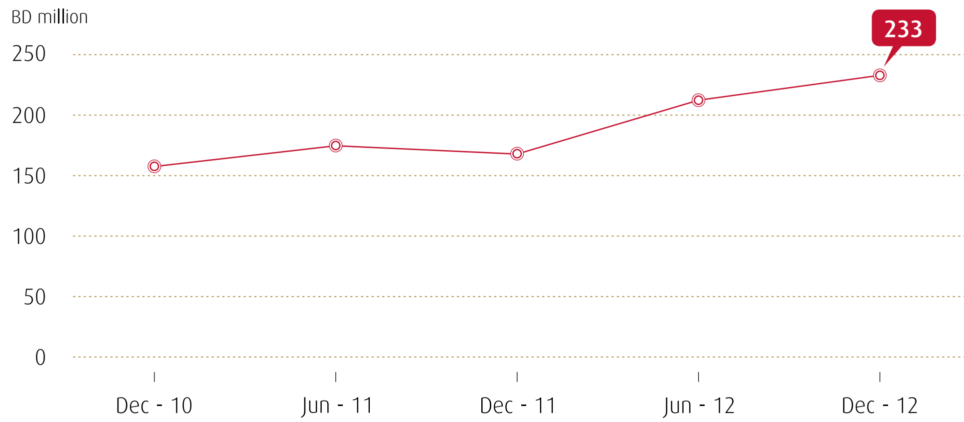


CORPORATE AND SME BANKING

The Bank is a prominent player in this sector, especially in the growing field of small and medium-sized enterprise (SME) financing. We serve a carefully selected customer base with a range of financial products whose suitability to market needs is well established. Corporate and SME banking showed a palpable improvement in performance during the year under review, despite the challenging local, regional and international landscape that affected our core market, Bahrain. These challenges have since been well contained and we are fast moving towards economic recovery.

During the year under review we created many valuable new customer relationships, and further improved our geographical reach, with a focus on Saudi Arabia.

Corporate and SME banking portfolio



CORE BANKING MARKET SHARE

Our focused activities in retail and corporate banking not only have resulted growth in absolute numbers as discussed above, but also show gains in market share in almost all liability as well as financing products. The market share figures given below are based on statistics compiled by the Central Bank of Bahrain.

Market share, %

Product	December 2010	June 2011	December 2011	June 2012	December 2012
Customer deposits	6.1	6.4	6.7	7.0	7.0
Home finance	2.4	2.2	1.4	2.0	2.3
Vehicle finance	11.2	12.3	13.6	14.4	13.8
Credit card receivables	2.5	2.3	2.7	2.6	2.6
Personal finance	8.1	9.3	10.8	13.2	13.6
Corporate finance	4.3	4.4	4.1	4.1	4.3

PRIVATE BANKING

Private banking has delivered yet another successful performance during the year that contributed, both directly and indirectly, to the Bank's continued growth. This achievement is made all the more impressive by the fact that the performance exceeded the market growth reported by the industry.

It was a challenging year for private banking due to external events and an operational transformation resulting from the restructuring of the Bank. Our earlier focus on private placement of investment products for high net worth individuals has now been replaced by a fully-fledged service model that offers this customer segment a complete range of private banking products and services.

Currently, Ithmaar serves private banking customers based in Bahrain and the GCC, particularly those in Bahrain, Saudi Arabia, the UAE and Qatar. Recovering from the shocks of 2008, we believe there is considerable growth potential in the Gulf region for private banking. The number of high net worth individuals continues to increase and with it the demand for expert, reliable private banking services. To reach this growing market segment however, the Bank needs to take an increasingly proactive approach to attract a wider customer base and make itself known by reaching out to them with great services and solutions.

Private banking also contributed to increasing market confidence in Ithmaar's new strategy. In fact, our performance in 2012 was widely recognised as a reflection of customers' trust and belief in the Ithmaar brand despite the political turmoil surrounding us, as demonstrated by the solid growth of deposits and market share. In addition, Private Banking has also demonstrated growth in booking assets, with the aim to further increase this area in the coming years.

Private banking, together with retail, introduced a service-oriented programme for high net worth individuals in 2011. The new programme, Ithmaar Premier, which aims to identify and retain the Bank's existing clients by setting a new level of customer service and superior added value benefits, was further developed during the year.

Private Banking spearheaded the Customer Relationship Management (CRM) project in 2012, which was successfully launched as planned in July of the same year. The CRM will enable Private Banking to automate and integrate several of their processes into one single platform.

INTERNATIONAL BANKING →

This is an area that supports Ithmaar Bank's geographic diversification strategy. Though based mainly in Bahrain, its range of operations presently spans the Middle East, North Africa, Turkey and the Far East.

Year 2012 saw us consolidating our current achievements and building strong foundations for future growth, while pursuing market diversification and development. Key markets have been identified for special development in 2013-15.

ASSET MANAGEMENT →

Once focused on investment and acquisition, our primary aim now is to ensure that the Bank's legacy investment assets are well managed to protect and enhance their value while also seeking opportune exits. This flows from the retail banking-focused business strategy of the reorganised Ithmaar Bank. The portfolio under management was about BD 500 million by end 2012, diversified sectorally and geographically.

TREASURY →

Treasury fulfils its traditional role of managing the Bank's day-to-day liquidity through active market participation and securing medium to long-term funds for lending. It also helps generate income for the Bank through the investment of excess liquidity in profitable accounts and securities.

CUSTOMER SATISFACTION →

Ithmaar Bank's customer service surveys, which are conducted on a regular basis, invite random customers from select tiers to share critical feedback on the Bank's products, services and, perhaps most importantly, its customer service offerings. In 2012, Ithmaar also commissioned an independent regional research house to conduct a detailed customer satisfaction study.

EMPLOYEES

BANK'S POLICY

✻ The Bank recognises that employees are the most important asset and continues to seek capable and experienced personnel in line with its growth and demand. Training programmes are regularly conducted based on need. A favourable culture and atmosphere are promoted in the workplace, together with fair and equal treatment for all employees. The Bank maintains a comprehensive Personnel Policy to address employment issues.

In addition, the Bank's Whistle-Blowing Policy is designed to create an internal climate founded on integrity in which reporting persons may raise concerns in good faith without fear of retaliation.

It is the collective effort of our people that drives our enterprise, shaped by their aspirations, competencies and commitment. The Bank in turn develops appropriate policies and implements numerous programmes for them. It makes work enriching and rewarding, for our mutual benefit. The sections that follow describe some of the ways in which we achieve this.

EMPLOYMENT TYPE AND DIVERSITY

The Bank encourages diversity and equal opportunity for all employees. Women account for 29% of our staff (2011: 27%); while 92% of Bahrain-based permanent staff were Bahraini nationals (2011: 91%). Our total head count, including the two from Qatar, increased from 280 (267 permanent, 13 trainees) to 295 (281 permanent, 14 trainees) during the year. The increase is from permanent staff members who were recruited to support our expansion within Bahrain, which also saw the opening of the 16th Ithmaar branch.

Key workforce statistics of the Bank as of 31 December 2012 are given below.

Workforce by employment type and gender

Grade	Permanent			Contract/casual			Total no. of employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
CEO, Executive General Manager, General Manager, Assistant General Manager	16	–	16	–	–	–	16	–	16
Executive Senior Manager, Senior Manager, Manager	58	7	65	–	–	–	58	7	65
Senior Associate, Associate	36	12	48	–	–	–	36	12	48
Senior Officer, Officer	67	46	113	–	–	–	67	46	113
Senior Staff, Staff	28	11	39	–	–	–	28	11	39
Trainee	–	–	–	5	9	14	5	9	14
Total	**205**	**76**	**281**	**5**	**9**	**14**	**210**	**85**	**295**

Workforce by region and gender

Grade	No. of employees domiciled in the same district where the operation is located			No. of employees domiciled outside the district where the operation is located			Total number of employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
CEO, Executive General Manager, General Manager, Assistant General Manager	11	–	11	5	–	5	16	–	16
Executive Senior Manager, Senior Manager, Manager	44	7	51	14	–	14	58	7	65
Senior Associate, Associate	35	10	45	1	2	3	36	12	48
Senior Officer, Officer	66	44	110	1	2	3	67	46	113
Senior Staff, Staff	28	11	39	–	–	–	28	11	39
Trainee	5	9	14	–	–	–	5	9	14
Total	**189**	**81**	**270**	**21**	**4**	**25**	**210**	**85**	**295**

TRAINING AND DEVELOPMENT →

In line with Bank policy we invest in developing our human capital, our most valuable asset. Our training and development investments run across the entire employee base, as will be seen in the tables that follow. They also support other areas such as promoting equal opportunity in the workplace, self-esteem and motivation.

Training provided during FYE 2012

Grade	No. of employees			No. of person hours of training		
	Male	Female	Total	Male	Female	Total
CEO, Executive General Manager, General Manager, Assistant General Manager	16	–	16	186	–	186
Executive Senior Manager, Senior Manager, Manager	58	7	65	2,205	173	2,378
Senior Associate, Associate	36	12	48	1,101	630	1,731
Senior Officer, Officer	67	46	113	1,920	1,054	2,974
Senior Staff, Staff	28	11	39	425	32	457
Trainee	5	9	14	N/A	N/A	N/A
Total	**210**	**85**	**295**	**5,837**	**1,889**	**7,726**

Average training hours by gender and grade

Grade	Average training hours per employee		
	Male	Female	Overall
CEO, Executive General Manager, General Manager, Assistant General Manager	11.6	N/A	11.6
Executive Senior Manager, Senior Manager, Manager	38.0	24.7	36.6
Senior Associate, Associate	30.6	52.5	36.1
Senior Officer, Officer	28.7	22.9	26.3
Senior Staff, Staff	15.2	2.9	11.7
Trainee	N/A	N/A	N/A
Overall	27.8	22.2	26.2

Some specific areas of training that were conducted during the year and their relevance are briefly discussed below:

Product knowledge training for Ithmaar employees

Cognisant of our commitment to continuously improve customer services, the Bank organised an intensive four-day training programme on our products for employees of Retail Banking, which was attended by a total of 130 employees.

Seminar for management staff

We hosted an exclusive session for the Bank's management team with Harry Paul, an acknowledged international speaker and co-author of one of the best-selling business books 'FISH!'. The seminar, 'Fish! for Leaders', was delivered to help the Bank further improve its performance by increasing employee engagement in the workplace, which in turn will translate to improved customer service and tangible results.

RECOGNITION AND ENCOURAGEMENT

Honouring top performers

As part of its long-standing tradition of celebrating excellence, the Bank honours its employees for their outstanding performance.

Certification in Islamic banking

Six Ithmaar Bank employees passed an intensive programme to earn the coveted designation Certified Islamic Banker during the year. The certification is issued by the General Council for Islamic Banks and Financial Institutions, which is widely recognised as the official umbrella for all financial institutions that comply with the principles of Islamic Sharia.

Best branch awards

The West Riffa, Bahrain Mall (two times) and Arad branches were selected as winners of the Bank's Best Branch Award for each of the quarters of 2012. This awards programme is a regular feature that serves as a powerful motivator for all our retail banking branch staff members through positive, friendly competition; which in turn contributes directly in helping us uphold the very highest standards of customer satisfaction and financial performance.

HEALTH AND SAFETY

The Bank follows Bahrain Labour Law on health and safety at work. No work related fatalities, injuries or illnesses were reported during the year under review.

EMPLOYEE BENEFITS PLANS

As a responsible employer the Bank operates several benefit schemes for its employees. They are summarised below:

Plans with liabilities met by the Bank's general resources

Name of plan	Estimated value of liabilities in BD
General Organisation for Social Insurance Benefits (GOSI)	507,000 - Expense
End of Service Indemnity	600,000 - Liability
Medical Insurance	250,000 - Expense
Life Insurance	48,000 - Expense

Plans with liabilities met by a separate fund

Name of plan	Details	Percentage contributed		Voluntary or mandatory	Country based or regional
		Employer	Employee		
General Organisation for Social Insurance Benefits (GOSI)	The employee and the Bank contribute to the pension scheme of GOSI during the former's term of employment with the Bank.	12% of Base Salary, Transportation Allowance and Guaranteed Bonus (contributed each month)	6% of Base Salary, Transportation Allowance and Guaranteed Bonus (deducted each month). Percentage may change as GOSI law changes	Mandatory	Country
End of Service Indemnity	Upon end of service, the Bank pays an amount equal to the then effective monthly Base Salary times the number of years of service rendered, provided the tenure covered at least one year of continuous service. This excludes discretionary profit sharing, allowances, commission, GOSI contribution or otherwise.	100%	N/A	Voluntary	N/A
Medical Insurance	The Bank provides healthcare to all employees, which includes insurance for the Employee's spouse and unmarried dependent children up to 24 years of age, unless the employment agreement provides otherwise.	100%	N/A	Voluntary	N/A
Life Insurance	Life insurance and disability benefits are subject to the applicable insurance policies, with details subject to the discretion of the Bank's Management and the Law.	100%	N/A	Voluntary	N/A

N/A: Not Applicable

COMMUNITY AND SOCIETY

BANK'S POLICY

✻ The Bank respects a business approach that is transparent, honest and fair. It has established various written policies such as Code of Ethics, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels of the Bank.

The Bank aspires to be a model corporate citizen, being non-partisan and unaligned with any political party. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Bank and its constituent entities have a long history of embracing corporate responsibility as an integral part of our business philosophy and practices. As will be seen in the paragraphs that follow, the emphasis is not mere short-lived philanthropy, but a deeper community involvement and investment of a strategic nature.

ENGAGING WITH THE LOCAL COMMUNITY

The Bank participates in several events and activities of local organisations, NGOs and charities as part of its contribution towards public benefit through commercial, in kind, or *pro bono* engagement. Donations and other forms of financial support were made to the following bodies during the year under review:

- Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)
- American Mission Hospital
- Bahrain Association of Banks
- Bahrain Club
- Bahrain Disabled Sports Federation
- Bahrain Management Society
- Bahrain Polytechnic
- Bahrain Tennis Club
- Muharraq Charity Calendar
- National Institute for Disabled
- University of Bahrain
- Gulf Universities Conference
- Bahrain Golf Association
- Pakistani Women's Association

Summarised below are key activities and sponsorships of the Bank during the year, some of which are recurring annual events. They serve to reinforce Ithmaar's long-term commitment towards its local community and society at large.

- Annual Sharia Conference 2012

In line with its longstanding commitment to playing a meaningful role in supporting the growth and development of Sharia compliant financing, Ithmaar Bank once again extended its sponsorship for a major event of the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) in Bahrain.

- GCC University Student Conference

As a sponsor of the GCC Universities Conference held at the University of Bahrain, the Bank reiterated its commitment to the community, and youth in particular, by facilitating a forum to discuss student challenges and opportunities, including preparation for their professional careers.

- Key Bahrain event in Tokyo

Ithmaar Bank, as part of its longstanding commitment to supporting the development of Bahrain's Islamic banking industry, helped finance the administrative costs of the Bahrain Association of Banks for organising a side event at the annual meeting of the IMF-World Bank, held in Tokyo in 2012.

- Disabled Sports Federation

Ithmaar Bank extended its support to the Bahrain Disabled Sports Federation by sponsoring the GCC Wheelchair Basketball Championship. The Federation helps to rehabilitate athletes with special needs into the mainstream of the economy, and also implements projects to enable the athletes to make positive contributions to the Kingdom's growth and development.

Ithmaar Bank Chief Executive Officer and Member of the Board, Mohammed Bucheerei (centre) presents Ithmaar's cheque in support of the Bahrain Disabled Sports Federation to its Public Relations Manager, Ali Qaisi, in the presence of Ithmaar Bank Executive General Manager, Support Group, Juma Abull.

- Support for children with special needs

The Bank provided financial support to a local charity established by Bahrain's Indian Ladies Association in 1987 that provides recreation and educational facilities to children of all nationalities with special needs.

- Ship for World Youth Programme

The Bank supported a delegation of Bahrain youth at the twenty-fifth international youth exchange programme organised by the Government of Japan. The programme, while providing an opportunity for participants to broaden their global view, also fosters co-operation and leadership abilities and establishes social and professional networks through cohabitation and teamwork opportunities aboard a ship.

SUSTAINABLE DEVELOPMENT THROUGH EDUCATION

Education and training are vital pillars that support sustainable economic growth. Together with the Kingdom of Bahrain's Royal Charity Organisation, Ithmaar continues to sponsor under-privileged orphaned students from Grade 1 right through to Grade 12 at an accredited private school in Bahrain. Also, in collaboration with an accredited local university, Ithmaar has to date supported undergraduate degree courses for 52 orphaned students.

Ithmaar Bank invests its own staff time and resources on training and developing aspiring job seekers. During the year 2012 we provided on-the-job training opportunities to 30 university students from different universities across the Kingdom. The Bank also released staff to voluntarily teach in different government schools as part of the inJAz programme. InJAz Bahrain is a member of the worldwide Junior Achievement Organisation that inspires and prepares young Bahrainis to succeed in a global economy. Topics covered included Banks in Action, Business Ethics, Success Skills and Career with a Purpose.

LOCAL HIRING

The Bank has a policy for local hiring as per its Human Capital Manual, which states 'It is the responsibility of the Bank to fill all positions with suitably qualified candidates preferably Bahraini nationals, based upon education, experience, competencies, ethics, and any other requirements as determined by the Bank from time to time'. Ensuring that senior management has local residents benefits not only the local community but also the Bank's ability to understand local needs and target its products and services accordingly.

Senior management from the local community as at FYE 2012

Senior management grade	Number domiciled in the same district of operations	Total number at unit	Percentage from local community
CEO, Executive General Manager, General Manager, Assistant General Manager	11	16	69
Executive Senior Manager, Senior Manager	23	35	66
Manager	28	30	93
Overall	62	81	77

TRAINING ON ANTI-CORRUPTION AND AML POLICIES AND PROCEDURES

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Training is an important element in mitigating risks arising from corrupt practices by employees or business partners as it builds internal awareness and capacity. In 2012 alone, a total of 195 employees, including both management and non-management staff, from the Bank's operations attended specialised training on anti-corruption and anti-money laundering (AML) policies and procedures.

Training on anti-corruption and AML

Employee Grade		Training provided in 2012	
	No. as at 31 Dec 2012	No. trained	% trained
Management	81	52	64.1
Non-management	214	143	66.8
Overall	295	195	66.1

TRAINING ON INFORMATION SECURITY

→

Protection of customer privacy within the ambit of the law is a fundamental goal of any financial institution, let alone any organisation. The Bank engaged a consulting company to conduct an interactive session on enhancing information security for all its employees. The course provided insight both in technical security breaches and in social engineering where people's habits and individual vulnerabilities are exploited for information. A dedicated seminar, designed specifically for those in a senior corporate decision-making capacity was later conducted that was attended by Ithmaar Bank Board Members, Chief Executive Officer, Executive General Manager - Support Group and other senior executives.

The Bank wishes to note that there were no complaints regarding breaches of customer privacy or losses of customer data during the year under review.

COMPLIANCE

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Ithmaar Bank strictly follows Sharia guidelines in its communications. These apply to text, images, designs and media selection across the board. Arabic script gets more prominence in all bilingual and multi-lingual communications. The Bank is compliant with all regulatory [Central Bank of Bahrain (CBB), Bahrain Bourse and Ministry of Industry and Commerce] requirements, including the following specific public disclosure rules:

PD-1.2.3 (Publication of extracts from the annual audited financial statements in daily newspapers and website); PD-1.2.5 (Submission of a copy of the above to CBB); PD-3.1.4 and PD-5.1.1 (Publication of extracts from the quarterly financial statements in daily newspapers with a copy to CBB).

Further, Sections 3.4.1 and 3.4.2 of the Bank's Corporate Governance Policy, last revised in November 2011, provides specific guidance on responsibilities to the community and society as well as towards the environment respectively.

As discussed previously, the Ithmaar brand identifies who we are, what we do and how we do it. The Bank has developed a comprehensive branding strategy documented in the form of an 'Ithmaar Identity Guide' and 'Ithmaar Brand Values' handbook for employees.

THE ENVIRONMENT

BANK'S POLICY

✻ The Bank regards the importance of sound environmental management through its continuing efforts to promote environmental conservation and protection, and due consideration is given on such issues when undertaking business activities.

We are mindful about minimising both the direct and indirect negative impacts on our environment arising from our business activities. The first is addressed through good housekeeping practices such as minimising the use of paper, greater use of email and intranet for communications, adopting energy-efficient technologies and practices at the workplace, and responsible disposal of waste. The second concerns our clients. This is addressed through an assessment of the environmental and social impact of the projects that the Bank finances during the normal course of business.

OUR CARBON FOOTPRINT

As a cornerstone of our commitment to reduce the environmental impact of the Bank we made our first attempt at measuring and reporting our greenhouse gas[3] (GHG) emissions in our Annual Report for 2011. This is our second voluntary disclosure, and like before, it is based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard ('Corporate Standard'), with the boundary limited to the Bahrain operations of Ithmaar Bank. The latter is also consistent with the management discussion on Ithmaar's stand-alone business.

As our present reporting includes some refinements we have restated a few figures disclosed last time for comparability. The two main changes arise from the choice of the grid emission factor[4] and a reclassification in the scope for purchased electricity[5]. As before, emissions from air travel were obtained using an online calculator, with individual computations for each leg of journey[6].

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3 *Comprises the six GHGs covered by the Kyoto Protocol – carbon dioxide (CO_2), methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride - each with a different global warming potential. The overall effect is expressed in terms of CO_2 equivalent, with mass as the unit of measure.*

4 *Now based on the GHG Protocol's Calculation Tools (ver. Aug 2012), with 2009 values (being the most recent year for published grid emission factors).*

5 *Financial control is our chosen basis for setting boundaries and scopes, with due attention paid to the treatment of leased assets as per Appendix F to the Corporate Standard.*

6 *Type of seating/cabin class was not considered, and our results (emissions per pax km) closely tally with norms published by the GHG Protocol for different types of flights with unspecified seating. If the actual type of seating is factored in, emissions from air travel will increase to about 92 tCO_2e and its share becomes 3.5% of the grand total. Given the relatively insignificant overall impact of the refinement and the need to maintain consistency with the previous year, this is not reflected in the above table.*

GHG emissions in tonnes CO_2 equivalent

Scope	Source	Consumption			Emissions, tCO_2e		Composition, %	
		Unit	2012	2011	2012	2011	2012	2011
1 – Direct	Petrol for motor vehicles	litre	14,442	20,951	32.8	47.6	1.3	2.2
3 – Indirect	Purchased electricity	MWh	2,761	2,330	1,835.9	1,549.7	71.8	72.6
	Purchased chilled water	MWh	951	706	632.7	469.2	24.7	22.0
	Air travel by employees on business	Computed individually, totalling 468,990 pax km			55.3	68.1	2.2	3.2
Total GHG emissions					**2,556.7**	**2,134.6**	**100.0**	**100.0**

As will be seen from the above table, purchased electricity (71.8% of total) and electricity used to chill water (24.7% of total) are by far the largest sources of GHG emissions, albeit indirect in scope. Taken together, electricity accounts for 96.5% of our carbon footprint (2011: 94.6%). This is to be expected given the nature of our work and climatic conditions under which Ithmaar operates.

Ithmaar's carbon footprint increased by 19.8% from 2,135 tCO_2e in 2011 to 2,557 tCO_2e in 2012.
This was largely due to a steep 34.8% increase in purchased chilled water followed by an 18.4% increase in purchased electricity.

As in 2011, the Bank faces a limitation in estimating the content of purchased electricity in chilled water which is obtained from a central air conditioning plant. It is based on an apportionment methodology over which Ithmaar has no control, compounded by an internal rule of thumb estimate for the content of electricity.

The overall increase in electricity consumption (and hence, indirect emissions) is largely due to business growth that was duly supported by branch expansion as well as increased office automation and 24-hour off site facilities. When related to an activity level, such as the total income of stand-alone Ithmaar (same as the carbon footprint boundary), our GHG emission intensity in 2012 was 154.7 tCO_2e per million BD income earned, compared to 235.7 tCO_2e per million BD in 2011. This large 34% reduction - notwithstanding some possible distortions arising from extraordinary and exceptional items on the income side - provides an insight on how we are becoming more efficient in both energy utilisation as well as controlling our GHG emissions as we grow our core banking business.

As for our next steps, we will further refine measurement procedures, benchmark results and may consider target setting. These are positive steps that will not only make Ithmaar a more environmentally responsible corporate citizen, but also lead to cost savings through effective and efficient use of resources.

Outlook

THE ECONOMY

Forecast[7] global growth for 2013 is a sluggish 3.6%, but a slight improvement over the estimated 3.3% for 2012. Advanced economies are estimated to grow by 1.3% in 2012, and recover marginally to 1.5% in 2013, as they continue to be dampened by public spending cutbacks and still weak financial systems. In contrast emerging and developing economies are estimated to grow at 5.3% in 2012 and 5.6% in 2013, with fundamentals remaining strong in many of these economies.

The mini boom of oil exporting economies of the MENA region following the temporary shutdown of Libyan oil production and Western sanctions on the export of Iranian crude is expected to moderate in 2013. The MENA region is forecast to post a GDP growth of 3.6% in 2013, down from an estimated 5.3% in 2012.

The Bahrain economy was only moderately affected by the global economic downturn and remains robust. It is ranked as the most economically free nation in the MENA region[8]. It is a regional financial hub with high levels of trade and investment bolstered by a competitive and efficient regulatory environment. GDP growth in 2012 is estimated at 4.1%, declining to a forecast 3.6% in 2013.

ISLAMIC BANKING

It is a general view that the enormous potential of Islamic finance has not yet been tapped. Until recently, Islamic finance has been a locally-driven phenomenon, often with divergent interpretations of Sharia Law across national or regional boundaries. But things are changing. Sharia compliance is now increasingly harmonised with globally accepted accounting and regulatory standards.

There is also a growing awareness on Islamic finance across the globe with Sharia compliant products and services available in over 40 countries on four continents[9]. This growth has been fuelled by strong demand, diminishing barriers to entry and harmonisation with international standards.

Demand will continue to grow through greater diffusion of wealth and disposable income as well as better education and communication in key emerging markets with large Muslim populations across Africa, the Middle East and Asia. Meanwhile, developed economies have reached a stage where conventional financing systems are being challenged and alternatives being seriously considered.

Islamic finance too will undergo a paradigm change as it moves from a collection of localised systems and jurisprudence to an increasingly coherent and unified global force. And this is where Ithmaar is well positioned to capitalise on its strengths.

7 *IMF, World Economic Outlook, October 2012.*

8 *The Heritage Foundation in partnership with the Wall Street Journal: 2013 rankings. In the World Bank's Ease of Doing Business (2012) evaluation Bahrain ranks 4th in the MENA region and 38th worldwide.*

9 *Deutsche Bank, Global Research, November 2011.*

ITHMAAR BANK

In summary, the critical factors that Ithmaar will address in the immediate future continue to be additional capital, liquidity and asset exits. These were discussed earlier, together with goals and strategies, including those for the Bank's six lines of business.

Asset allocation will be the primary challenge for the Group to return to full profitability. The present balance sheet is skewed towards a disproportionately large category comprising 'investment assets'. It includes placement of cash in financial institutions, investments in subsidiaries and associates and other assets. They yield low returns compared to money placed as financings (loans). The challenge then is to accelerate the pace of restructuring the balance sheet with a more aggressive growth of the loan book, coupled with exits from less profitable investments to free up the required cash.

Snapshots of an Islamic Retail Bank

We're 'on the ground' in more places than ever, bringing our unique products and services ever closer to the customer, through a growing branch network.


مفتوح الآن
www.ithmaarbank.com
MobiCash

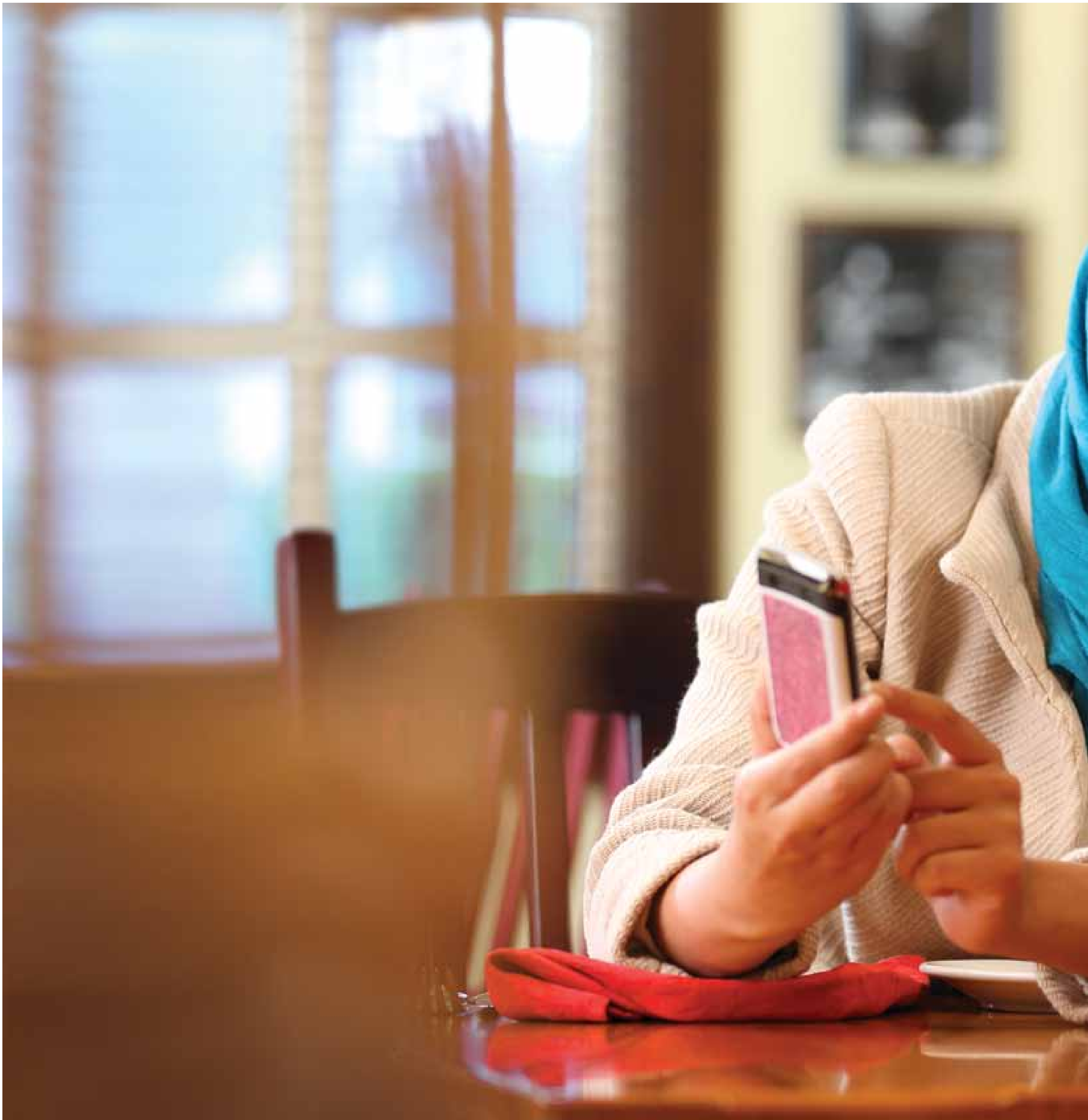
Our ATM network reaches far and wide to take the banking experience out of the office to easy access locations across the Kingdom within an environment of convenience and safety.


ATM

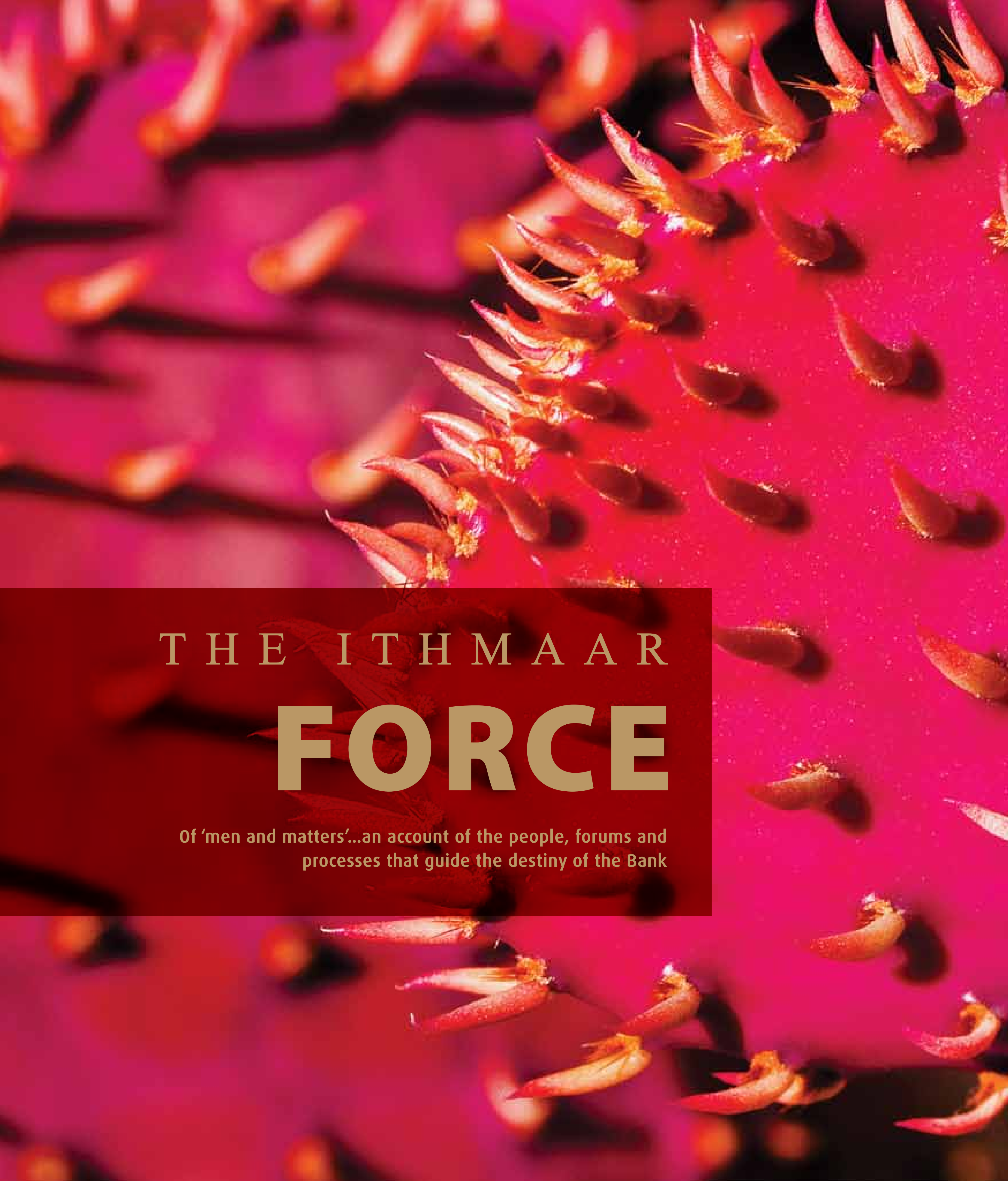
The Ithmaar MasterCard Debit Card is the 'electronic magic wand' issued free to all our accountholders that gives them unparalleled access to their bank accounts whilst opening up 'dream' shopping experiences at over 35 million stores across the world.

Kids have it great with the Thimaar Minor Accounts product, which promotes the savings habit whilst embodying unique reward schemes - saving truly can be fun!

Our MobiCash service is a first for Bahrain; a cash transfer system that allows the sending of cash to any Bahraini mobile phone and its retrieval via the ATM service using a specially generated MobiCash code sent to the receiver via SMS.



It's the first of its kind in Bahrain; ours is also the safest on-line banking experience in the Kingdom, incorporating mobile phone messaging that includes transmission of instant system generated passwords via SMS to secure transactions.



THE ITHMAAR FORCE

Of 'men and matters'...an account of the people, forums and processes that guide the destiny of the Bank

Board of Directors

HRH Prince Amr Mohammed Al Faisal
Chairman
Appointed 5 November 2009, Elected 28 March 2010.

HRH Prince Amr has more than 25 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is a Member of the Board of Supervisors of Dar Al Maal Al Islami Trust, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of the Red Sea Bureau for Engineering Consultancy (Jeddah), Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company for Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce.

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Sheikh Zamil Abdullah Al-Zamil
Independent, Non-Executive Board Member
Elected 28 March 2010

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in GCC countries.

He is Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations & Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he holds a Master's Degree in Petroleum Engineering from West Virginia University.

Tunku Dato' Ya'acob Bin Tunku Abdullah
Independent, Non-Executive Board Member
Elected 11 May 2006 and 28 March 2010

Prince Ya'acob has over 30 years of banking and finance experience.

He is Chairman of MAA Holdings Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Ya'acob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was as Chairman. He also worked at Pricewaterhouse, UK and Malaysia.

Prince Ya'acob holds a Bachelor of Science Degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Shaikha Hissah bint Saad Al-Sabah
Independent, Non-Executive Board Member
Elected 11 May 2006 and 28 March 2010

Shaikha Hissah has over 15 years of banking experience.

She is President of the Council of Arab Businesswomen, and has a long history in the Kuwait Government and private voluntary service, in sectors which include medical services, research and development, defence, and narcotics and addiction control.

Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon and holds a Doctorate in Humane Letters.

Abdelhamid Mohamed Aboumousa
Executive Board Member
Elected 11 May 2006 and 28 March 2010

Mr. Aboumousa has more than 45 years of banking experience.

He is Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior to this, Mr. Aboumousa worked in the Central Bank of Egypt for 16 years and is a Member of the Coordinating Council that determines the monetary and fiscal policy objectives of the Egyptian economy.

He holds a Bachelor of Science Degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy.

Khalid Abdulla-Janahi
Executive Board Member
Elected 11 May 2006 and 28 March 2010

Mr. Janahi counts over 25 years of banking and finance experience.

He is Group Chief Executive of Dar Al-Maal Al-Islami Trust (DMI Trust), Chairman of Faisal Private Bank (Switzerland), DMI Administrative Services and Islamic Investment Company of the Gulf (Bahamas) Ltd., and Chairman of Solidarity Group. He is a Member of the Board of Directors and Chairman of the Executive Committee of BBK (formerly known as Bank of Bahrain and Kuwait) and a Member of the Board of Faisal Islamic Bank of Egypt.

He is a Member of the Board of the Centre for International Business and Management (CIBAM) at the University of Cambridge, UK. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Janahi holds a BSc degree in Computer Science and Accountancy from the University of Manchester, UK.

Board of Directors

Mohammed A. Rahman Bucheerei
Executive Board Member and Chief Executive Officer
Elected 28 March 2010

Mr. Bucheerei has more than 40 years of experience in accounting, commercial and offshore Banking. He was appointed Chief Executive Officer at Ithmaar Bank in July 2010, and has been a Member of the Ithmaar Board of Directors since March 2010. He is also a Member of the Bank's Executive Committee.

Previously, Mr. Bucheerei served as the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia and Executive Vice-President, Shamil Bank of Bahrain. He currently serves on the Boards of Naseej B.S.C. (C), Solidarity Group Holding B.S.C. (C), Ithmaar Development Company Limited, Ithmaar-Dilmunia General Partner Company Limited, Islamic Investment Company of the Gulf (Bahamas and Sharjah) Limited, Faysal Bahamas Limited, Crescent International Limited (Bermuda), DMI (Jersey) Limited, MFAI (Jersey) Limited, Faisal Finance Luxembourg S.A., Shamil Finance Luxembourg S.A., Gulf Investors Asset Management Company (Saudi Arabia), Cantara S.A. (Switzerland), Faisal Private Bank (Switzerland) S.A., Boston Capital and Overland Capital Group, USA.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Nabeel Khaled Mohamed Kanoo
Independent, Non-Executive Board Member
Elected 28 March 2010

Mr. Kanoo counts over 15 years of business and management experience.

He is Senior General Manager of the Kanoo Travel Group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt and a Board Member of the Bahrain Chamber of Commerce. He is also Chairman of Bahrain's Tourism Committee and a Board Member of the Bahrain Down Syndrome Society.

Mr. Kanoo holds a Bachelor of Business Management Degree from St. Edwards University, Austin, Texas.

Abdulellah Ebrahim Al-Qassimi
Independent, Non-Executive Board Member
Appointed 15 July 2012

Mr. Al-Qassimi has more than 30 years of diversified management experience.

His previous positions include Chief Executive of the Labour Fund (Tamkeen), from which he resigned in May 2012, Deputy Chief Executive Officer of Labour Fund Project at the Bahrain Economic Development Board, Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs, Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee and the Steering Committee of Career Expo and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a Member of the Board of Tamkeen, Sakana Holistic Housing Solutions, Bahrain Development Bank, and the American Mission Hospital Association, as well as a Member of the Committee for HRH Shaikha Sabika Prize for Women Empowerment (Supreme Council for Women, SCW) and the Committee for the Awards of Women Entrepreneurs (SCW).

Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK, and MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

Imtiaz Ahmad Pervez
Non-Executive Board Member
Appointed 15 July 2012

Mr. Pervez has more than 35 years of banking experience.

He has previously served on the Boards of AlBaraka Bank Pakistan Limited, Faysal Islamic Bank of Bahrain, Faysal Investment Bank of Bahrain EC., Faysal Bank Ltd., Pakistan Faysal Investment Bank Ltd., Pakistan, Trust Leasing Corp. Limited, and Namco Management Company Ltd. He has also held many senior positions in the banking industry including those of Chief Operating Officer of the Faysal Islamic Bank of Bahrain EC and CEO of Alfaysal Investment Bank Ltd., Pakistan.

Mr. Pervez holds a BA degree from University of the Punjab, Pakistan and is a Fellow of the Institute of Islamic Banking & Insurance, London.

Executive Management

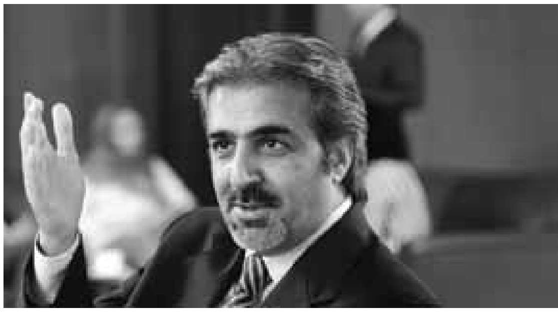
Mohammed A. Rahman Bucheerei
Chief Executive Officer and Member of the Board. Named Islamic Banker of the Year - 2012. Joined the Group in January 1991. Has 43 years' experience.

Juma Abull
Executive General Manager, Support Group. Joined the Group in January 1988. Has 33 years' experience.

Yousif Ahmed Ali Al-Hammadi
General Manager, Commercial Banking. Joined the Bank in October 2010. Has 34 years' experience.

Shahriar Khoshabi
Assistant General Manager, Head of Financial Institutions. Joined the Bank in September 2010. Has 30 years' experience.

Abdul Hakim Khalil Al-Mutawa
Assistant General Manager, Head of Private Banking. Joined the Bank in January 2003. Has 31 years' experience.



Tawfiq Mohammed Al-Bastaki
Assistant General Manager, Chief Risk & Compliance Officer. Joined the Group in December 1999. Has 34 years' experience.

Ahmed Abdul Rahim

General Manager, Retail Banking. Joined the Bank in June 2006. Has 35 years' experience.

Maysan Faisal Al Maskati

Executive Senior Manager, Co-Head of Asset Management. Joined the Bank in February 2007. Has 15 years' experience.

Muhammed Wasif Ijlal

Executive Senior Manager, Co-Head of Asset Management. Joined the Bank in December 2006. Has 17 years' experience.

Ravindra Khot

Assistant General Manager, Chief Financial Officer. Joined the Bank in June 2007. Has 27 years' experience.

Prakash Pathmanathan

Assistant General Manager, Head of Strategic Planning. Joined the Bank in August 2007. Has 33 years' experience.

Abdulrahman Al-Shaikh

Assistant General Manager, Head of Banking Operations. Joined the Bank in August 1991. Has 40 years' experience.

Executive Management

Yousif Abdulla Alkhan
Assistant General Manager, Head of Information Technology. Joined the Bank in December 1989. Has 24 years' experience.

Dheya Al-Shekar
Executive Senior Manager, Head of Human Capital. Joined the Bank in April 2007. Has 14 years' experience.

Sharaf Khawaja
Executive Senior Manager, Head of Corporate Communications & PR. Joined the Bank in July 2001. Has 21 years' experience.

Hassan Al-Attar
Executive Senior Manager, Head of Remedial Management. Joined the Group in June 2004. Has 44 years' experience.

Ahmed Hassan Ahmed
Senior Manager, Legal. Joined the Bank in September 2001. Has 30 years' experience.

Asfar Amanullah Mirza

Assistant General Manager, Head of Internal Audit Joined the Bank in April 2005. Has 26 years' experience.

Dana Aqeel Raees

Executive Senior Manager, Head of Legal Affairs and Company Secretary. Joined the Bank in April 2010. Has 6 years' experience.

Adel Isa Al-Shirawi

Executive Senior Manager, Head of Administrations. Joined the Bank in February 2005. Has 33 years' experience.

Sharia Supervisory Board

Sheikh Abdullah Sulaiman Al Manee'a
Chairman

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar from the Kingdom of Saudi Arabia. He is the Vice Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and a member of the Senior Scholars Council of the Kingdom of Saudi Arabia and the Awqaf Supreme Council. He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgement and has authored several books including 'Paper Money: Truth, History and Reality' and 'Economic Research'.

Sheikh Dr. Nedham Yaqouby
Executive Member

Sheikh Yaqouby is a prominent, highly-respected Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and is also a member of the Sharia Supervisory Boards of several regional and international banks as well as many investment funds around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award.

Sheikh Yaqouby, holds a Master's degree from McGill University, Canada and a PhD from the Wales University's Department of Sharia and Law. He has authored four books and delivered more than 500 lectures on Islamic Finance.

Sheikh Mohsin Al-Asfoor
Member

Sheikh Al-Asfoor is a well-known and highly-respected Sharia scholar from the Kingdom of Bahrain. In addition to his membership of the Ithmaar Bank Sharia Advisory Board, he serves on the Sharia Advisory Boards of six other companies. He has previously been a judge at the Supreme Sharia Court of Appeal (Jaafari).

Sheikh Al-Asfoor is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran and has authored more than 60 books on Islamic Sharia.

Sheikh Dr. Osama Mohammed Saad Bahar
Member

Sheikh Bahar is a well-known, highly-respected Sharia scholar from Bahrain.

He is currently a Sharia member and Head of the Sharia Compliance and Advisory at First Energy Bank, following earlier senior positions at Islamic banks in Bahrain including Head of Sharia Compliance at Al Salam Bank and before that, Sharia Compliance Officer at ABC Islamic Bank.

Sheikh Bahar is also Chairman of the Sharia Supervisory Board of Capinnova; Sharia member at Global Banking Corporation, International Investment Bank, Allianz Global Investors, Allianz Takaful (Bahrain), International Tharawat and Family Bank and Sharia Advisor for Sakana Holistic Housing Solutions and Reef (Real Estate Finance).

Sheikh Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's degree from Al Emam Al Awzae University in Lebanon and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al jaazaeri University of Islamic Studies in Algeria.

Corporate Governance

The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

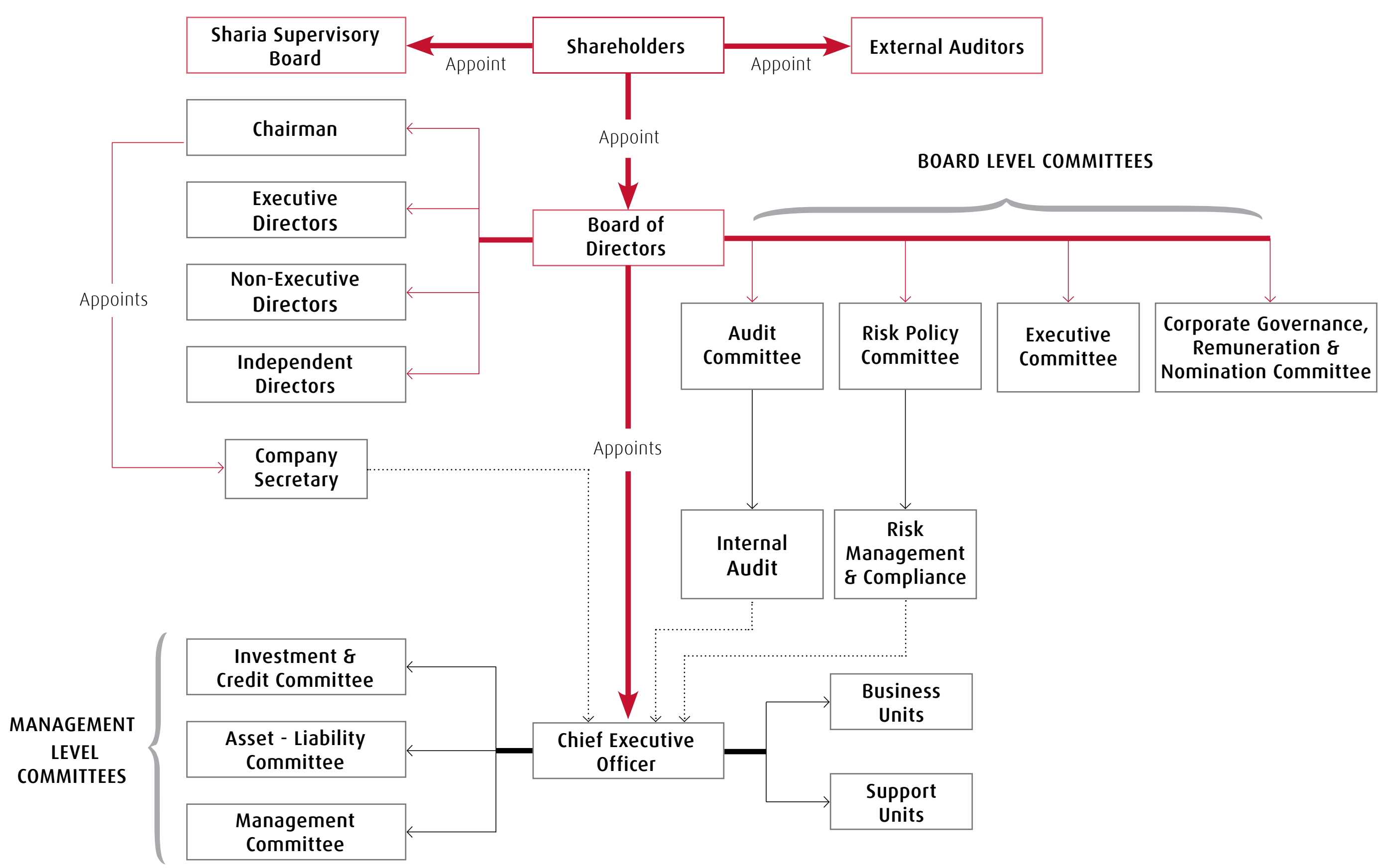
The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the Bank's corporate governance policies are designed to lay a solid foundation for management and the Board of Directors in managing the Bank, promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders. The Bank's written Code of Conduct and Business Ethics that binds all employees, members of the Sharia Supervisory Board and Directors, lends further weight to the practical implementation of our stated policies.

The Bank's Corporate Governance policy is posted on the Bank's web site.

BANK ADMINISTRATION

The Bank is administered by the Board of Directors and the Sharia Supervisory Board, and, for day-to-day matters, by the Executive Management.



BOARD OF DIRECTORS

As indicated on pages 60 to 63, the Board of Directors comprises ten members of whom five are independent. The Board is headed by a Chairman.

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

The Board of Directors duties and responsibilities are documented in its Charter and include, inter alia, the following responsibilities:

- Set the Bank's strategic direction
- Overall responsibility for the performance of the Bank
- Select, appoint and evaluate the Management
- Review management performance and compensation
- Review management structure and succession planning
- Advise and counsel management
- Monitor and manage potential conflict of interest
- Ensure the integrity of the financial information
- Monitor the effectiveness of the governance and compliance practices
- Timely and adequate disclosures
- Ensure effective internal control measures
- Arrange shareholders' general meetings
- Ensure equitable treatment of minority shareholders

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Management. These powers conform to the provisions of the Article and Memorandum of Association. In general, all business decisions relating to strategic investments, and financing exceeding certain limits, including business relationship with connected counterparties requires the Board approval.

All transactions that require Board approval have been approved by the Board as per applicable regulations.

The Board of Directors' functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association of the Bank which complies with applicable statutory and regulatory structures. Board members serve three year terms, unless reinstated.

The next election of Directors will take place during the next Annual General Meeting of the Bank in March 2013.

STRUCTURE AND COMPOSITION OF THE BOARD

The Bank is administrated at the high level by a Board of Directors. The actual size of the Board is determined by the shareholders in the General Meetings based on recommendations from the Corporate Governance Committee. In all cases the size of the Board is subject to the Bank's Articles of Association and the rules and procedures decreed by the Minister of Commerce and Industry and/or the Central Bank of Bahrain.

DUTIES OF DIRECTORS

Directors, individually and collectively, are bound by distinct fiduciary duties to the Bank. Directors owe their fiduciary duty to the Bank as a corporate being in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all Directors whether they are representing (appointed by) major shareholders or are elected as Independent Director.

The main duties that Directors owe the Bank are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

Directors are required to act in accordance with the Bank's rules and policies and in furtherance of its goals as stated in the mission statement and Memorandum & Articles of Association. In addition, Directors must comply with all relevant laws and regulations. The duty of obedience forbids acts outside the scope of internal authorities, powers and limits.

Duty of Care

Directors are under duty to exercise the same care that an ordinary, prudent person would exercise in a like position or under similar circumstances. In complying with this duty, Directors are expected to –

- Attend all Board meetings. At a minimum, Directors are expected to attend not less than 75% of all scheduled Board meetings.
- Consider all material information reasonably available and/or seek relevant information prior to making a business decision relating to the issue. Directors have the rights of access to the Management and/or advisors when in doubt.

Duty of Loyalty

This duty requires Directors to act solely in the best interest of the Bank, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage. Directors are barred from using Bank properties or assets for their personal pursuits, insider trading, or taking business opportunities for themselves. This duty also requires Directors to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter.

The Bank provides insurance to indemnify Directors for negligence, default, breach of duty or breach of trust provided such breach has occurred in good faith.

The above duties are detailed in the Bank's Code of Conduct and Business Ethics policy approved by the Board.

DIRECTORS' ELECTION SYSTEM

Any shareholder who owns 10% or more of the capital of Ithmaar Bank shall have the right to appoint a representative on the Board of Directors of Ithmaar Bank. In the event that a shareholder exercises this right, such shareholder shall lose the right to vote for the percentage for which the shareholder has appointed a representative on the Board of Directors.

Subject to the foregoing, the General Assembly shall elect members of the Board of Directors by a secret ballot. The members shall be elected by the relative majority of valid votes.

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum & Articles of Association, the Code of Conduct and Business Ethics, the Corporate Governance Policy and laws, rules, regulations, policies and charters in place as amended from time to time.

The Remuneration & Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration & Nomination Committee's duties in relation to the composition and performance of the Board of Directors include, among other things, assessing the skills required for the Board of Directors to competently discharge its responsibilities and meet its objectives as well as developing and implementing a plan to identify, assess and enhance Directors' competencies. In the event of a vacancy on the Board of Directors, the Remuneration & Nomination Committee shall make recommendations to the Board of Directors for the appointment of a Director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Directors receive a letter of appointment signed by the Chairman in which relevant information, including termination and responsibilities, are described. Directors also receive a copy of the Bank's Code of Conduct and Business Ethics.

BOARD INDUCTION PROGRAMME

The Company Secretary provides sufficient information to newly appointed/elected Board members including a discussion of the Corporate Governance Principles of the Bank and the Code of Conduct and Business Ethics. These Board members are also received by the Chief Executive Officer of the Bank who provides them with details on the structure of the Bank, strategic and business plans, the past financial performance and outstanding issues. The Board is continuously kept abreast of new regulations and laws.

DIRECTORS' REMUNERATION →

It is the Bank's objective to attract and retain high quality Directors. One aspect of achieving this is by remunerating Directors in a manner consistent with prevailing best practice. Directors are entitled to remuneration comprising sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. Remunerations are recommended by the Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

Currently, the Bank does not pay any performance related remuneration. If any, this will be in accordance with the Memorandum & Articles of Association and subject to shareholder approval. Non-Executive Directors are not entitled to any performance related remuneration.

Directors' sitting fees for 2012 amounted to BD 73,138 (2011: BD 69,180). Sharia Supervisory Board retention fee amounted to BD 22,620 (2011: BD 16,965) and their sitting fees for 2012 was BD 3,770 (2011: BD 6,409).

BOARD COMMITTEES →

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT COMMITTEE →

The Audit Committee is appointed by the Board to assist the Board in reviewing the integrity of the Bank's financial reporting; overseeing the selection and compensation of the External Auditor for appointment and approval at the shareholders' meeting; monitoring the External Auditor's qualifications and independence; reviewing the activities and performance of the Bank's internal audit function; and reviewing the compliance by the Bank with legal and regulatory requirements including all relevant laws, regulations, codes and business practices.

The Audit Committee comprises:

- Tunku Dato' Ya'acob Bin Tunku Abdullah - Chairman and Member
- Sheikh Zamil Abdullah Al-Zamil - Member
- Shaikha Hissah bint Saad Al-Sabah - Member, until 23 July 2012
- Imtiaz Ahmed Pervez - Member, effective 23 July 2012

RISK POLICY COMMITTEE →

The primary objectives of the Risk Policy Committee are to make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the policies within which to manage the aforementioned. These policies are defined as credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories the Bank faces in carrying out its activities. The Risk Policy Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management and methods of reporting to the Board.

The Risk Policy Committee comprises:

- Abdelhamid Mohamed Aboumousa - Chairman and Member
- Shaikha Hissah bint Saad Al-Sabah - Member, until 29 August 2012
- Nabeel Khaled Mohamed Kanoo - Member, until 29 August 2012
- Abdulellah Ebrahim Al-Qassimi - Member, effective 31 March 2012

EXECUTIVE COMMITTEE

The Executive Committee, acting on behalf of the Board, provides Board oversight of the Bank's strategic transaction planning and activities; approves transactions for which the Board has delegated authority to the Executive Committee within the parameters of the Limits of Authority; makes recommendations to the Board regarding transactions not within the parameters of the Limits of Authority of the Executive Committee; and evaluates the Bank's financial strategies and policies.

The Executive Committee comprises:

- Nabeel Khaled Mohamed Kanoo - Chairman and Member
- Mohammed A. Rahman Bucheerei - Member
- Juma Abull - Member [refer Note (iii) on page 76]

CORPORATE GOVERNANCE, REMUNERATION & NOMINATION COMMITTEE

The Remuneration & Nomination Committee is appointed by the Board to assist the Board in the effective discharge of its responsibilities in relation to the remuneration of Directors and performance of the Board, ensure appropriate Board composition, ensure appropriate nomination of Directors to the Board and provide a formal forum for communication between the Board and the Bank's management on human resource issues. Moreover, the Remuneration & Nomination Committee is authorised by the Board to review and investigate any matter within the scope of its Charter and to make recommendations to the Board in relation thereto.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management, the Audit Committee, and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

This Committee will have at least two Independent Directors, one of whom acts as the Chairperson, and a member of the Sharia Supervisory Board.

- Shaikha Hissah bint Saad Al-Sabah - Chairperson and Member
- Sheikh Zamil Abdullah Al-Zamil - Member, until 29 August 2012
- Sheikh Mohammed Youseef El-Khereiji - Member, resigned on 14 March 2012
- Nabeel Khaled Mohamed Kanoo - Member
- Sheikh Dr. Osama Bahar - Member [refer Note (ii) on page 76]

BOARD AND COMMITTEE MEETINGS

Member	Main Board		Audit Committee		Risk Policy Committee		Executive Committee		Corporate Governance, Remuneration & Nomination Committee	
	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.
HRH Prince Amr Mohammed Al Faisal	4	4	–	–	–	–	–	–	–	–
Sheikh Zamil Abdullah Al-Zamil	4	4	4	4	–	–	–	–	1	1
Tunku Dato' Ya'acob Bin Tunku Abdullah	4	4	4	4	–	–	–	–	–	–
Shaikha Hissah bint Saad Al-Sabah	4	3	2	1	2	2	–	–	2	2
Abdelhamid Mohamed Aboumousa	4	4	–	–	3	3	–	–	–	–
Khalid Abdulla-Janahi	4	4	–	–	–	–	–	–	–	–
Mohammed A. Rahman Bucheerei	4	4	–	–	–	–	6	6	–	–
Nabeel Khaled Mohamed Kanoo	4	4	–	–	2	1	6	6	3	3
Abdulellah Ebrahim Al-Qassimi	3	2	–	–	2	1	–	–	–	–
Imtiaz Ahmad Pervez	3	2	2	2	–	–	–	–	–	–
Sheikh Mohammed Youseef El-Khereiji*	1	0	–	–	–	–	–	–	1	0

Elig. - Number of meetings eligible to attend

Attd. - Number of meetings attended

* Notes:

(i) Sheikh Mohammed Youseef El-Khereiji, resigned effective 14 March 2012

(ii) Sheikh Dr. Osama Bahar (Sharia Supervisory Board Member) also serves as a member of the Corporate Governance, Remuneration & Nomination Committee

(iii) The Executive Committee includes Juma Abull, Executive General Manager, Support Group

In accordance with the Bank's Articles of Association, the Board of Directors meets at least four times a year and the Board expects each Director to attend at least 75% of all Board meetings and the meetings of the committees on which they serve.

There were no major issues of concern to report relating to the work of the Board Committees during the year 2012.

SHARIA SUPERVISORY BOARD

The Bank shall always conduct its business in accordance with the Islamic Sharia rules.

In compliance with licensing requirements of the Central Bank of Bahrain (CBB), the Bank's Memorandum & Articles of Association and the general practice of Islamic Banking, the Bank, at all times, has a Sharia Supervisory Board (SSB) appointed by the shareholders at General Meetings based on recommendations of the Board of Directors (through the Remuneration & Nomination Committee). The SSB actively participates in developing and overseeing the Bank's products and business activities. It is responsible for certifying every product to ensure strict adherence to the principles of Sharia.

The SSB has full access to the Board, management personnel of the Bank including access to the Bank's Sharia Compliance Officer who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) auditing the operations of the Bank from a Sharia point of view, and (c) producing reports to the SSB in order to ensure that the Bank's activities are under a strict and direct oversight of Sharia guidelines. Furthermore, the Sharia Compliance Officer monitors on a day-to-day basis in ensuring that all areas of the Bank adhere to SSB's recommendations, advice and opinions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Corporate Governance, Remuneration & Nomination Committee and is disclosed on the Bank's website.

SSB members are entitled to remuneration comprising annual retainer fee and sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. These remunerations are recommended by the Corporate Governance, Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

Currently, the Bank does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all members of SSB are given in the section on Sharia Supervisory Board.

MANAGEMENT

The day-to-day operations of the Bank are handled by the management team.

Departments are grouped into Business and Support Units with clear delineation between them to avoid conflict of interests. These safeguard measures are reinforced by independent internal audit and risk management and Compliance departments.

The Bank's Business Units consist of

- Retail Banking
- Commercial Banking:
  - Corporate Banking
  - SME Banking
- Private Banking
- International Banking
- Asset Management
- Treasury

Support Units consist of

- Financial Control
- Human Capital
- Public Relations & Corporate Communications
- Administration
- Information Technology
- Banking Operations
- General Counsel & Legal
- Remedial Management
- Strategic Planning
- Shareholder Affairs

The Risk Management and Compliance Department reports, functionally, to the Risk Policy Committee and, administratively, to the Chief Executive Officer.

The Internal Audit Department reports, functionally, to the Audit Committee and, administratively, to the Chief Executive Officer. The Department operates independently of the Bank's senior management, in accordance with the internal audit plan approved by the Audit Committee. The Department audits compliance with the policies and procedures of the Bank and the effectiveness of internal controls, including areas of risk management.

MANAGEMENT REMUNERATION →

The Chief Executive Officer and senior managers are compensated in line with market trends. The performance linked bonus is paid based on their individual performance which is evaluated at the end of the year. Management remunerations are recommended by the Corporate Governance, Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

The total remuneration of the Executive Management Team in 2012 was BD 2,930,060. This amount includes the guaranteed cash components such as the basic salary, fixed bonus, allowances and the variable performance reward related to 2012.

MANAGEMENT COMMITTEES →

The Bank has in place the following Management committees. The members of committees comprise the Heads of Divisions who are drawn from relevant and related functions.

INVESTMENT AND CREDIT COMMITTEE →

The main objective of this Committee is to manage the credit risk of the Bank including reviewing, approving and ratifying business proposals falling within its authority, reviewing risk management reports and resolving all credit-related issues. The Committee is chaired by the Chief Executive Officer.

ASSET-LIABILITY COMMITTEE →

The Asset - Liability Committee (ALCO) is responsible for managing the market and liquidity risks of the Bank. The main functions are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Plan and relevant banking regulations and laws. The Committee is chaired by the Executive General Manager-Support.

MANAGEMENT COMMITTEE →

The Committee's principal objective is to manage operations risk. It focuses on improving communications and cooperation among the various divisions and departments of the Bank and optimising the Bank's operational efficiency. The Committee is chaired by the Chief Executive Officer.

SHAREHOLDERS →

INTERESTS OF DIRECTORS AND EXECUTIVE MANAGEMENT →

The interests of Directors and Executive Management in the shares of the Bank are disclosed in the Report of the Directors and Share Information respectively.

SHARE INFORMATION

Information on the distribution of share ownership together with key statistics on the performance of the Bank's shares on the Bahrain Bourse are disclosed in the section on Share Information of the annual report.

SHAREHOLDERS' RIGHTS

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, jointly or severally. Their rights also include voting on the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

RELATED PARTY TRANSACTIONS

Business transactions with persons and companies connected with the Bank (which includes, *inter alia*, Directors, their immediate family members, major shareholders and subsidiaries) are termed as Related Party Transactions. For avoidance of any possibility of conflicts of interest, the Bank treats all these transactions at arms' length and are approved by the Board of Directors with the interested party being refrained from voting. The Bank complies with relevant rules issued by the regulatory authorities in this respect and all transactions are appropriately disclosed in the Report of the Directors.

RIGHTS OF MINORITY SHAREHOLDERS

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights.

As additional measures to protect minority interests, the Bank subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on Bank's business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercise rights to elect independent Directors;
- Penalties for insider trading; and
- Provisions on takeovers, mergers, and acquisitions.

COMMUNICATION WITH STAKEHOLDERS

The Board acknowledges the importance of regular communication with stakeholders and particularly the investors, through a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year as well as the Bank's website, through which stakeholders have an overview of the Bank's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with its major shareholders to solicit their views and understand their concerns. The Chairman discusses the views of the major shareholders with the Board of Directors.

The Bank maintains a website which stakeholders may access for information, which includes the Bank's profile, corporate information, press releases, financial performance and performance of investment funds and career opportunities, amongst others.

To further assist with shareholder communications, the Bank has a dedicated Shareholders Affairs Department with the primary responsibility of acting as a liaison between the Board of Directors and shareholders. Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

CODE OF BUSINESS CONDUCT AND ETHICS

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for the Bank. The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

STATEMENT OF COMPLIANCE

The Bank complies with the High Level Controls Module of the Rulebook issued by the Central Bank of Bahrain and the Corporate Governance Code of the Kingdom of Bahrain except for structure of certain Board Committees. To address this issue, the Board of Directors, through the Corporate Governance, Remuneration & Nomination Committee, conducted an assessment of its size and required calibers and accordingly will recommend to the shareholders during the General Meeting to introduce new qualified independent directors.

Risk is an integral part of Ithmaar Bank's business and managing it is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder value through business profits commensurate with the risk appetite of the Bank.

Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain, sound principles of risk management issued by the Bank for International Settlements and international practices.

RISK GOVERNANCE STRUCTURE →

The Ithmaar risk management charter, which details the roles and responsibilities of the Board and of the senior management, lays the foundations for a risk governance structure in the Bank.

The Board approves the Bank's business and risk strategy and ensures that business developments are consistent with its risk appetite and strategies. The Board also oversees the establishment and implementation of risk management systems and policies for on and off balance sheet risks as well as operational risks.

The Risk Policy Committee assists the Board of Directors and the senior management in performing their risk management oversight function. The Committee is responsible to ensure that the Bank adopts, maintains and applies appropriate risk management policies and procedures.

The process of risk management is carried out by an independent control function: The Risk Management Department headed by the Chief Risk Officer with a direct reporting line to the Risk Policy Committee. The Department is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits within the parameters of the overall risk management strategy approved by the Board.

RISK MANAGEMENT STRATEGY →

A structured risk management framework has been established to ensure that Ithmaar's business strategy and operations are linked to its risk management objectives. The overall risk strategy is complemented by appropriate limit structure management and supported by comprehensive risk policies and procedures for all material risks the Bank is exposed to.

The risk management strategy in respect of each of these types of risks is set out below:

CREDIT RISK →

The significant concentration of credit risk as at 31 December 2012 is set out in Note 36. Credit risk is the risk of potential loss arising from failure of a counterparty to meet its contractual obligations. Ithmaar manages its credit risk arising from its banking book activities by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant exposures are independently reviewed by the Risk Management Department before approval.

The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by country, industry, tenor and products. The risk policies also set the criteria for risk rating and credit exposures. The policies also outline the scoring techniques used in grading and classifying exposures.

The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. All credit exposures are monitored on a continuous basis.

Strategic Investments including investments in real estate, are subject to at least an annual review. Investment securities are reviewed at shorter frequencies. Each investment exposure is evaluated individually for impairment assessed on its merits, strategy, and estimated cash flows considered recoverable.

ECAI Ratings →

Ithmaar Bank utilises Basel-recognised ratings by External Credit Assessment Institutions (ECAI), including those adopted by host regulators where the Bank's subsidiaries operate, for the purpose of assigning risk weights on assets. In case of multiple ECAI rating of a single counterparty, the lowest of all is taken to assign the relevant risk weight. The Bank uses ECAI ratings recognised by host regulators for its financing, placements and investments exposure.

The Bank complies with all the qualitative requirements for the recognition process and eligibility criteria of ECAI rating in the credit risk management policy of the Bank.

Credit Risk Mitigation →

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While existence of collaterals is not a precondition for financing, in practice a large part of existing exposures are fully or partially collateralised. The Bank has clear policies on types of assets that can be accepted as collateral and the mode of valuation of these assets. In general all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees issued by investment-rated counterparties. Other types of collateral are accepted on an exceptional basis provided that such collateral can be reasonably valued.

MARKET RISK →

Market risk is the potential loss arising from adverse changes in foreign exchange rates, equity prices and profit rates.

The Bank does not maintain an active trading book and all Ithmaar's market risk exposure primarily consists of profit rate risk in investments, volatility in price of equities and foreign exchange rate.

Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant Business Units with oversight by the Asset Liability Committee (ALCO) and Risk Policy Committee.

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk →

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. At Ithmaar, foreign exchange risk is the risk that an exposure denominated in any foreign currency may be adversely affected due to volatility in foreign exchange rates compared to the base currency of the Bank. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions and the use of appropriate hedging instruments. For more details, please refer to Section 25 of the Basel II disclosures.

Equity Price Risk →

Ithmaar is exposed to equity price risk through its investments in equities. The responsibility for managing equity price risk rests with the business units under the supervision and guidance from the Investment and Credit Committee of the Bank. The Risk Management Department independently monitors the equity price risk of the Bank. The Bank's equity investments are approved by the appropriate authorities and are subject to comprehensive due diligence. The equity investments are measured in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Profit Rate Risk in the Banking Book →

Profit rate risk in the Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet in current and future years resulting from the impact of changes in profit rates on mismatched assets and liabilities in the banking book. The Bank measures and manages profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps.

The measurement systems for profit rate sensitivity analysis are traditional maturity gap analysis (to measure the profit rate sensitivity of earnings) and duration (to measure profit rate sensitivity of capital).

Profit rate risk is regularly monitored by the ALCO and Risk Policy Committee and a comprehensive agenda addressing the rate is placed at its meetings. Further information on profit rate risk management is included in the Notes to the Financial Statements.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by the Treasury, with oversight from ALCO and Risk Policy Committee.

The Risk Management Department provides an independent monitoring of liquidity risk management, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the required funding maturity profile.

Liquidity requirements are measured and tested under different scenarios, with the base case scenario defining the minimum amount of liquidity that must be held at all times. The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities, the process of setting such standards, the terms of reference of ALCO, the roles and responsibilities of the various functions involved and the management information systems.

A liquidity contingency policy is in place and provides the mechanism for management of liquidity in adverse market conditions.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can result in both financial loss and/or reputation risk. The annual budgeting exercise addresses the requirements for providing capital for Operational Risk.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues

The Bank has in place Policies and Procedures which provides detailed guidelines for management of Operational Risks in the Bank. The management and monitoring of Operational Risk is automated. A workflow process for reporting of Operational Risk events and maintaining a database of all internal and external Operational Risk events is in place. Bank has also implemented a Risk Control Self-assessment (RCSA) process whereby the risk in a process is evaluated taking into consideration the residual risk. The Risk Register which enables the RCSA process is prepared jointly by the risk and line managers. This process also enables to identify the key risks in the business processes.

The Bank has in place a Business Continuity Policy which deals with the policy initiatives to ensure that the Bank continues its critical activities following a disastrous event. Policies addressing the effective management of Human Resources including improving the skill-set of the employees is in place.

Detailed Procedures are in place which enhance the internal controls, as well as provide guidelines for conduct of business process.

Capital requirement for Operational Risk is disclosed as part of 'Basel II - Pillar III Quantitative Disclosures at 31 December 2012'.

REPUTATION RISK

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. The Bank has in place a Corporate Governance Policy and a Code of Conduct and Business Ethics for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank. It will also help in preventing any reputation risks.

RISK MANAGEMENT REPORTING AND CONTROL

Effective measurement, reporting and control of risk are vital to ensure that Ithmaar's business activities are managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation. The Bank is currently upgrading its IT and Management Information Systems which would further support its risk management processes.

RISK MANAGEMENT POLICIES AND PROCEDURES

Ithmaar has developed specific risk management strategies, policies and procedures to identify, measure, monitor and report the key risks the Bank is exposed to. The Bank has about 40 different policies divided into four volumes, each addressing a specific risk area, namely, High Level Controls, Credit Risk Management, Market Risk Management and Operations Risk Management.

INTERNAL CONTROLS

The Board of Directors of the Bank places significant emphasis on efficient internal control systems. Therefore, internal control systems has been put in place, which is considered to be sufficient and appropriate for the Bank's business undertakings in order to prevent any possible damage to the Bank. This framework is communicated to all employees by way of appropriate policies, procedures, control manuals, and regular management briefings and covers all key issues, ranging from management, operations, custodianship, financial systems, risk management, and compliance matters, amongst others. The organizational structure of the Bank is always arranged to enhance efficient functioning of management.

Key business risks are identified, mitigated, and controlled by means of policies and procedures such as Credit, Investment and other authorisation limits, segregation of duties, reconciliation of accounts and the valuation of assets and positions. Well established budgeting and forecasting procedures are in place and reports are regularly presented to the Board detailing:

- Business plans and strategies;
- Results of operations;
- Key risk areas;
- Variances against budget; and
- Other performance data.

CAPITAL RISK MANAGEMENT

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the Central Bank of Bahrain (CBB) and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholder value is protected and enhanced.

Ithmaar maintains capital at a consolidated level and all entities, which are consolidated for accounting purposes are included within the Bank's capital adequacy calculations as per CBB Prudential Consolidation and Deduction Rules.

Ithmaar's capital position is monitored on a regular basis and reported to the ALCO and the Board Audit Committee through the Risk Policy Committee.

Capital management is a coordinated effort by the business divisions, Risk Management, Strategic Planning and Financial Control and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP).

A comprehensive risk assessment of the Business and Budget Plans are independently performed by Risk Management and Compliant Division, which inter alia, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios.

RISK MANAGEMENT OF SUBSIDIARIES

Each operating subsidiary has a dedicated Risk Management and Compliance function for implementing policies and supervising appropriate management of overall risks of the subsidiary including assessment, mitigation and monitoring of risks, and reporting on the risk status.

Each operating subsidiary has its own set of policies and parameters which are subject to the review by the Risk Policy Committee of Ithmaar Bank. Arrangements are being made in order to receive periodic risk reports from subsidiaries for onward submission and review by the Board.

Non-operating subsidiaries are subject to the risk principles of the Bank itself.

COMPLIANCE RISK MANAGEMENT

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of its failure to comply with the requirements of relevant laws and regulations. By the terms of its licence and listing rules, the Bank is subject to compliance with the requirements stipulated by CBB, Bahrain Bourse, Kuwait Stock Exchange (KSE), Bahrain Commercial Companies Law and FAS issued by AAOIFI, Sharia Standards and SSB *Fatwas*.

Compliance risk is managed through the Compliance Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, the escalation, remediation of compliance incidents and control weaknesses.

The Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations.

The Bank has appointed a compliance officer in accordance with CBB directives to ensure that the Bank's operations achieve a consistently high level of compliance with all relevant laws and regulations. Each of Ithmaar's subsidiaries also employs local compliance officers to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review.

CUSTOMER COMPLAINT PROCEDURES

The Bank has in place a formal customer complaints procedure that complies with the Code of Best Practice on Consumer Credit and Charging issued by the Bankers Association of Bahrain. A dedicated customer complaints officer is responsible for handling and resolving complaints. Contact details of this Officer are publicised at all branches. All customer complaints are promptly resolved up to the best satisfaction of the customers.

ANTI-MONEY LAUNDERING

It is the Bank's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, the Bank has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

The Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities, and also conducts compulsory training for all Ithmaar employees at all levels.

The Bank's AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

BASEL II IMPLEMENTATION

The Bank is applying the provisions of the Basel II Accord as follows:

PILLAR 1

Pillar 1 deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk. For capital adequacy measurement the Bank has adopted a standardised approach for credit risk and market risk, and uses a basic indicator approach for operational risk. Ithmaar Bank is compliant with all requirements of Pillar 1 and, since January 2008, started reporting the consolidated capital adequacy numbers as per the new accord.

PILLAR 2

In order to ensure compliance with the provisions of Pillar 2, Ithmaar Bank has formalised all risk management policies including risk covered in Pillar 2 and is endeavouring towards laying the foundation for a sound Internal Capital Adequacy Assessment Process (ICAAP). A comprehensive operational risk management framework has been rolled out in line with international practices.

PILLAR 3

The Bank currently follows the AAOIFI accounting standards (and where applicable, IFRS standards), and is in compliance with the disclosure requirements mandated by CBB, the Bahrain Bourse and the Kuwait Stock Exchange.

Funds Under Management

As a commercial financial institution, a fundamental objective of Ithmaar Bank is to act as a financial intermediary, channeling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Accountholders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined rates and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

STRUCTURE OF THE FUNDS →

The Bank provides three types of FUMs, namely, Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the IAHs to invest their funds in any manner which the Bank deems appropriate, without laying down restrictions as to where, how, for what period, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's KYC requirements.

As of 31 December 2012, the Bank operated URIA funds are as follows:

- General Mudaraba
- Special Mudaraba

II. Restricted Funds (RIA)

Under this, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Mudaraba and/or Agency agreements) so as to formalise the relationship. RIAs funds are accounted for as a 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in case of RIA funds. As per CBB's instructions, all future RIA funds shall be structured as CIUs.

III. Collective Investment Undertakings (CIU)

CIU have the following features:

- The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate
- The holdings of which may be repurchased or redeemed.

These funds are structured in accordance with relevant CIU rules issued by CBB and are offered to the following:

<table>
<tr><td rowspan="2">Investor classifications</td><td rowspan="2">Retail CIU</td><td>Expert CIU</td><td>Exempt CIU</td><td rowspan="2">Private investment units</td></tr>
<tr><td colspan="2">Bahrain domiciled REIT</td></tr>
<tr><td rowspan="2">Target market</td><td>All</td><td>Expert investors</td><td>Accredited CIU</td><td>High networth</td></tr>
<tr><td>No specific criteria</td><td>Person/corporation with total assets ≥ USD 100k & Gov. entities</td><td>Person/corporation with total assets ≥ USD 1,000k & Gov. entities</td><td>Person/corporation with total assets ≥ USD 25,000k & Gov. entities</td></tr>
<tr><td>Minimum contribution</td><td>Any</td><td>USD 10k</td><td>USD 100K</td><td>USD 3,000k</td></tr>
</table>

All Investors are required to meet the KYC requirements as per CBB rules.

As of 31 December 2012, the Bank operated 4 RIA funds and 1 CIU fund (Aldar Private Equity Fund).

These are given on page 106 of this report.

RISK AND REWARD →

In accordance with the principles of Islamic Sharia, all funds are managed on profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a fund is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

- Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

- Open Term

The IAH invests for an unspecified terms (such as Savings Accounts), and profits are accounted for on a periodical basis during the Mudaraba period, but without its liquidation.

In case of RIA and CIU, specific expenses that may arise in relation to the launching of a Mudaraba fund and in employment of funds may be charged against the gross revenue of that Mudaraba, provided this is set out in the related Mudaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Mudaraba. Distributable profit is calculated after all permitted expenses have been deducted. URIA funds are not subject to administration fees.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

REDEMPTIONS

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices and provided such exposure does not cause any violations of regulatory or internal limits.

FIDUCIARY OBLIGATIONS

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in-place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs, so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects
- Provide clear and truthful information both in any public document issued and to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid them, or disclose and manage them, bearing in mind its fiduciary duties to Investment Accountholders as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

INVESTMENT OBJECTIVES

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Mudaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

GOVERNANCE OF FUNDS UNDER MANAGEMENT

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established a Corporate Governance, Remuneration & Nomination Committee commissioned, amongst other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment & Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Assets Management Department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including Private Banking, Corporate Banking, Financial Institutions, and Retail Banking departments. Where warranted, RIA and CIU funds are managed by a dedicated members drawn from the Board of Directors.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetite of investors. A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management and Compliance Department prior to their approval and launch. Once approved, these Funds are utilised strictly in accordance with the fund's prospectus and terms of approval. These funds are actively managed by the Assets Management Department which is manned by qualified staff. Customer affairs are managed by an assigned relationship manager, Private Banking Department or Customer Services Department.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

All funds are reviewed periodically, at least annually, to assess their performance. These reviews are submitted to ICC for its review and approval. In case of adverse change in the risk profile of the Fund, the review is raised to the authority which originally approved the initial proposal.

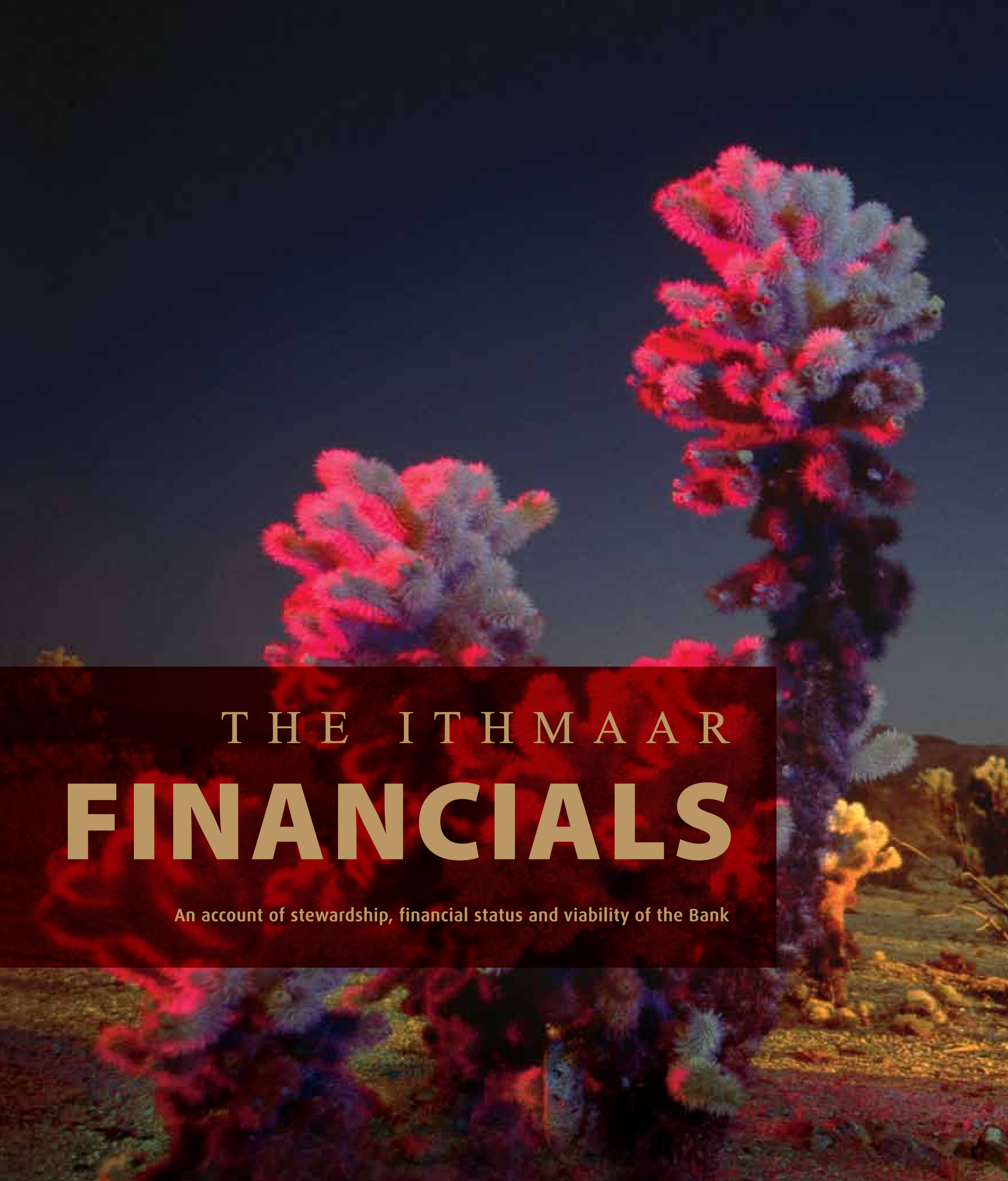
The Profit Distribution Sheet (Mudaraba Account) provides details on investment period and Bank's share of profit as shown below:

Period	Bank's share
Undetermined term (savings account)	60%
1 month	50%
3 months	45%
6 months	40%
1 year	35%
2 years	30%
3 years	25%

Average declared rate of return or profit rate on PSIA by maturity (1 month, 3 months, 6 months, 1 year, 2 years, 3 years) in percentage terms paid annually:

BD denominated	1 day	1 month	3 months	6 months	1 year	2 years	3 years
Savings	0.25	–	–	–	–	–	–
Mudaraba	–	1.90	2.48	2.90	3.40	4.15	4.90
Special Mudaraba	–	2.25	2.78	3.27	3.84	5.00	5.50

USD denominated	1 day	1 month	3 months	6 months	1 year	2 years	3 years
Savings	0.25	–	–	–	–	–	–
Mudaraba	–	1.90	2.48	2.90	3.40	4.15	4.90
Special Mudaraba	–	2.25	2.78	3.27	3.84	5.00	5.50



THE ITHMAAR

FINANCIALS

An account of stewardship, financial status and viability of the Bank

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

Report of the Sharia Supervisory Board

In the Name of Allah, the Beneficent, the Merciful

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2012 UNTIL 31 DECEMBER 2012, CORRESPONDING TO THE PERIOD FROM 26 MUHARRAM 1433 H UNTIL 6 SAFAR 1434 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. performed the following duties during the financial year from 1 January 2012 until 31 December 2012:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Review Department while also guiding the various departments (of the Bank) to comply with the Sharia rules.
2. Studied mechanisms of various financing, investment, and funds, and prepared their agreements in coordination with the various departments concerned with product developments and offerings.
3. Examined the books, records and transactions through the internal Sharia Review Department and audited some of their samples as per established auditing standards.
4. Examined sources of income and expenses through reviewing the statement of financial position, income statement and the Bank's overall banking activities through it.
5. Reviewed and concurred with periodic reports issued by the Sharia Review Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period from 1 January 2012 to 31 December 2012. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

I. WITH REGARD TO THE BANK'S BUSINESS IN GENERAL:

a. The Bank's overall investment activities and banking services were conducted in compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.

b. Gains made from sources prohibited by Sharia were evaded and transferred to the Charity Account.

c. All the amounts collected from customers' commitments to donate fees on late payments were posted to the Charity Account.

d. Shareholders are responsible for payment of Zakat on their shares.

II. CONVENTIONAL ASSETS AND LIABILITIES:

The Sharia Supervisory Board identified and reviewed conventional assets and liabilities that existed before Ithmaar Bank converted to an Islamic retail bank in April 2010 and issued a Fatwa that allows the Bank to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period, provided that the Bank appropriately discloses to its shareholders in its annual report all amounts of income and expenses associated with these conventional assets and liabilities. This Fatwa conforms to the provisions of Sharia Standard - 6 "Conversion of a Conventional Bank to an Islamic Bank" of AAOIFI Sharia Standards. In this respect, the Sharia Supervisory Board confirms that, with gratitude to Allah, the positions of 14 of these conventional assets (out of 21) were corrected by end of 2012 while work is in progress for resolving the remaining conventional assets.

Report of the Sharia Supervisory Board

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2012 UNTIL 31 DECEMBER 2012, CORRESPONDING TO THE PERIOD FROM 26 MUHARRAM 1433 H UNTIL 6 SAFAR 1434 H. (continued)

The Sharia Supervisory Board continuously reviews progress in this respect and guides the management of the Bank on appropriate actions to be taken in respect of each asset and liability.

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of the Bank for the year ended 31 December 2012 and has satisfied itself that the Bank has appropriately disclosed the incomes and expenses arising from the conventional assets and liabilities. Accordingly, the Sharia Supervisory Board guides the shareholders of the Bank to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 2.8 fils per share.

We pray to Almighty Allah to grant success to the Bank and its employees and guide them in developing Islamic products and continue to comply with the Sharia principles and to grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Sheikh Abdullah Al Manee'a
Chairman

His Eminence Sheikh Mohsin Al-Asfoor
Member

His Eminence Sheikh Dr. Nedham Yaqouby
Member

His Eminence Sheikh Dr. Osama Bahar
Member

Manama, Kingdom of Bahrain
19 February 2013

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (the 'Bank') for the year ended 31 December 2012, together with the audited consolidated financial statements of the Bank and its subsidiaries (the 'Group') for the year then ended.

PRINCIPAL ACTIVITIES

The Bank holds an Islamic retail banking licence issued by the Central Bank of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the 'Group') are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, equipment leasing and real estate development.

CONSOLIDATED FINANCIAL POSITION AND RESULTS

The consolidated financial position of the Group as at 31 December 2012, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of BD 11.5 million for 2012, attributable to the equity shareholders, of the Bank, as compared to a net loss of BD 23.7 million for 2011. Total assets at 31 December 2012 amounted to BD 2,724 million (31 December 2011: BD 2,601 million).

The Bank's consolidated capital adequacy ratio under Basel II as at 31 December 2012 was 12.64% (31 December 2011: 12.88%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in note 39 to the accompanying consolidated financial statements.

DIRECTORS

The following served as Directors of the Bank during the year ended 31 December 2012:

HRH Prince Amr Mohammed Al Faisal (Chairman)
Sheikh Zamil Abdullah Al-Zamil
Tunku Dato' Ya'acob Bin Tunku Abdullah
Shaikha Hissah bint Saad Al-Sabah
Abdelhamid Mohamed Aboumousa
Khalid Abdulla-Janahi
Mohammed A. Rahman Bucheerei
Nabeel Khaled Mohamed Kanoo
Abdulellah Ebrahim Al-Qassimi (Appointed with effect from 15 July 2012)
Imtiaz Ahmad Pervez (Appointed with effect from 15 July 2012)
Sheikh Mohammed Youseef El-Khereiji (Resigned with effect from 14 March 2012)

DIRECTORS' SITTING FEES

Directors' sitting fees for 2012 amounted to BD 73,138 (2011: BD 69,180).

INTERESTS OF DIRECTORS

The interests of the Directors in the shares of the Bank are disclosed below:

Name	Number of Shares	
	31 December 2012	31 December 2011
HRH Prince Amr Mohammed Al Faisal	**100,000**	100,000
Sheikh Zamil Abdullah Al-Zamil	**205,000**	205,000
Tunku Dato' Ya'acob Bin Tunku Abdullah	**106,100**	40,982
Shaikha Hissah bint Saad Al-Sabah	**41,800**	41,800
Abdelhamid Mohamed Aboumousa	**–**	–
Khalid Abdulla-Janahi	**20,749,693**	20,749,693
Mohammed A. Rahman Bucheerei	**105,600**	105,600
Nabeel Khaled Mohamed Kanoo	**–**	–
Abdulellah Ebrahim Al-Qassimi	**–**	Not applicable
Imtiaz Ahmad Pervez	**–**	Not applicable
Sheikh Mohammed Youseef El-Khereiji	**Not applicable**	5,280,000

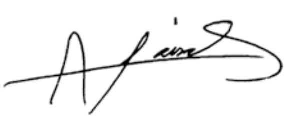
DIVIDEND

No dividend has been proposed for 2012 (2011: Nil).

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2013.

By order of the Board of Directors



HRH Prince Amr Mohammed Al Faisal
Chairman
28 February 2013

Independent Auditor's Report

to the Shareholders of Ithmaar Bank B.S.C.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2012 and the related consolidated statements of income, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Directors 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 to operate in accordance with Islamic Shari'a.
This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

REPORT ON REGULATORY REQUIREMENTS AND OTHER MATTERS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that: (i) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; (ii) the financial information contained in the directors' report is consistent with the consolidated financial statements; (iii) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and (iv) satisfactory explanations and information have been provided to us by the management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Sharia Supervisory Board of the Group.

PricewaterhouseCoopers

28 February 2013

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2012 (Audited)	At 31 December 2011 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	**204,864**	142,770
Commodity and other placements with banks, financial and other institutions	4	**169,328**	190,088
Murabaha and other financings	5	**1,184,004**	1,030,350
Musharaka financing		**15,765**	16,029
Investment in Mudaraba	6	**8,164**	8,857
Investment in associates	7	**257,298**	245,109
Investment securities	8	**397,024**	461,594
Restricted investment accounts	9	**81,438**	75,067
Assets acquired for leasing	10	**22,934**	22,402
Investment in real estate	11	**151,383**	147,095
Other assets	12	**97,148**	114,589
Fixed assets	13	**43,947**	49,918
Intangible assets	14	**90,806**	97,213
Total assets		**2,724,103**	2,601,081
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	15	**450,034**	298,613
Due to banks, financial and other institutions	16	**495,070**	609,730
Due to investors	17	**718,797**	727,778
Other liabilities	18	**90,622**	103,084
Total liabilities		**1,754,523**	1,739,205
Equity of unrestricted investment accountholders	19	**660,173**	556,691
Minority interest	20	**87,311**	87,721
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND MINORITY INTEREST		**2,502,007**	2,383,617
Share capital	21	**252,915**	252,915
Reserves		**105,349**	89,126
Accumulated losses		**(136,168)**	(124,577)
Total owners' equity		**222,096**	217,464
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**2,724,103**	2,601,081

These consolidated financial statements were approved by the Board of Directors on 28 February 2013 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Income Statement

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2012 (Audited)	31 December 2011 (Audited)
INCOME			
Income from unrestricted investment accounts		**35,139**	25,608
Less: return to unrestricted investment accounts and impairment provisions		**(26,686)**	(24,512)
Group's share of income from unrestricted investment accounts as a Mudarib		**8,453**	1,096
Group's share of income from restricted investment accounts as a Mudarib	23	**305**	1,061
Income from Murabaha and other financings	24	**90,181**	97,702
Share of profit after tax from associates	7	**20,266**	6,717
Income from other investments	25	**44,185**	42,765
Other income	26	**20,012**	20,697
Total income		**183,402**	170,038
Less: profit paid to banks, financial and other institutions - net		**(95,893)**	(104,109)
Operating income		**87,509**	65,929
EXPENSES			
Administrative and general expenses	27	**(62,340)**	(63,489)
Depreciation and amortisation	7, 13,14	**(12,374)**	(16,753)
Total expenses		**(74,714)**	(80,242)
Net income/(loss) before provision for impairment and overseas taxation		**12,795**	(14,313)
Provision for impairment - net	29	**(20,401)**	(8,232)
Net loss before overseas taxation		**(7,606)**	(22,545)
Overseas taxation	30	**(2,508)**	(792)
NET LOSS FOR THE YEAR		**(10,114)**	(23,337)
Attributable to:			
Equity holders of the Bank		**(11,491)**	(23,708)
Minority interests	20	**1,377**	371
		(10,114)	(23,337)
Basic and diluted earnings per share	22	**Fils (4.28)**	Fils (8.72)

These consolidated financial statements were approved by the Board of Directors on 28 February 2013 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2012
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2012 (Audited)	**252,915**	**56,434**	**14,360**	**19,124**	**(4,226)**	**357**	**3,077**	**89,126**	**(124,577)**	**217,464**
Net loss for the year	–	–	–	–	–	–	–	–	(11,491)	(11,491)
Movement in fair value of investment securities	–	–	–	–	13,530	–	–	13,530	–	13,530
Movement in fair value of associates	–	–	–	–	7,029	–	–	7,029	–	7,029
Movement in deferred tax relating to investment securities	–	–	–	–	(647)	(58)	–	(705)	–	(705)
Transfer to income statement due to disposal of investment securities	–	–	–	–	8	–	–	8	–	8
Movement in fair value of investment in real estate	–	–	–	–	–	94	–	94	–	94
Foreign currency translation adjustment	–	–	–	–	58	(4)	(3,787)	(3,733)	(100)	(3,833)
At 31 December 2012	**252,915**	**56,434**	**14,360**	**19,124**	**15,752**	**389**	**(710)**	**105,349**	**(136,168)**	**222,096**

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2011
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2011 (Audited)	**253,063**	**56,538**	**14,360**	**19,124**	**1,117**	**383**	**3,621**	**95,143**	**(100,676)**	**247,530**
Treasury shares purchased	(148)	(104)	–	–	–	–	–	(104)	–	(252)
Net loss for the year	–	–	–	–	–	–	–	–	(23,708)	(23,708)
Movement in fair value of investment securities	–	–	–	–	(3,365)	–	–	(3,365)	–	(3,365)
Movement in fair value of associates	–	–	–	–	(3,106)	–	–	(3,106)	–	(3,106)
Movement in deferred tax relating to investment securities	–	–	–	–	1,038	–	–	1,038	–	1,038
Transfer to income statement due to impairment of investment securities	–	–	–	–	829	–	–	829	–	829
Transfer to income statement due to disposal of investment securities	–	–	–	–	(789)	–	–	(789)	–	(789)
Movement in fair value of investment in real estate	–	–	–	–	–	(26)	–	(26)	–	(26)
Foreign currency translation adjustment	–	–	–	–	50	–	(544)	(494)	(193)	(687)
At 31 December 2011	**252,915**	**56,434**	**14,360**	**19,124**	**(4,226)**	**357**	**3,077**	**89,126**	**(124,577)**	**217,464**

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2012 (Audited)	31 December 2011 (Audited)
OPERATING ACTIVITIES			
Net loss before overseas taxation		**(7,606)**	(22,545)
Adjustments for:			
Depreciation and amortisation	7,13,14	**12,374**	16,753
Share of profit after tax from associates	7	**(20,266)**	(6,717)
Provision for impairment - net	29	**20,401**	8,232
Gain on sale of fixed assets	26	**(217)**	(1,198)
Operating profit/(loss) before changes in operating assets and liabilities		**4,686**	(5,475)
Balances with banks maturing after ninety days and including with central bank relating to minimum reserve requirement		**(1,617)**	(3,898)
(Increase)/decrease in operating assets			
Murabaha and other financings		**(168,515)**	(80,867)
Musharaka financing		**264**	(10,520)
Other assets		**8,967**	(371)
Increase/(decrease) in operating liabilities			
Customers' current accounts		**65,061**	40,684
Due to banks, financial and other institutions		**(21,339)**	(36,457)
Due to investors		**(8,981)**	(15,212)
Other liabilities		**(8,841)**	(5,288)
Increase in equity of unrestricted investment accountholders		**100,119**	105,813
Net cash used in operating activities		**(30,196)**	(11,591)
INVESTING ACTIVITIES			
Net (increase)/decrease			
Investment in Mudaraba		**693**	–
Investment in restricted investment accounts		**8,000**	1,946
Assets acquired for leasing		**(532)**	4,190
Investment securities		**51,521**	(12,049)
Dividend received from associates	7	**5,543**	6,000
Purchase of fixed assets		**(5,817)**	(3,771)
Investment in real estate		**432**	(1,444)
Net cash provided by/(used in) investing activities		**59,840**	(5,128)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2012 (Audited)	31 December 2011 (Audited)
FINANCING ACTIVITIES			
Taxes paid		**(1,989)**	(5,143)
Net cash used in financing activities		**(1,989)**	(5,143)
Foreign currency translation adjustments		**12,062**	8,095
Net increase/(decrease) in cash and cash equivalents		**39,717**	(13,767)
Cash and cash equivalents at the beginning of the year		**251,085**	264,852
Cash and cash equivalents at the end of the year	4	**290,802**	251,085

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2012
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2012	Net Deposits/ (Withdrawals)	Income/ (Expenses)	Mudarib's Fee	Fair Value Movements	At 31 December 2012
Aldar Private Equity Fund*	88,764	(16,001)	–	–	5,208	77,971
Dilmunia Development Fund I L.P.*	65,232	–	(1,063)	–	–	64,169
Shamil Bosphorus Modaraba*	38,618	–	–	–	–	38,618
European Real Estate Portfolio*	8,424	(1,006)	3	–	151	7,572
US Development Opportunities Fund*	6,793	–	–	–	–	6,793
European Real Estate Placements*	47,563	(8,987)	38	(93)	–	38,521
US Real Estate Placements*	59,488	(27,458)	590	(88)	–	32,532
PPSC Placements	52,948	(35,109)	133	(91)	–	17,881
Trade Finance Placements	5,298	67	130	(11)	–	5,484
Listed and non-listed equities	12,480	(3,993)	262	(22)	–	8,727
Investment in Sukuk	198	(7)	8	–	–	199
Total	**385,806**	**(92,494)**	**101**	**(305)**	**5,359**	**298,467**
Funds managed on agency basis	26,925	(282)	–	–	–	26,643
	412,731	**(92,776)**	**101**	**(305)**	**5,359**	**325,110**

* *Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments.*

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2011
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2011	Net Deposits/ (Withdrawals)	Income/ (Expenses)	Mudarib's Fee	Fair Value Movements	At 31 December 2011
Aldar Private Equity Fund*	80,785	–	–	–	7,979	88,764
Dilmunia Development Fund I L.P.*	66,303	–	(1,071)	–	–	65,232
Shamil Bosphorus Modaraba*	38,618	–	–	–	–	38,618
European Real Estate Portfolio*	8,601	(177)	–	–	–	8,424
Shamil China Fund*	8,588	(8,588)	–	–	–	–
US Development Opportunities Fund*	6,793	–	–	–	–	6,793
Shamil Jawaher 1	19,121	(18,882)	–	(239)	–	–
Shamil Jawaher 2	2,354	(2,315)	–	(39)	–	–
European Real Estate Placements*	27,228	20,617	41	(323)	–	47,563
US Real Estate Placements*	55,665	3,959	–	(136)	–	59,488
PPSC Placements	317,337	(265,250)	1,145	(284)	–	52,948
Trade Finance Placements	356	4,915	33	(6)	–	5,298
Listed and non-listed equities	16,134	(4,378)	758	(34)	–	12,480
Investment in Sukuk	–	196	2	–	–	198
Other clients funds	173	(173)	–	–	–	–
Total	**648,056**	**(270,076)**	**908**	**(1,061)**	**7,979**	**385,806**
Funds managed on agency basis	35,958	(9,033)	–	–	–	26,925
	684,014	**(279,109)**	**908**	**(1,061)**	**7,979**	**412,731**

* *Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments.*

The notes on pages 108 to 150 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (the 'Bank') was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the 'CBB'). On 14 April 2010 the CBB approved the reorganisation of the Bank and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C. (C) (the 'Shamil Bank') into one entity under Ithmaar Bank B.S.C. with an Islamic retail banking license. As a result, Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010.

Dar Al-Maal Al-Islami Trust ('DMIT'), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the 'Group') are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful, equipment leasing and real estate development.

The Bank's activities are supervised by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Bank's shares are listed for trading on the Bahrain Bourse and Kuwait Stock Exchange.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 16 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	Economic	Country of Incorporation	Principal Business Activity
Faysal Bank Limited	67	67	Pakistan	Banking
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Faisal Private Bank (Switzerland) S.A. (FPB)	100	100	Switzerland	Banking
Sakana Holistic Housing Solutions B.S.C. (C)	63	50	Kingdom of Bahrain	Mortgage finance
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Marina Reef Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of the Bank.

1. INCORPORATION AND ACTIVITIES (continued)

During October 2012, the Bank decided to voluntarily surrender FPB's banking license effective 30 June 2013. As an interim measure FPB has ceased to accept any new business effective 1 November 2012. The Bank has initiated the process of establishing an Asset Management Company (Family Office) or similar entity in Switzerland to provide continued service to investors in the existing funds managed by FPB. The Bank is currently finalising FPB's transition plan to Family Office or similar entity in coordination with the concerned regulators. The financial statements of FPB have been prepared on a going concern basis as at 31 December 2012.

During January 2013, the Bank has decided to exit from its 50% investment in Sakana together with the other 50% shareholder. The Bank and the other shareholder of Sakana are in the process of finalising the exit plan in consultation with the CBB.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

Effective 30 June 2010, the Bank adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar Bank converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2012 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ('Plan') for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2012.

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

(I) NEW ACCOUNTING STANDARD: ISSUED BUT NOT YET EFFECTIVE

The following standard has been issued and is mandatory for the Group's accounting periods beginning on or after 1 January 2013 and is expected to be relevant to the Group.

Standard	Content	Applicable for the financial years beginning or after
FAS 26	Investment in real estate	1 January 2013

This standard shall apply in the recognition, measurement and disclosure of the entity's direct investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

The Group presently follows the FAS 17: Investments and measures its investments in real estate at fair value and this measurement will continue to be followed under FAS 26. Accordingly, the adoption of FAS 26 does not have any material impact on the consolidated income statement, consolidated statement of changes in owner's equity or consolidated statement of financial position.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(II) BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(III) STATEMENT OF COMPLIANCE

The consolidated financial statements have been 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 Bank, the Bahrain Commercial Companies Law, CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency). The Extraordinary General Meeting of the Bank held on 21 October 2012 approved the change of the presentation currency of the Bank from US Dollars to Bahraini Dinars effective 31 December 2012. Considering that the Bahraini Dinar is pegged to United States Dollar, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions and balances (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investment securities are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, shall be recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount shall be recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statements as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPE.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Accounting estimates and judgements (continued)

3. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

4. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Bank to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets.

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments

1. Investments carried at amortised cost

Debt-type instruments carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity or equity of unrestricted investment accountholders under "Investments fair value reserve", until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments shall be recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments shall be re-measured at their fair value and the gain/loss shall be recognised in the consolidated income statement.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments (continued)

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate shall be measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account shall be recognised in the income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

6. Investment in Mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

7. Fair value

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

For investments where there are no quoted market prices, 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 or at net asset value. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Aircraft	25 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

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.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortisation.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

(m) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors".

(o) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment accountholder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalisation reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for that purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(q) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(r) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilised as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

(s) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognised to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

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

7. Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

(t) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	**54,563**	**-**	**54,563**	47,769	-	47,769
Cash and balances with banks and central banks	**150,301**	**-**	**150,301**	95,001	-	95,001
	204,864	**-**	**204,864**	142,770	-	142,770

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	**161,863**	**9,925**	**171,788**	183,122	9,426	192,548
Less: provision	**(2,460)**	**-**	**(2,460)**	(2,460)	-	(2,460)
	159,403	**9,925**	**169,328**	180,662	9,426	190,088

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	**204,864**	**-**	**204,864**	142,770	-	142,770
Commodity and other placements with banks, financial and other institutions - net	**159,403**	**9,925**	**169,328**	180,662	9,426	190,088
Less: placements maturing after ninety days	**(18,902)**	**(9,925)**	**(28,827)**	(24,578)	(9,426)	(34,004)
Less: balances with central banks relating to minimum reserve requirement	**(54,563)**	**-**	**(54,563)**	(47,769)	-	(47,769)
	290,802	**-**	**290,802**	251,085	-	251,085

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS (continued)

The movement in provisions is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**2,460**	**–**	**2,460**	2,460	–	2,460
Charge for the year	**–**	**–**	**–**	–	–	–
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**2,460**	**–**	**2,460**	2,460	–	2,460

5. MURABAHA AND OTHER FINANCINGS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	**886,645**	**402,950**	**1,289,595**	828,191	301,261	1,129,452
Less: Provisions	**(91,194)**	**(14,397)**	**(105,591)**	(87,348)	(11,754)	(99,102)
	795,451	**388,553**	**1,184,004**	740,843	289,507	1,030,350

Other financings represent conventional loans and advances totalling BD 659 million (31 December 2011: BD 619 million) made by a subsidiary of the Bank.

The movement in provisions is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**87,348**	**11,754**	**99,102**	94,269	11,408	105,677
Reallocation	**1,249**	**–**	**1,249**	–	–	–
Charge for the year	**18,634**	**3,187**	**21,821**	13,675	346	14,021
Write back during the year	**(11,054)**	**(544)**	**(11,598)**	(14,822)	–	(14,822)
Utilised during the year	**(605)**	**–**	**(605)**	(1,853)	–	(1,853)
Exchange differences and other movements	**(4,378)**	**–**	**(4,378)**	(3,921)	–	(3,921)
At 31 December	**91,194**	**14,397**	**105,591**	87,348	11,754	99,102

Total provision of BD 105.6 million (31 December 2011: BD 99.1 million) includes general provision of BD 1.2 million (31 December 2011: Nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. INVESTMENT IN MUDARABA

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	**451**	**13,288**	**13,739**	371	14,061	14,432
Less: provisions	**–**	**(5,575)**	**(5,575)**	–	(5,575)	(5,575)
	451	**7,713**	**8,164**	371	8,486	8,857

The movement in provisions is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**–**	**5,575**	**5,575**	–	5,575	5,575
Charge for the year	**–**	**–**	**–**	–	–	–
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**–**	**5,575**	**5,575**	–	5,575	5,575

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Bank's share of their results comprise:

Name of company	2012	2011	% of Shareholding	Country	Activity
Unlisted:					
Solidarity Group Holding B.S.C. (C)	**36,881**	26,408	34	Bahrain	Takaful
First Leasing Bank B.S.C. (C) (FLB)	**12,313**	14,981	43	Bahrain	Banking
Citic International Assets Management Limited	**25,385**	24,692	20	Hong Kong	Asset management
Sanpak Engineering	**114**	248	31	Pakistan	Manufacturing
Islamic Company for Production, Printing and Packing Materials "Icopack"	**1,750**	1,321	23	Egypt	Trading
Misr Company for Packing Materials "Egywrap"	**1,617**	3,077	23	Egypt	Trading
Faysal Asset Management Limited	**269**	348	30	Pakistan	Asset management
Ithraa Capital	**1,421**	1,535	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	**34,498**	33,023	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	**810**	793	40	Bahrain	Real estate
Islamic Trading Company E.C.	**740**	740	24	Bahrain	Trading
CIAM - Shamil Asset Management Co. Ltd.	**-**	118	50	Hong Kong	Asset management
Emerging Markets Partnership Bahrain B.S.C. (C)	**-**	328	40	Bahrain	Asset management
Hupomone Capital Partners (H.C.P)	**-**	-	20	Singapore	Asset management
Listed:					
BBK B.S.C.	**141,500**	137,497	25	Bahrain	Banking
	257,298	245,109			

Investment in associates includes conventional investments totalling BD 199.4 million (31 December 2011: BD 195 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. INVESTMENT IN ASSOCIATES (continued)

The Bank's share of net assets of its associated companies includes the following movements analysed as follows:

	31 December 2012	31 December 2011
At 1 January	**245,109**	250,700
Share of profit before tax	**20,670**	6,798
Share of tax	**(404)**	(81)
Dividends received	**(5,543)**	(6,000)
Share of fair value reserve	**7,029**	(3,106)
Additions	**1,327**	–
Provisions	**(7,228)**	–
Amortisation of intangibles	**(2,544)**	(2,544)
Exchange differences	**(1,118)**	(658)
At 31 December	**257,298**	245,109

Included in investment in associates at 31 December 2012 is BD 29 million (31 December 2011: BD 35.7 million) of goodwill. The movement is as follows:

	31 December 2012	31 December 2011
At 1 January	**35,663**	35,663
Provision	**(6,657)**	–
At 31 December	**29,006**	35,663

Amortisation charge for the intangible assets for the year ended 31 December 2012 amounted to BD 2.6 million (31 December 2011: BD 2.6 million).

The shareholders of the Bank and FLB in their Extraordinary General Meetings held on 21 October 2012 have approved the Transfer of Business from FLB to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). CBB approval has been received on 17 February 2013 for Transfer of Business from FLB to the Bank. The Bank and FLB are completing the remaining legal and regulatory requirements.

Summarised financial position of associates that have been equity accounted:

	31 December 2012	31 December 2011
Total assets	**3,598,250**	3,216,541
Total liabilities	**2,888,979**	2,599,428
Total revenues	**142,829**	131,942
Total net profit	**78,412**	32,700

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Held for trading						
Sukuk – unlisted	**–**	**–**	**–**	9,470	–	9,470
Debt-type instruments – unlisted	**30,561**	**–**	**30,561**	11,159	–	11,159
Equity-type securities – listed	**2**	**–**	**2**	3,708	–	3,708
	30,563	**–**	**30,563**	24,337	–	24,337
Investment securities at fair value through equity						
Equity-type securities - listed	**20,398**	**–**	**20,398**	39,282	–	39,282
Equity-type securities - unlisted	**67,902**	**25,628**	**93,530**	72,153	31,956	104,109
	88,300	**25,628**	**113,928**	111,435	31,956	143,391
Provision for impairment	**(41,073)**	**(2,170)**	**(43,243)**	(38,202)	(354)	(38,556)
	47,227	**23,458**	**70,685**	73,233	31,602	104,835
Investment securities carried at amortised cost						
Sukuk – unlisted	**76,241**	**–**	**76,241**	39,936	–	39,936
Other debt-type instruments – listed	**3,605**	**–**	**3,605**	–	–	–
Other debt-type instruments – unlisted	**218,423**	**–**	**218,423**	295,074	–	295,074
	298,269	**–**	**298,269**	335,010	–	335,010
Provision for impairment	**(2,493)**	**–**	**(2,493)**	(2,588)	–	(2,588)
	295,776	**–**	**295,776**	332,422	–	332,422
	373,566	**23,458**	**397,024**	429,992	31,602	461,594

Investment securities include conventional investments totalling BD 289 million (31 December 2011: BD 346 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was BD 275 million (31 December 2011: BD 333 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

The movement in provisions relating to investment securities is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	40,790	354	41,144	40,009	1,247	41,256
Release/reallocation	(1,249)	–	(1,249)	–	–	–
Charge for the year	6,505	2,150	8,655	12,173	–	12,173
Write back during the year	(2,116)	–	(2,116)	(2,861)	–	(2,861)
Reclassification	–	–	–	893	(893)	–
Utilised during the year	–	(334)	(334)	(9,024)	–	(9,024)
Exchange differences	(364)	–	(364)	(400)	–	(400)
At 31 December	43,566	2,170	45,736	40,790	354	41,144

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical investments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

INVESTMENTS MEASURED AT FAIR VALUE

	Level 1	Level 2	Level 3	**Total**
At 31 December 2012				
Investment securities at fair value through income statement				
Debt-type instruments	–	30,561	–	**30,561**
Equity securities	2	–	–	**2**
Investment securities at fair value through equity				
Equity securities	18,143	1,094	51,448	**70,685**
	18,145	31,655	51,448	**101,248**

	Level 1	Level 2	Level 3	**Total**
At 31 December 2011				
Investment securities at fair value through income statement				
Sukuk – unlisted	–	9,470	–	**9,470**
Debt-type instruments	–	11,159	–	**11,159**
Equity securities	3,708	–	–	**3,708**
Investment securities at fair value through equity				
Equity securities	39,073	–	65,763	**104,836**
	42,781	20,629	65,763	**129,173**

RECONCILIATION OF LEVEL 3 ITEMS

	Investment securities at fair value through equity	
	2012	2011
At 1 January	**65,763**	76,390
Total gains/(losses) recognised in		
- Income statement	**(5,330)**	52
- Equity	**5,475**	–
Purchases	**244**	2,372
Sales	**(14,704)**	(13,036)
Transfers into Level 3	**–**	–
Transfers out of Level 3	**–**	(15)
At 31 December	**51,448**	65,763
Total gains/(losses) for the year included in consolidated statement of income for 31 December	**1,822**	204

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	**60,612**	**30,349**	**90,961**	53,046	29,805	82,851
Less: Provisions	**(8,795)**	**(728)**	**(9,523)**	(7,784)	–	(7,784)
	51,817	**29,621**	**81,438**	45,262	29,805	75,067

The movement in provisions is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**7,784**	**–**	**7,784**	7,784	–	7,784
Charge for the year	**1,019**	**728**	**1,747**	–	–	–
Exchange differences	**(8)**	**–**	**(8)**	–	–	–
At 31 December	**8,795**	**728**	**9,523**	7,784	–	7,784

10. ASSETS ACQUIRED FOR LEASING

	31 December 2012			31 December 2011		
	Cost	**Accumulated depreciation**	**Net book amount**	Cost	Accumulated depreciation	Net book amount
Property	**42,246**	**(19,312)**	**22,934**	36,312	(13,910)	22,402

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2012	31 December 2011
Relating to owners	**15,403**	17,933
Relating to unrestricted investment accounts	**7,531**	4,469
	22,934	22,402

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. INVESTMENT IN REAL ESTATE

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	**158,940**	**-**	**158,940**	157,858	-	157,858
Less: Provisions	**(7,557)**	**-**	**(7,557)**	(10,763)	-	(10,763)
	151,383	**-**	**151,383**	147,095	-	147,095

Fair value of investment properties at the year end approximates their carrying value.

The movement in provisions for investment in real estate is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**10,763**	**-**	**10,763**	8,878	-	8,878
Release/reallocation	**(5,945)**	**-**	**(5,945)**	-	-	-
Charge for the year	**2,739**	**-**	**2,739**	1,885	-	1,885
At 31 December	**7,557**	**-**	**7,557**	10,763	-	10,763

12. OTHER ASSETS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	**54,098**	**13,015**	**67,113**	70,704	12,469	83,173
Due from related parties	**22,473**	**-**	**22,473**	21,987	-	21,987
Taxes - deferred	**18,650**	**-**	**18,650**	22,597	-	22,597
Taxes - current	**5,647**	**-**	**5,647**	4,887	-	4,887
Assets acquired against claims	**10,133**	**-**	**10,133**	8,532	-	8,532
	111,001	**13,015**	**124,016**	128,707	12,469	141,176
Provision for impairment	**(16,995)**	**(9,873)**	**(26,868)**	(18,312)	(8,275)	(26,587)
	94,006	**3,142**	**97,148**	110,395	4,194	114,589

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. OTHER ASSETS (continued)

The movement in provisions is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**18,312**	**8,275**	**26,587**	22,324	8,072	30,396
Charge for the year	**3,789**	**1,598**	**5,387**	4,289	203	4,492
Write back during the year	**-**	**-**	**-**	(8,351)	-	(8,351)
Utilised during the year	**(5,012)**	**-**	**(5,012)**	(426)	-	(426)
Exchange differences	**(94)**	**-**	**(94)**	476	-	476
At 31 December	**16,995**	**9,873**	**26,868**	18,312	8,275	26,587

13. FIXED ASSETS

	Relating to owners 31 December 2012				Relating to owners 31 December 2011			
	Cost	**Accumulated depreciation**	**Provision for impairment**	**Net book amount**	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	**38,447**	**(2,970)**	**-**	**35,477**	35,927	(2,090)	-	33,837
Leasehold improvements	**10,022**	**(6,899)**	**-**	**3,123**	11,940	(7,584)	-	4,356
Furniture and equipment	**26,204**	**(21,541)**	**-**	**4,663**	24,267	(19,639)	-	4,628
Aircrafts and motor vehicles	**4,998**	**(4,314)**	**-**	**684**	13,892	(4,550)	(2,245)	7,097
	79,671	**(35,724)**	**-**	**43,947**	86,026	(33,863)	(2,245)	49,918

Depreciation charge for the year ended 31 December 2012 amounted to BD 3.9 million (31 December 2011: BD 7.9 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. INTANGIBLE ASSETS

	Relating to owners 31 December 2012			
	Cost	**Accumulated amortisation**	**Exchange differences**	**Net book amount**
Goodwill	**33,112**	**-**	**(3,098)**	**30,014**
Customer relations	**42,939**	**(11,842)**	**(4,050)**	**27,047**
Core deposits	**58,641**	**(18,692)**	**(8,749)**	**31,200**
Other	**6,651**	**(4,106)**	**-**	**2,545**
	141,343	**(34,640)**	**(15,897)**	**90,806**

	Relating to owners 31 December 2011			
	Cost	Accumulated amortisation	Exchange differences	Net book amount
Goodwill	33,112	-	(2,691)	30,421
Customer relations	42,939	(9,489)	(3,178)	30,272
Core deposits	58,641	(15,760)	(8,157)	34,724
Other	6,325	(4,529)	-	1,796
	141,017	(29,778)	(14,026)	97,213

Amortisation charge for the year ended 31 December 2012 amounted to BD 5.9 million (31 December 2011: BD 6.3 million).

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2012	31 December 2011
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	**24,908**	24,908
Faysal Bank Limited	**5,106**	5,513
	30,014	30,421

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

15. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balances relating to a counterparty amounting to BD 89.5 million (31 December 2011: Nil) which is subject to freeze and originating from jurisdiction under US and UN sanctions. The balance due to this counterparty was included under Due to banks, financial and other institutions (note 16) as at 31 December 2011.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	**403,387**	**–**	**403,387**	434,508	–	434,508
Due to financial and other institutions	**91,683**	**–**	**91,683**	175,222	–	175,222
	495,070	**–**	**495,070**	609,730	–	609,730

Due to banks, financial and other institutions include balances totalling BD 251.8 million (31 December 2011: BD 333.8 million) from two counterparties (31 December 2011: three counterparties) having contractual maturity ranging from one month to 3 years. Out of these, balances totalling BD 160.1 million (31 December 2011: BD 245 million) is from one counterparty (31 December 2011: two counterparties) which are subject to freeze and originating from jurisdiction under US and UN sanctions. The balance due to one counterparty is now included under Customers' current accounts (note 15) as at 31 December 2012.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

Due to banks, financial and other institutions include conventional deposits totalling BD 139.6 million (31 December 2011: BD 167.6 million), accepted by a subsidiary of the Bank.

At 31 December 2012, there were collateralised borrowings in aggregate BD 57 million (31 December 2011: BD 67 million).

Cash dividends amounting to BD 5.2 million (31 December 2011: BD 5.2 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

17. DUE TO INVESTORS

	Relating to owners	
	31 December 2012	31 December 2011
Due to corporate institutions	**381,522**	387,575
Due to individuals	**311,393**	314,095
Due to financial institutions	**25,882**	26,108
	718,797	727,778

Due to investors represent conventional deposits accepted by a subsidiary of the Bank.

Due to investors include floating rate unsecured term finance certificates issued by a subsidiary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. OTHER LIABILITIES

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	**66,554**	**19,210**	**85,764**	69,729	14,599	84,328
Derivative financial instruments liabilities	**32**	**-**	**32**	14,660	-	14,660
Due to related parties	**2,862**	**-**	**2,862**	1,955	-	1,955
Provision for taxation - current	**94**	**-**	**94**	297	-	297
Provision for taxation - deferred	**1,870**	**-**	**1,870**	1,844	-	1,844
	71,412	**19,210**	**90,622**	88,485	14,599	103,084

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from unrestricted investment accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	**31 December 2012**	31 December 2011
Commodity and other placements with banks, financial and other institutions	4	**9,925**	9,426
Murabaha and other financings	5	**388,553**	289,507
Investment in Mudaraba	6	**7,713**	8,486
Investment in associates	7	**2,913**	3,483
Investment securities	8	**23,458**	31,602
Restricted investment accounts	9	**29,621**	29,805
Assets acquired for leasing	10	**7,531**	4,469
Other assets	12	**3,142**	4,194
Due from the Bank		**206,527**	190,318
		679,383	571,290
Other liabilities	18	**(19,210)**	(14,599)
Equity of unrestricted investment accountholders		**660,173**	556,691

The movement in investments fair value reserve (included in URIA) is as follows:

	31 December 2012	31 December 2011
At 1 January	**(1,470)**	(1,338)
Net movement during the year	**5,979**	(132)
At 31 December	**4,509**	(1,470)

The assets attributable to unrestricted investment accountholders have been disclosed net of investment risk reserve amounting to BD 33.3 million (31 December 2011: BD 25.9 million). The movement of investment risk reserve (provisions relating to unrestricted investment accountholders) has been disclosed in note 29.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

Other liabilities include profit equalisation reserve and the movement is as follows:

	31 December 2012	31 December 2011
At 1 January	**7,015**	3,074
Net transfer to investment risk reserve (note 29)	**(5,274)**	–
Net addition during the year	**2,052**	3,941
At 31 December	**3,793**	7,015

The average gross rate of return in respect of unrestricted investment accounts was 7.38% for 31 December 2012 (31 December 2011: 7.02%) of which 4.82% (31 December 2011: 5.15%) was distributed to the investors and the balance was either set aside as provisions and/or retained by the Bank as share of profits in its capacity as a Mudarib.

The Bank earned a management fee up to 1% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds.

20. MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries:

	31 December 2012		31 December 2011	
	Minority %		Minority %	
Faysal Bank Limited	**33**	**35,051**	33	32,544
Health Island B.S.C. (C)	**50**	**42,040**	50	42,173
Cityview Real Estate Development B.S.C. (C)	**49**	**39**	49	627
Marina Reef Real Estate Development B.S.C. (C)	**49**	**210**	49	1,975
Sakana Holistic Housing Solutions B.S.C. (C)	**50**	**9,971**	50	10,274
Others	**5**	**–**	5	128
		87,311		87,721

Minority interest in the consolidated income statement of BD 1.4 million (31 December 2011: BD 0.4 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

21. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	754,000
Issued and fully paid		
At 1 January 2011	2,685,019	253,063
Treasury shares purchased	(1,564)	(148)
At 31 December 2011	**2,683,455**	**252,915**
At 1 January 2012	2,683,455	252,915
At 31 December 2012	**2,683,455**	**252,915**

The Bank's total issued and fully paid share capital at 31 December 2012 comprises 2,804,050,267 shares at $0.25 per share amounting to BD 264,281,738.

The Bank owned 120,594,984 of its own shares at 31 December 2012 (31 December 2011: 120,594,984). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

The shareholders of the Bank and FLB in their Extraordinary General Meeting held on 21 October 2012 have approved the Transfer of Business from FLB to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). CBB approval has been received on 17 February 2013 for Transfer of Business from FLB to the Bank. The Bank and FLB are completing the remaining legal and regulatory requirements.

On completion of the related legal and regulatory formalities in 2013, the Bank will issue 226,704,760 new ordinary shares and the issued and fully paid share capital of the Bank will increase to BD 285,648,661 comprising 3,030,755,027 shares at $0.25 per share.

22. EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2012	31 December 2011
Net loss attributable to shareholders (BD '000)	**(11,491)**	(23,708)
Weighted average number of issued and fully paid up ordinary shares ('000)	**2,683,455**	2,718,757
Earnings per share (basic & diluted) – fils	**(4.28)**	(8.72)

Earnings per share on non-sharia compliant income and expenses are included under note 41.

23. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2012	31 December 2011
Income from Murabaha financing	**5,930**	7,938
Income from other financings	**84,251**	89,764
	90,181	97,702

25. INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2012	31 December 2011
Income from investment securities at amortised cost	**30,064**	35,035
Income from investment securities at fair value through equity	**2,691**	(160)
Income from investment securities at fair value through income statement	**10,180**	6,656
Rental income from investment in real estate	**1,250**	1,234
	44,185	42,765

26. OTHER INCOME

	Relating to owners	
	31 December 2012	31 December 2011
Income from banking services	**12,910**	10,785
Fees and commission on letters of credit and guarantee	**2,315**	2,633
Other fee income	**791**	5,584
Foreign exchange and derivative income/(loss)	**2,477**	(1,197)
Gain on disposal of fixed assets	**217**	1,198
Others	**1,302**	1,694
	20,012	20,697

27. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2012	31 December 2011
Salaries and other benefits	**34,708**	34,183
Office expenses	**17,877**	19,128
Professional fees	**2,392**	2,780
Other administrative expenses	**7,363**	7,398
	62,340	63,489

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28. SOCIAL RESPONSIBILITY

The group discharges its social responsibilities through donations to charitable causes and organisations.

29. PROVISIONS

The movements in provisions are as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**190,692**	**25,958**	**216,650**	196,713	26,302	223,015
Charge for the year	**33,571**	**2,959**	**36,530**	34,266	549	34,815
Write back during the year	**(13,170)**	**(544)**	**(13,714)**	(26,034)	–	(26,034)
Transfer from profit equalisation reserve (note 19)	**–**	**5,274**	**5,274**	–	–	–
Utilised during the year	**(7,861)**	**(334)**	**(8,195)**	(11,304)	–	(11,304)
Reclassification	**–**	**–**	**–**	893	(893)	–
Exchange differences	**(4,689)**	**–**	**(4,689)**	(3,842)	–	(3,842)
At 31 December	**198,543**	**33,313**	**231,856**	190,692	25,958	216,650

The allocation of the provisions to the respective assets is as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements with banks, financial and other institutions	**2,460**	**–**	**2,460**	2,460	–	2,460
Murabaha and other financings	**91,194**	**14,397**	**105,591**	87,348	11,754	99,102
Investment in Mudaraba	**–**	**5,575**	**5,575**	–	5,575	5,575
Investment in associates	**27,976**	**570**	**28,546**	20,990	–	20,990
Investment securities	**43,566**	**2,170**	**45,736**	40,790	354	41,144
Restricted investment accounts	**8,795**	**728**	**9,523**	7,784	–	7,784
Fixed assets	**–**	**–**	**–**	2,245	–	2,245
Investment in real estate	**7,557**	**–**	**7,557**	10,763	–	10,763
Other assets	**16,995**	**9,873**	**26,868**	18,312	8,275	26,587
	198,543	**33,313**	**231,856**	190,692	25,958	216,650

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. PROVISIONS (continued)

Total provisions of BD 231.9 million (31 December 2011: BD 216.7 million) include BD 9.1 million (31 December 2011: BD 11.2 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2012	31 December 2011
At 1 January	**11,234**	11,704
Charge for the year	**6,434**	6,164
Write back during the year	**(1,320)**	(5,705)
Utilised during the year	**(7,200)**	(929)
Exchange differences	**(8)**	-
At 31 December	**9,140**	11,234

General provision of BD 9.1 million (31 December 2011: BD 11.2 million) includes BD 1.2 million (31 December 2011: Nil) in respect of Murabaha and other financings.

30. OVERSEAS TAXATION

	Relating to owners	
	31 December 2012	31 December 2011
Current taxes	**760**	2,787
Deferred taxes	**1,748**	(1,995)
	2,508	792

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

CURRENT TAX RECEIVABLE/(PAYABLE)

	31 December 2012	31 December 2011
At 1 January	**4,589**	2,459
Charge for the year	**(824)**	(2,788)
Payments made	**1,990**	5,143
Exchange differences and other movements	**(202)**	(225)
At 31 December	**5,553**	4,589

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30. OVERSEAS TAXATION (continued)

DEFERRED TAX ASSET/(LIABILITY)

	31 December 2012	31 December 2011
At 1 January	**20,752**	18,133
Charge for the year	**(1,684)**	1,995
Changes due to fair value reserve	**(972)**	1,583
Exchange differences and other movements	**(1,316)**	(959)
At 31 December	**16,780**	20,752

31. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) funds under management, under which the Group is managing clients' funds as a Mudarib on trustees' basis,

(ii) retail and corporate banking, in which the Group is extending financing to its clients, and

(iii) asset management/investment banking, in which the Group is directly participating in investment opportunities.

	31 December 2012					31 December 2011				
	Fund Management	**Retail & corporate banking**	**Asset Management/ Investment banking**	**Others**	**Total**	Fund Management	Retail & corporate banking	Asset Management/ Investment banking	Others	Total
Operating income	**8,758**	**63,651**	**4,403**	**10,697**	**87,509**	1,096	69,677	(6,235)	1,391	65,929
Total expenses	**–**	**(60,570)**	**(14,046)**	**(98)**	**(74,714)**	–	(64,364)	(14,685)	(1,193)	(80,242)
Net income/(loss) before provision and overseas taxation	**8,758**	**3,081**	**(9,643)**	**10,599**	**12,795**	1,096	5,313	(20,920)	198	(14,313)
Provision and overseas taxation	**–**	**(12,876)**	**(9,304)**	**(729)**	**(22,909)**	–	4,118	(13,108)	(34)	(9,024)
Net income/(loss) for the year	**8,758**	**(9,795)**	**(18,947)**	**9,870**	**(10,114)**	1,096	9,431	(34,028)	164	(23,337)
Attributable to:										
Equity holders of the Bank	**8,758**	**(11,023)**	**(18,947)**	**9,721**	**(11,491)**	1,096	9,487	(34,226)	(65)	(23,708)
Minority interests	**–**	**1,228**	**–**	**149**	**1,377**	–	(56)	198	229	371
	8,758	**(9,795)**	**(18,947)**	**9,870**	**(10,114)**	1,096	9,431	(34,028)	164	(23,337)
Total assets	**679,383**	**1,650,119**	**357,675**	**36,926**	**2,724,103**	571,289	1,648,237	355,041	26,514	2,601,081
Total liabilities and equity of unrestricted investment accountholders	**660,173**	**1,729,053**	**25,432**	**38**	**2,414,696**	556,691	1,711,212	22,218	5,775	2,295,896

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31. SEGMENTAL INFORMATION (continued)

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2012						31 December 2011					
	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	**2,803**	**1,171**	**25,376**	**57,988**	**171**	**87,509**	7,496	5,094	(2,841)	54,924	1,256	65,929
Total expenses	**(8,402)**	**–**	**(22,093)**	**(44,170)**	**(49)**	**(74,714)**	(13,802)	(1,354)	(14,940)	(49,859)	(287)	(80,242)
Net income/(loss) before provision and overseas taxation	**(5,599)**	**1,171**	**3,283**	**13,818**	**122**	**12,795**	(6,306)	3,740	(17,781)	5,065	969	(14,313)
Provision and overseas taxation	**(324)**	**(801)**	**(15,009)**	**(6,775)**	**–**	**(22,909)**	(84)	–	(9,622)	682	–	(9,024)
Net income/(loss) for the year	**(5,923)**	**370**	**(11,726)**	**7,043**	**122**	**(10,114)**	(6,390)	3,740	(27,403)	5,747	969	(23,337)
Attributable to:												
Equity holders of the Bank	**(5,923)**	**370**	**(11,743)**	**5,683**	**122**	**(11,491)**	(6,390)	3,740	(27,828)	5,801	969	(23,708)
Minority interests	**–**	**–**	**17**	**1,360**	**–**	**1,377**	–	–	425	(54)	–	371
	(5,923)	**370**	**(11,726)**	**7,043**	**122**	**(10,114)**	(6,390)	3,740	(27,403)	5,747	969	(23,337)
Total assets	**242,208**	**20,568**	**1,142,771**	**1,266,845**	**51,711**	**2,724,103**	139,404	35,422	1,049,141	1,278,726	98,388	2,601,081
Total liabilities and equity of unrestricted investment accountholders	**106,754**	**9,984**	**1,091,207**	**1,147,527**	**59,224**	**2,414,696**	117,378	9,075	1,007,505	1,146,544	15,394	2,295,896

32. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33. CONTINGENT LIABILITIES AND COMMITMENTS

CONTINGENT LIABILITIES

	31 December 2012	31 December 2011
Acceptances and endorsements	**50,463**	44,921
Guarantees and irrevocable letters of credit	**332,670**	275,823
Customer claims	**146,944**	156,055
	530,077	476,799

COMMITMENTS

	31 December 2012	31 December 2011
Undrawn facilities, financing lines and other commitments to finance	**663,497**	698,493

34. CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarised below:

	PKR	EUR	USD	PLN
As at 31 December 2012				
Total currency exposure	36,315	59,827	52,454	23,132
Reasonable shift	7.79%	0.35%	0.03%	2.79%
Total effect on income/equity	2,829	209	16	645
As at 31 December 2011				
Total currency exposure	39,254	2,486	9,154	20,704
Reasonable shift	11.98%	3.02%	0.05%	4.95%
Total effect on income/equity	4,703	75	5	1,025

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34. CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

	United States Dollar	Pakistan Rupee	Swiss Franc	Bahrain Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
31 December 2012									
Cash and balances with banks and central banks	29,929	74,753	6,549	46,152	42,931	341	10	4,199	204,864
Commodity and other placements with banks, financial and other institutions	108,301	475	–	13,000	43,666	3,886	–	–	169,328
Murabaha and other financings	175,973	654,480	–	293,061	24,409	4,343	–	31,738	1,184,004
Musharaka financing	–	15,765	–	–	–	–	–	–	15,765
Investment in Mudaraba	8,164	–	–	–	–	–	–	–	8,164
Investment in associates	–	383	–	227,098	–	–	25,385	4,432	257,298
Investment securities	52,976	341,798	282	–	1,485	–	–	483	397,024
Restricted investment accounts	77,562	–	–	–	3,876	–	–	–	81,438
Assets acquired for leasing	15,403	–	–	7,531	–	–	–	–	22,934
Investment in real estate	18,198	3,223	19,173	89,673	21,116	–	–	–	151,383
Other assets	9,800	54,257	1,833	4,124	13,959	–	–	13,175	97,148
Fixed assets	1,527	23,621	168	18,627	4	–	–	–	43,947
Intangible assets	80,343	10,395	68	–	–	–	–	–	90,806
Total assets	**578,176**	**1,179,150**	**28,073**	**699,266**	**151,446**	**8,570**	**25,395**	**54,027**	**2,724,103**
Customer current accounts	31,274	217,790	9,610	61,786	125,394	–	–	4,180	450,034
Due to banks, financial and other institutions	25,504	139,551	22	152,703	54,240	123,016	–	34	495,070
Due to investors	54,428	648,509	–	3,007	4,977	–	–	7,876	718,797
Other liabilities	373	37,271	4,419	35,140	12,997	–	–	422	90,622
Total liabilities	**111,579**	**1,043,121**	**14,051**	**252,636**	**197,608**	**123,016**	**–**	**12,512**	**1,754,523**
Equity of unrestricted investment accountholders	194,550	–	–	451,958	13,665	–	–	–	660,173
Total liabilities and equity of unrestricted investment accountholders	**306,129**	**1,043,121**	**14,051**	**704,594**	**211,273**	**123,016**	**–**	**12,512**	**2,414,696**
Contingent liabilities and commitments	**312,552**	**556,838**	**6,136**	**242,976**	**24,345**	**27,708**	**–**	**23,019**	**1,193,574**
31 December 2011									
Total assets	538,754	1,187,703	24,074	621,877	172,435	4,540	24,706	26,992	2,601,081
Total liabilities and equity of unrestricted investment accountholders	312,136	1,023,064	10,325	643,260	174,921	120,390	–	11,800	2,295,896
Contingent liabilities and commitments	342,480	578,404	16,755	171,618	46,188	223	–	19,624	1,175,292

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35. MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2012						
Cash and balances with banks and central banks	204,864	–	–	–	–	204,864
Commodity and other placements with banks, financial and other institutions	133,258	–	36,070	–	–	169,328
Murabaha and other financings	182,681	176,985	235,693	334,960	253,685	1,184,004
Musharaka financing	291	64	1,686	7,036	6,688	15,765
Investment in Mudaraba	1,740	–	6,102	322	–	8,164
Investment in associates	–	–	–	–	257,298	257,298
Investment securities	31,582	13,518	144,013	159,859	48,052	397,024
Restricted investment accounts	–	–	–	–	81,438	81,438
Assets acquired for leasing	–	–	–	16,079	6,855	22,934
Investment in real estate	21,116	–	–	78,619	51,648	151,383
Other assets	36,056	86	42,509	11,298	7,199	97,148
Fixed assets	66	173	440	6,650	36,618	43,947
Intangible assets	–	–	–	–	90,806	90,806
Total assets	**611,654**	**190,826**	**466,513**	**614,823**	**840,287**	**2,724,103**
Customer current accounts	450,034	–	–	–	–	450,034
Due to banks, financial and other institutions	264,946	46,780	149,916	27,829	5,599	495,070
Due to investors	465,590	78,633	149,817	24,712	45	718,797
Other liabilities	65,102	57	22,237	260	2,966	90,622
Total liabilities	**1,245,672**	**125,470**	**321,970**	**52,801**	**8,610**	**1,754,523**
Equity of unrestricted investment accountholders	258,787	78,961	196,153	125,260	1,012	660,173
Total liabilities and equity of unrestricted investment accountholders	**1,504,459**	**204,431**	**518,123**	**178,061**	**9,622**	**2,414,696**
Contingent liabilities and commitments	**570,443**	**147,024**	**224,880**	**239,085**	**12,142**	**1,193,574**
31 December 2011						
Total assets	504,931	231,367	590,650	556,593	717,540	2,601,081
Total liabilities and equity of unrestricted investment accountholders	1,277,400	226,327	576,123	167,117	48,929	2,295,896
Contingent liabilities and commitments	200,497	76,378	431,414	443,258	23,745	1,175,292

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private Individuals	Textile	Other	Total
31 December 2012								
Cash and balances with banks and central banks	168,652	–	–	36,212	–	–	–	204,864
Commodity and other placements with banks, financial and other institutions	169,328	–	–	–	–	–	–	169,328
Murabaha and other financings	82,133	430,208	68,432	120,422	235,659	95,684	151,466	1,184,004
Musharaka financing	419	4,383	–	–	3,240	664	7,059	15,765
Investment in Mudaraba	451	–	7,713	–	–	–	–	8,164
Investment in associates	181,600	4,221	35,308	36,169	–	–	–	257,298
Investment securities	319,093	11,564	22,581	36,919	–	458	6,409	397,024
Restricted investment accounts	64,819	–	16,619	–	–	–	–	81,438
Assets acquired for leasing	–	3,185	15,403	130	4,182	–	34	22,934
Investment in real estate	3,223	–	148,160	–	–	–	–	151,383
Other assets	58,704	3,487	14,698	5,699	10,997	5	3,558	97,148
Fixed assets	24,432	–	19,515	–	–	–	–	43,947
Intangible assets	90,806	–	–	–	–	–	–	90,806
Total assets	**1,163,660**	**457,048**	**348,429**	**235,551**	**254,078**	**96,811**	**168,526**	**2,724,103**
Customer current accounts	4,029	138,007	13,166	51,492	189,997	3,428	49,915	450,034
Due to banks, financial and other institutions	495,070	–	–	–	–	–	–	495,070
Due to investors	60,421	83,830	2,754	125,856	321,372	42,435	82,129	718,797
Other liabilities	5,264	2,076	19,886	13,445	7,426	–	42,525	90,622
Total liabilities	**564,784**	**223,913**	**35,806**	**190,793**	**518,795**	**45,863**	**174,569**	**1,754,523**
Equity of unrestricted investment accountholders	13,262	176,815	45,209	93,419	267,650	–	63,818	660,173
Total liabilities and equity of unrestricted investment accountholders	**578,046**	**400,728**	**81,015**	**284,212**	**786,445**	**45,863**	**238,387**	**2,414,696**
Contingent liabilities and commitments	**496,006**	**512,889**	**15,601**	**121,156**	**3,883**	**21,779**	**22,260**	**1,193,574**
31 December 2011								
Total assets	1,240,616	412,635	336,026	218,027	179,270	5,796	208,711	2,601,081
Total liabilities and equity of unrestricted investment accountholders	721,069	339,769	68,350	275,317	657,359	45,972	188,060	2,295,896
Contingent liabilities and commitments	451,613	514,330	17,065	58,130	15,925	10,754	107,475	1,175,292

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

	Asia/ Pacific	Middle East	Europe	North America	Other	Total
31 December 2012						
Assets						
Cash and balances with banks and central banks	100,160	52,444	50,126	2,134	–	204,864
Commodity and other placements with banks, financial and other institutions	475	126,019	39,783	–	3,051	169,328
Murabaha and other financings	681,448	377,158	80,102	3	45,293	1,184,004
Musharaka financing	15,765	–	–	–	–	15,765
Investment in Mudaraba	–	–	322	7,842	–	8,164
Investment in associates	25,768	228,163	–	–	3,367	257,298
Investment securities	354,319	36,822	1,767	4,116	–	397,024
Restricted investment accounts	–	67,647	13,791	–	–	81,438
Assets acquired for leasing	–	22,886	–	48	–	22,934
Investment in real estate	3,223	107,878	40,282	–	–	151,383
Other assets	51,671	24,788	14,264	6,425	–	97,148
Fixed assets	23,621	20,154	172	–	–	43,947
Intangible assets	10,395	78,812	1,599	–	–	90,806
Total assets	**1,266,845**	**1,142,771**	**242,208**	**20,568**	**51,711**	**2,724,103**
Customer current accounts	254,973	85,099	98,751	2,650	8,561	450,034
Due to banks, financial and other institutions	139,585	301,103	229	3,641	50,512	495,070
Due to investors	715,789	3,008	–	–	–	718,797
Other liabilities	37,041	45,932	4,906	2,694	49	90,622
Total liabilities	**1,147,388**	**435,142**	**103,886**	**8,985**	**59,122**	**1,754,523**
Equity of unrestricted investment accountholders	139	656,065	2,868	999	102	660,173
Total liabilities and equity of unrestricted investment accountholders	**1,147,527**	**1,091,207**	**106,754**	**9,984**	**59,224**	**2,414,696**
Contingent liabilities and commitments	**892,996**	**280,224**	**15,371**	**2,709**	**2,274**	**1,193,574**
31 December 2011						
Total assets	1,278,726	1,049,141	211,500	35,422	26,292	2,601,081
Total liabilities and equity of unrestricted investment accountholders	1,146,544	1,007,505	117,378	9,075	15,394	2,295,896
Contingent liabilities and commitments	969,769	177,530	15,262	2,709	10,022	1,175,292

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT

CREDIT RISK

The significant concentration of credit risk at 31 December is set out in note 36.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognised in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment accountholders:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	**27,811**	**26,881**	**54,692**	134,077	17,686	151,763
Non performing financing exposures	**134,775**	**55,205**	**189,980**	147,175	65,253	212,428
	162,586	**82,086**	**244,672**	281,252	82,939	364,191
Fair value of collateral						
Past due but performing financing exposures	**42,274**	**27,733**	**70,007**	215,485	9,011	224,496
Non performing financing exposures	**347,997**	**33,601**	**381,598**	248,418	89,378	337,796
	390,271	**61,334**	**451,605**	463,903	98,389	562,292

Included in the performing financing exposures of the Group are facilities which have been restructured during the year and hence are considered performing which are as follows:

	31 December 2012			31 December 2011		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	**16,679**	**17,883**	**34,562**	15,891	26,367	42,258

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT (continued)

PROFIT RATE RISK

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
31 December 2012							
Cash and balances with banks and central banks	87,221	7,244	9,924	–	–	100,475	204,864
Commodity and other placements with banks, financial and other institutions	150,426	–	18,902	–	–	–	169,328
Murabaha and other financings	228,112	297,241	295,704	164,905	198,042	–	1,184,004
Musharaka financing	330	64	1,686	13,685	–	–	15,765
Investment securities	44,892	33,791	171,007	41,237	36,871	69,226	397,024
Assets acquired for leasing	14,666	–	–	677	7,591	–	22,934
Other assets	1,785	532	858	9,794	7,317	76,862	97,148
Total financial assets	**527,432**	**338,872**	**498,081**	**230,298**	**249,821**	**246,563**	**2,091,067**
Customer current accounts	–	–	–	–	–	450,034	450,034
Due to banks, financial and other institutions	257,947	46,780	156,822	27,829	5,598	94	495,070
Due to investors	222,135	218,254	267,225	11,136	47	–	718,797
Other liabilities	11,047	32	911	7,789	–	70,843	90,622
Total financial liabilities	**491,129**	**265,066**	**424,958**	**46,754**	**5,645**	**520,971**	**1,754,523**
Equity of unrestricted investment accountholders	258,324	97,961	182,952	120,847	89	–	660,173
Total financial liabilities and equity of unrestricted investment accountholders	**749,453**	**363,027**	**607,910**	**167,601**	**5,734**	**520,971**	**2,414,696**
Total repricing gap	**(222,021)**	**(24,155)**	**(109,829)**	**62,697**	**244,087**	**(274,408)**	**(323,629)**
31 December 2011							
Total financial assets	431,953	182,635	534,229	345,392	236,862	246,751	1,977,822
Total financial liabilities and equity of unrestricted investment accountholders	960,407	216,336	609,370	109,189	478	400,116	2,295,896
Total repricing gap	(528,454)	(33,701)	(75,141)	236,203	236,384	(153,365)	(318,074)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT (continued)

	USD	EUR	PKR	BD	AED
As at 31 December 2012					
Total profit rate exposure	152,617	76,017	40,818	358,304	114,446
Reasonable shift	0.48%	0.72%	2.50%	0.55%	0.32%
Total effect on income	**733**	**547**	**1,020**	**1,971**	**366**
As at 31 December 2011					
Total profit rate exposure	132,134	27,176	35,642	351,097	115,936
Reasonable shift	0.08%	0.22%	0.15%	0.24%	0.08%
Total effect on income	**106**	**60**	**53**	**843**	**93**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

PRICE RISK

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (31 December 2011: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

	Impact on other components of equity	
	2012	2011
Index		
Pakistan stock exchange (+/-10%)	**1,574**	2,929

38. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

Related parties include:

(a) Directors and major shareholders of the Bank and companies in which they have an ownership interest.

(b) Corporate, whose ownership and management is common with the bank.

(c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.

(d) Associated companies of the Bank.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

38. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2012		31 December 2011	
	Relating to owners	**Relating to unrestricted investment accounts**	Relating to owners	Relating to unrestricted investment accounts
Assets				
Commodity and other placements with banks, financial and other institutions - note (i)	**49,181**	**9,427**	49,705	9,426
Murabaha and other financings	**77,370**	**4,829**	77,299	4,829
Investment securities	**–**	**5,082**	–	6,403
Other assets - note (i)	**22,473**	**–**	21,987	–
Liabilities				
Customers' current accounts	**1,637**	**–**	1,964	–
Due to banks, financial and other institutions	**95,323**	**–**	92,567	–
Unrestricted investment accounts	**–**	**40,808**	–	33,084
Other liabilities	**2,862**	**–**	1,955	–
Funds managed by related parties	**–**	**7,171**	–	7,476

The Group entered into the following significant transactions with related parties during the year:

	31 December 2012	31 December 2011
Income from financings and short-term liquid funds	**1,445**	1,332
Dividends received	**5,543**	6,000
Expense recovery	**3,345**	4,438
Profit paid	**27**	51

Note (i) - The Group has obtained pledge of specific assets totalling BD 82.9 million (31 December 2011: BD 56.4 million) against the outstanding exposure.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

39. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December (computed under Basel II regulations as prescribed by the CBB):

	31 December 2012	31 December 2011
Tier 1	**255,524**	259,733
Tier 2	**16,522**	18,555
Total capital base	**272,046**	278,288
Total risk-weighted exposures	**2,151,639**	2,160,579
Capital adequacy ratio	**12.64%**	12.88%

40. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2012 (31 December 2011: Nil).

41. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are covered by the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2012	31 December 2011
INCOME		
Group's share of income from funds under management	**305**	783
Income from other financings	**84,251**	89,764
Share of profit after tax from associates - note (i)	**11,610**	6,373
Income from investments	**42,036**	41,959
Other income	**16,438**	10,527
Gross income	**154,640**	149,406
Less: profit paid to banks, financial and other institutions (net) - note (ii)	**(79,968)**	(86,176)
Total income	**74,672**	63,230

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

41. NON-SHARIA COMPLIANT INCOME AND EXPENSES (continued)

	Year ended 31 December 2012	Year ended 31 December 2011
EXPENSES		
Administrative and general expenses - note (ii)	**(44,810)**	(48,262)
Depreciation and amortisation	**(9,379)**	(10,996)
Total expenses	**(54,189)**	(59,258)
Net income before provision for impairment and overseas taxation	**20,483**	3,972
Provision for impairment (net)	**(9,363)**	(653)
Net income before overseas taxation	**11,120**	3,319
Overseas taxation	**(2,239)**	(505)
NET INCOME FOR THE YEAR	**8,881**	2,814
Attributable to:		
Equity holders of the Bank	**7,520**	2,870
Minority interests	**1,361**	(56)
	8,881	2,814
Basic and diluted earnings per share	**Fils 2.80**	Fils 1.06

Note (i) - The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) - Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) - One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 52 (31 December 2011: 45 branches) out of total 265 branches (31 December 2011: 257 branches).

42. COMPARATIVES

Certain comparative figures have been reclassified to conform to the current year presentation.

ANNEXES

Basel II Pillar III Quantitative Disclosures

at 31 December 2012

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Basel II Pillar III Quantitative Disclosures

at 31 December 2012

1. BACKGROUND

The Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2012, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures are mainly related to compliance with the Basel II Pillar III Quantitative Disclosure requirements and should be read in conjunction with the Group's consolidated financial statements and annual report for the year ended 31 December 2012.

2. BASEL II FRAMEWORK

CBB has issued Basel II guidelines for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a risk based approach for calculation of regulatory capital. The Basel II framework is expected to strengthen the risk management practices across the financial institutions.

The Basel II framework is based on three pillars as follows:

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information

3. METHODOLOGY

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarised as follows:

- Line-by-line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group with the exception of Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction (PCD) module.
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. APPROACHES ADOPTED FOR DETERMINING REGULATORY CAPITAL REQUIREMENTS

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. GROUP STRUCTURE

The Group's consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with AAOIFI. However, the CBB's consolidated capital adequacy methodology accommodates both line-by-line and aggregation forms of consolidation.

Line-by-line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	66.6 percent	Full Aggregation

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. CONSOLIDATED CAPITAL STRUCTURE FOR CAPITAL ADEQUACY PURPOSE

A	**TIER 1 CAPITAL**	
	Issued and fully paid-up ordinary capital	252,915
	Reserves	
	General reserves	21,385
	Statutory reserve	14,360
	Share premium	56,404
	Others	(6,806)
	Accumulated losses	(103,149)
	Minority interest in the equity of subsidiaries	41,417
	Aggregation	76,348
	Sub-Total	**352,874**
	Regulatory deductions:	
	Goodwill	(30,014)
	Loss for the year	(16,780)
	Total Tier 1 capital before PCD deductions	**306,080**
B	**TIER 2 CAPITAL**	
	General provision	13,362
	Profit equalisation reserves	3,793
	Unrealised gains arising from fair valuations (45%)	9,530
	Aggregation	16,522
	Total Tier 2 capital before PCD deductions	**43,207**
C	**TOTAL AVAILABLE CAPITAL (A+B)**	**349,287**
D	**GENERAL DEDUCTIONS FROM TIER 1 & 2 UNDER PCD MODULE**	
	Deduction of unconsolidated financial subsidiaries which are aggregated or deducted	(37,562)
	Deduction of unconsolidated financial associates which are aggregated or deducted	(13,735)
	Excess over maximum permitted large exposure limit	(25,944)
	Total deductible items	**(77,241)**
E	**TOTAL ELIGIBLE CAPITAL (C-D)**	**272,046**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. DISCLOSURE OF THE REGULATORY CAPITAL REQUIREMENTS FOR CREDIT RISK UNDER STANDARDISED APPROACH

EXPOSURE FUNDED BY SELF FINANCE

	Risk weighted assets	Capital requirement
Claims on sovereign	27,948	3,354
Claims on other public sector entities	1,549	186
Banks	68,684	8,242
Corporate portfolio	167,448	20,094
Investments in securities	345,955	41,515
Holding of real estate	425,589	51,071
Regulatory retail	1,367	164
Residential mortgage	11,552	1,386
Past due financings	20,242	2,429
Other assets	68,156	8,179
Aggregation	615,397	73,848
Total	**1,753,887**	**210,468**

EXPOSURE FUNDED BY UNRESTRICTED INVESTMENT ACCOUNTS (URIA)

	Risk weighted assets	Capital requirement
Corporate portfolio	40,683	4,882
Equity portfolio	10,182	1,222
Holding of real estate	15,547	1,866
Regulatory retail	48,426	5,811
Past due financings	12,075	1,449
Total	**126,913**	**15,230**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. GROSS CREDIT EXPOSURES

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on-balance sheet assets are as follows:		
Cash and balances with banks and central banks	204,864	173,817
Commodity and other placements with banks, financial and other institutions	169,328	179,708
Murabaha and other financings	1,184,004	1,107,177
Musharaka financing	15,765	15,897
Investments	918,241	939,183
Other assets	97,148	105,869
Fixed assets	43,947	46,933
Intangible assets	90,806	94,010
Total on-balance sheet credit exposure	**2,724,103**	**2,662,594**
Credit risk exposure relating to off-balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	383,133	351,939
Financing commitments, undrawn facilities and other credit related liabilities	810,441	832,495
Total off-balance sheet credit exposure	**1,193,574**	**1,184,434**
Total credit exposure	**3,917,677**	**3,847,028**
Total credit exposure financed by URIA	**679,383**	**625,337**
Total credit exposure financed by URIA (%)	**17%**	**16%**

Average gross credit exposures have been calculated based on the average of balances outstanding at the year ended 31 December 2012.

9. GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES

	Asia/Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	100,160	52,444	50,126	2,134	–	204,864
Commodity and other placements with banks, financial and other institutions	475	126,019	39,783	–	3,051	169,328
Murabaha and other financings	681,448	377,158	80,102	3	45,293	1,184,004
Musharaka financing	15,765	–	–	–	–	15,765
Investments	383,310	463,396	56,162	12,006	3,367	918,241
Other assets	51,671	24,788	14,264	6,425	–	97,148
Fixed assets	23,621	20,154	172	–	–	43,947
Intangible assets	10,395	78,812	1,599	–	–	90,806
Total on-balance sheet items	**1,266,845**	**1,142,771**	**242,208**	**20,568**	**51,711**	**2,724,103**
Off-balance sheet items	**892,996**	**280,224**	**15,371**	**2,709**	**2,274**	**1,193,574**
Total credit exposure	**2,159,841**	**1,422,995**	**257,579**	**23,277**	**53,985**	**3,917,677**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. INDUSTRIAL DISTRIBUTION OF CREDIT EXPOSURES

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	168,652	–	–	36,212	–	–	–	204,864
Commodity and other placements with banks, financial and other institutions	169,328	–	–	–	–	–	–	169,328
Murabaha and other financings	82,133	430,208	68,432	120,422	235,659	95,684	151,466	1,184,004
Musharaka financing	419	4,383	–	–	3,240	664	7,059	15,765
Investments	569,186	18,970	245,784	73,218	4,182	458	6,443	918,241
Other assets	58,704	3,487	14,698	5,699	10,997	5	3,558	97,148
Fixed assets	24,432	–	19,515	–	–	–	–	43,947
Intangible assets	90,806	–	–	–	–	–	–	90,806
Total on-balance sheet items	**1,163,660**	**457,048**	**348,429**	**235,551**	**254,078**	**96,811**	**168,526**	**2,724,103**
Off-balance sheet items	**496,006**	**512,889**	**15,601**	**121,156**	**3,883**	**21,779**	**22,260**	**1,193,574**
Total credit exposure	**1,659,666**	**969,937**	**364,030**	**356,707**	**257,961**	**118,590**	**190,786**	**3,917,677**

11. MATURITY BREAKDOWN OF CREDIT EXPOSURES

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	204,864	–	–	–	–	–	–	204,864
Commodity and other placements with banks, financial and other institutions	133,258	–	36,070	–	–	–	–	169,328
Murabaha and other financings	182,681	176,985	235,693	334,959	241,321	12,365	–	1,184,004
Musharaka financing	291	64	1,686	7,040	5,254	1,430	–	15,765
Investments	54,438	13,518	150,115	254,878	363,854	–	81,438	918,241
Other assets	36,056	86	42,509	11,299	7,198	–	–	97,148
Fixed assets	66	173	440	6,651	36,617	–	–	43,947
Intangible assets	–	–	–	2,546	–	88,260	–	90,806
Total on-balance sheet items	**611,654**	**190,826**	**466,513**	**617,373**	**654,244**	**102,055**	**81,438**	**2,724,103**
Off-balance sheet items	**570,443**	**147,024**	**224,880**	**239,085**	**12,142**	**–**	**–**	**1,193,574**
Total credit exposure	**1,182,097**	**337,850**	**691,393**	**856,458**	**666,386**	**102,055**	**81,438**	**3,917,677**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. RELATED-PARTY BALANCES UNDER CREDIT EXPOSURE

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2012 were as follows:

Affiliated companies	163,342
Directors & key management	5,020
Total	**168,362**

CONCENTRATION OF RISK TO INDIVIDUAL COUNTERPARTIES WHERE THE CREDIT EXPOSURE IS IN EXCESS OF THE 15% INDIVIDUAL OBLIGOR LIMIT

Non-banks	60,881
Total	**60,881**

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	91,621	70,132	21,489
Agriculture	5,084	2,132	2,952
Construction	6,142	1,321	4,821
Finance	933	721	212
Trade	45,351	19,011	26,340
Personal	19,548	8,826	10,722
Real estate	13,769	7,365	6,404
Technology and telecommunications	543	334	209
Transportation	1,906	681	1,225
Other sectors	5,083	855	4,228
Total	**189,980**	**111,378**	**78,602**
Ageing analysis			
Over 3 months up to 1 year	22,305	3,856	18,449
Over 1 year up to 3 years	54,498	24,310	30,188
Over 3 years	113,177	83,212	29,965
Total	**189,980**	**111,378**	**78,602**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT (continued)

	Relating to owners	Relating to unrestricted investment accounts	Total
Movement in impairment provisions			
At 1 January	88,051	17,808	105,859
Charge for the year	18,634	3,467	22,101
Write back during the year	(11,054)	(544)	(11,598)
Utilised during the year	(605)	–	(605)
Exchange differences	(4,379)	–	(4,379)
At 31 December	**90,647**	**20,731**	**111,378**

14. PAST DUE AND IMPAIRED FINANCINGS BY GEOGRAPHICAL AREAS

	Gross exposure	Impairment provisions	Net exposure
Analysis by Geography			
Asia/Pacific	127,447	77,152	50,295
Middle East	58,830	33,561	25,269
Europe	3,703	665	3,038
Total	**189,980**	**111,378**	**78,602**

15. DETAILS OF CREDIT FACILITIES OUTSTANDING THAT HAVE BEEN RESTRUCTURED DURING THE YEAR

Restructured financings during the year ended 31 December 2012 aggregated to BD 34.6 million. This restructuring had an impact of BD 1.8 million on present earnings during the year ended 31 December 2012. Further, this restructuring is expected to have positive impact of BD 0.8 million on the Group's future earnings in 2013. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

16. CREDIT EXPOSURES WHICH ARE COVERED BY ELIGIBLE FINANCIAL COLLATERAL

	Gross exposure	Eligible financial collateral
Exposure funded by self finance		
Corporate portfolio	674,405	94,786
Banks	14,329	110
Retail	94,142	11,915
Public sector entities	40,389	863
Past due financings	57,756	6,267
Total	**881,021**	**113,941**
Exposure funded by unrestricted investment accounts		
Corporate portfolio	163,830	28,320
Past due financings	32,061	2,531
Total	**195,891**	**30,851**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDISED APPROACH

	Risk weighted assets			Capital requirement		
	31 December 2012	Maximum value	Minimum value	31 December 2012	Maximum value	Minimum value
Foreign exchange risk	52,375	55,095	50,268	6,285	6,611	6,032
Aggregation	50,614	60,368	43,892	6,074	7,244	5,267
Total	**102,989**	**115,463**	**94,160**	**12,359**	**13,855**	**11,299**

18. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR OPERATIONAL RISK UNDER THE BASIC INDICATOR APPROACH

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2012 aggregated to BD 20.14 million.

19. TIER ONE CAPITAL RATIOS AND TOTAL CAPITAL RATIOS

	Tier One capital ratio	Total capital ratio
Ithmaar consolidated	10.64%	12.64%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	8.79%	10.98%

20. EQUITY POSITION IN BANKING BOOK

At 31 December 2012, the Group's investment securities aggregated to BD 397 million. Out of the total investment securities, BD 21.8 million were listed investment securities and the remaining BD 375.2 million represented unlisted investment securities.

Cumulative realised losses from sale of investment securities during the year amounted to BD 0.9 million. Total unrealised gains recognised in the consolidated statement of changes in owners' equity amounted to BD 13.5 million.

At 31 December 2012, capital requirements using standardised approach aggregated to BD 17.05 million for listed investment securities and BD 25.68 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

21. GROSS INCOME FROM MODARABA AND PROFIT PAID TO UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	31 December				
	2012	2011	2010	2009	2008
Income from unrestricted investment accounts	**35,139**	25,608	23,203	18,411	18,862
Less: return to unrestricted investment accounts	**(26,686)**	(24,512)	(21,261)	(16,888)	(14,276)
Group's share of income from unrestricted investment accounts as a Mudarib	**8,453**	1,096	1,942	1,523	4,586

For the year ended 31 December 2012, the return to unrestricted investment accountholders based on the average balance outstanding during the year stood at 4.8%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the year ended 31 December 2012 as a percentage of gross income from unrestricted investment accounts stood at 7.4%.

22. MOVEMENT IN PROFIT EQUALISATION RESERVE AND PROVISIONS - URIA

	31 December				
	2012	2011	2010	2009	2008
Profit Equalisation Reserve					
As at 1 January	**7,015**	3,074	1,168	1,374	781
Transfer to provisions	**(5,274)**	–	–	–	–
Net addition	**2,052**	3,941	2,267	–	593
Net utilisation	**–**	–	(360)	(206)	–
As at 31 December	**3,793**	7,015	3,075	1,168	1,374
Amount appropriated as a percentage of gross profit	**6%**	15%	10%	–	3%
Provisions					
As at 1 January	**25,958**	26,302	24,289	17,554	14,452
Net addition	**2,415**	549	2,060	6,735	3,102
Transfer from profit equalisation reserve	**5,274**	–	–	–	–
Net utilisation	**(334)**	–	(47)	–	–
Reclassification	**–**	(893)	–	–	–
As at 31 December	**33,313**	25,958	26,302	24,289	17,554

At 31 December 2012, the ratio of profit equalisation reserve and provisions to equity of unrestricted investment accountholders stood at 0.6% and 5% respectively.

At 31 December 2012, the ratio of financings to URIA stood at 60%.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23. AVERAGE DECLARED RATE OF RETURN ON GENERAL MODARABA DEPOSITS

	31 December				
	2012 %	2011 %	2010 %	2009 %	2008 %
7 Days	**0.25**	0.30	0.50	0.50	0.52
30 Days	**1.90**	2.31	3.00	3.17	3.26
90 Days	**2.48**	2.90	3.25	3.25	3.27
180 Days	**2.90**	3.25	3.50	3.50	3.51
360 Days	**3.40**	3.50	3.70	3.63	3.68

24. PROFIT RATE RISK

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	PKR	EUR	BD	AED
Total profit rate exposure	152,617	40,818	76,017	358,304	114,446
Rate shock (assumed) (+/-)	0.48%	2.50%	0.72%	0.55%	0.32%
Total estimated impact (+/-)	**733**	**1,020**	**547**	**1,971**	**366**

25. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistani Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal.

The significant net foreign currency positions at 31 December 2012 were as follows:

	Long/(Short)
Pakistani Rupee	36,315
Euro	(59,827)
United States Dollars	52,454
Polish Zloty	23,132
UAE Dirham	(114,446)
Hong Kong Dollar	25,395

26. LEGAL CONTINGENCIES AND COMPLIANCE

At 31 December 2012, the Group had contingent liabilities towards customer claims aggregating to BD 146.9 million. The management is of the view that these claims are not likely to result into potential liabilities.

Share Information

SHAREHOLDING STRUCTURE

Range	31 December 2012 No. of shareholders	31 December 2012 No. of shares	31 December 2012 % of shares	31 December 2011 No. of shareholders	31 December 2011 No. of shares	31 December 2011 % of shares
1 - 10,000	**129**	**668,043**	**0.024**	118	625,630	0.022
10,001 - 100,000	**2,278**	**49,599,163**	**1.769**	2,273	48,486,026	1.729
100,001 - 1,000,000	**452**	**152,350,779**	**5.433**	443	147,774,553	5.270
1,000,001 - 10,000,000	**142**	**439,916,122**	**15.689**	139	453,886,460	16.187
Over 10,000,000	**33**	**2,161,516,160**	**77.085**	32	2,153,277,598	76.792
Total	**3,034**	**2,804,050,267**	**100.000**	3,005	2,804,050,267	100.000

SHAREHOLDING BY NATIONALITY

Country	31 December 2012 No. of shareholders	31 December 2012 No. of shares	31 December 2012 % of shares	31 December 2011 No. of shareholders	31 December 2011 No. of shares	31 December 2011 % of shares
Bahamas	**2**	**1,384,545,224**	**49.377**	3	1,384,545,224	49.377
Bahrain	**879**	**233,835,876**	**8.339**	951	255,655,458	9.117
Saudi Arabia	**931**	**446,286,022**	**15.916**	941	464,981,637	16.583
Other GCC Countries	**798**	**551,695,452**	**19.675**	681	461,231,845	16.449
Other Countries	**424**	**187,687,693**	**6.693**	429	237,636,103	8.475
Total	**3,034**	**2,804,050,267**	**100.000**	3,005	2,804,050,267	100.000

NO. OF SHARES OWNED BY THE GOVERNMENT

	No. of shares	% of shares
Ministry of Finance, Social Insurance Organisation (Pension)	**36,960,000**	**1.318**

MAJOR SHAREHOLDERS OF ITHMAAR BANK

Shareholder	No. of shares	% of shares
Dar Al-Maal Al-Islami Trust	**790,416,000**	**28.19**
Islamic Investment Company of the Gulf	**594,129,224**	**21.19**
Others	**1,419,505,043**	**50.62**
Total	**2,804,050,267**	**100.00**

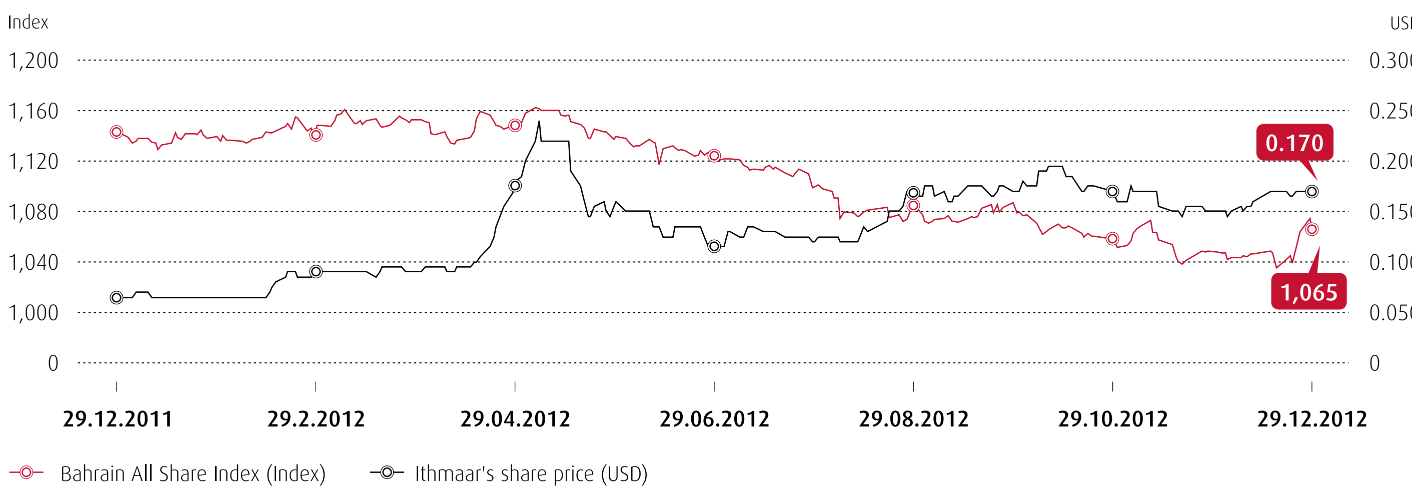
PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR

SHARE PRICE RELATIVE TO INDICES - 2012

Benchmark	Open	High	Low	Close	% Change in 2012
ITHMR's Share Price (in USD)	**0.065**	**0.255**	**0.065**	**0.170**	**161.54**
Commercial Banks Sector Index	1,814.05	1,914.62	1,656.81	1,792.20	(1.20)
Bahrain All Share Index	1,143.69	1,162.19	1,035.30	1,065.61	(6.83)
Esterad Index	1,218.26	1,227.25	1,075.13	1,102.58	(9.50)
Dow Jones Bahrain Index	98.20	99.91	86.15	89.53	(8.83)

Ithmaar Bank share price movement



* *The share price is USD 0.24 as at the date of publishing this Annual Report.*

ITHMR SHARE TRADING

	2012	2011
Volume, No. of shares	**147,210,169**	45,433,873
Value, BD	**8,589,367**	1,615,440

Share Information

MARKET CAPITALISATION AND TURNOVER

Benchmark	2012 Market cap (BD)	2012 % of total market cap	2012 Share turnover (%)	2011 Market cap (BD)	2011 % of total market cap	2011 Share turnover (%)
ITHMR	**179,711,582**	**3.07**	**4.78**	**68,713,252**	**1.10**	**2.35**
Sector	2,327,593,590	39.75	2.94	2,393,210,243	38.26	2.09
Market	5,855,641,334	100.00	1.74	6,254,410,718	100.00	1.63

RANKING

ITHMR's ranking in 2012 out of the 41 local listed companies in the Bahrain Bourse.

	Value of shares traded (BD)	Volume of shares traded	No. of transactions	Market capitalisation (BD)	Share turnover	No. of trading days
Ranking	2	2	1	10	3	3

TRADING DAYS

	2012 No. of days	2012 %	2011 No. of days	2011 %
ITHMR	**173**	**69.76**	103	42.04
Market	**248**	**100.00**	205	100.00

TRADING OF DIRECTORS AND EXECUTIVE MANAGEMENT SHARES

The only trading of Directors and Executive Management shares during 2012 was the purchase of 65,118 shares by Director Tunku Dato' Ya'acob Bin Tunku Abdullah to meet the minimum shareholding requirements to be a Director.

GRI Content Index

Index No.	Description	Report Section	Page/s
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2.	**Organisational Profile**		
2.1	Name of the organisation	Corporate Information	171
2.2	Primary brands, products and/or services	Corporate Profile	17
2.3	Operational structure of the organisation	Corporate Profile, Corporate Governance	16,77
2.4	Location of organisation's headquarters	Corporate Information	171
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Corporate Profile, Note 1 to the Consolidated Financial Statements	16, 108
2.6	Nature of ownership & legal form	Corporate Information	171
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2.8	Scale of the reporting organisation	Corporate Profile	16-18
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2.10	Awards received during the reporting period	Corporate Profile	19 & 20
3.	**Report Parameters**		
3.1	Reporting period	Report Parameters	21
3.2	Date of most recent previous report	Report Parameters	21
3.3	Reporting cycle	Report Parameters	21
3.4	Contact point for questions regarding the report or its contents	Report Parameters	21
3.5	Defining report content	Report Parameters	21
3.6	Boundary of the report	Report Parameters	21
3.7	Any specific limitations on the scope or boundary of the report	Report Parameters	21
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations	Note 2 to the Consolidated Financial Statements	110
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3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	Financial Highlights, Delivering Value	7,24,42
3.12	Table identifying the location of the standard disclosures in the report	Annexes	167-169

GRI Content Index

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4.2	Indicate whether the chair of the highest governance body is also an executive officer	Corporate Governance	71
4.3	The number of members of the highest governance body that are independent and/or non-executive members	Board of Directors	60-63
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Corporate Governance	80
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4.15	Basis for identification and selection of stakeholders with whom to engage	Delivering Value	24, 28, 33, 38,42
Economic Performance			
EC3	Coverage of the organisation's defined benefit plan obligations	Delivering Value	36 & 37
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Delivering Value	40
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	Delivering Value	38-40
Environmental Performance			
EN16	Total direct and indirect greenhouse gas emissions by weight	Delivering Value	42 & 43
EN17	Other relevant indirect greenhouse gas emissions by weight	Delivering Value	42 & 43
Society			
SO3	Percentage of employees trained in Organisation's anti-corruption policies and procedures	Delivering Value	41
Labour Practices and Decent Work			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	Delivering Value	33 & 34
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by province	Delivering Value	36
LA10	Average hours of training per year per employee by employee category	Delivering Value	34 & 35
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PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Delivering Value	32
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Delivering Value	41
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Delivering Value	41
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Delivering Value	41

GRI APPLICATION LEVEL TABLE

Standard Disclosures	Report Application Level		C	C+	B	B+	A	A+
	Profile Disclosures	output →	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	Disclosures on Management Approach	output →	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosed for each Indicator Category	
	Performance Indicators & Sector Supplement Performance Indicators	output →	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: Social, Economic and Environmental.		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: Economic, Environment, Human Rights, Labour, Society, Product Responsibility.		Respond on each core and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	
			✓					

Glossary of Key Financial Terms Used

Capital Adequacy Ratio
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements.

Cost to Income Ratio
Total expenses expressed as a percentage of total income; a measure of operational efficiency.

Earnings per Share
Profit (or loss) attributable to shareholders divided by the weighted average number of issued and paid up shares during the year.

Ijarah or Ijara
A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

Impairment
An occurrence when the value of an asset is less than the carrying amount; a measure of asset quality.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production or supply of goods and/or services.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily.

Market Capitalisation
Number of shares in issue multiplied by the market value of a share at a particular point in time.

Mudarib
An entrepreneur or investment manager in a Mudaraba contract who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudaraba is similar to a diversified pool of assets held in a discretionary asset management portfolio.

Mudaraba
An investment partnership, whereby the investor provides capital to the entrepreneur (the 'Mudarib') in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are borne by the investor alone. The Mudarib loses only his share of the expected income. The investor has no right to interfere in the management of the business, but can specify conditions that would ensure better management of his money. A joint Mudaraba can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudaraba.

Murabaha
Cost plus financing. A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The Bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

Musharaka
An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners contribute equity funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure or the holding of voting stock in a limited company.

Permanent Musharaka: An Islamic bank participates in the equity of a project and receives a share of the profit on a *pro rata* basis. The length of contract is unspecified, making it suitable for financing long-term projects.

Diminishing Musharaka: This allows equity participation and sharing of profits on a *pro rata* basis, with the bank gradually reducing its equity in the project and ultimately transferring ownership of the asset to the participants; while the entrepreneur progressively purchases the bank's equity, until the Bank has no equity and thus ceases to be a partner.

Price Earnings Multiple
Market price of a share divided by the earnings per share (not applicable when the latter is negative).

Return on Average Assets
Net profit (or loss) expressed as a percentage of the average total assets employed during the accounting period; a measure of profitability.

Return on Average Equity
Net profit (or loss) expressed as a percentage of average total equity; a measure of profitability.

Return on Average Paid in Capital
Net profit (or loss) attributable to shareholders expressed as a percentage of the average issued and paid up share capital; a measure of profitability.

Return on Average Shareholders' Equity
Net profit (or loss) attributable to shareholders expressed as a percentage of the average total owners' equity; a measure of profitability.

Sharia
Islamic jurisprudence. Islamic cannon law derived from three sources: the Quran, the Hadith and the Sunnah. A 'Sharia-compliant' product meets the requirements of Islamic law.

Sharia Supervisory Board
A committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Sharia-compliant products.

Sukuk
An Islamic bond. An asset-backed bond which is structured in accordance with Shariah and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

Takaful
Islamic insurance based on the principle of mutual assistance. Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. It is similar to mutual insurance in that members are the insurers as well as the insured.

Total Equity
The sum of paid up share capital, reserves and minority interest.

Total Owners' Equity
The sum of paid up share capital and reserves.

Corporate Information

NAME OF COMPANY →	Ithmaar Bank B.S.C.
LEGAL FORM →	Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain. Formerly an investment bank, it completed a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. Ithmaar Bank B.S.C. is incorporated as a Bahrain shareholding company under Bahrain Commercial Companies Law (Law No. 21 of 2001) with its shares listed on the Bahrain Bourse and the Kuwait Stock Exchange.
COMPANY REGISTRATION NUMBER →	CR 15210
STOCK EXCHANGE LISTINGS →	Bahrain Bourse and Kuwait Stock Exchange
STOCK CODE →	"ITHMR"
REGISTERED OFFICE →	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain Telephone: +973 1758 4000, +973 1758 5000 Facsimile: +973 1758 4017, +973 1758 5151 Swift Code: FIBHBHBM E-mail: info@ithmaarbank.com Website: www.ithmaarbank.com
HEAD OFFICE →	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain
ACCOUNTING YEAR END →	31 December
COMPLIANCE OFFICER →	Tawfiq Mohammed Al-Bastaki Assistant General Manager - Chief Risk & Compliance Officer
COMPANY SECRETARY →	Dana Aqeel Raees Executive Senior Manager - Legal Department
AUDITORS →	PricewaterhouseCoopers P.O. Box 21144, Manama, Kingdom of Bahrain

PRINCIPAL OPERATING SUBSIDIARIES AND ASSOCIATES

FAYSAL BANK LIMITED

Full-service retail banking institution that operates in Pakistan.
Ithmaar banking group ownership and control: 66.7%
www.faysalbank.com

BBK

One of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai.
Ithmaar banking group ownership and control: 25.4%
www.bbkonline.com

FAISAL PRIVATE BANK

Swiss-based bank providing Islamic financial services.
Ithmaar banking group ownership and control: 100%
www.faisalprivatebank.com

ITHMAAR DEVELOPMENT COMPANY

Developer and manager of major development projects including real estate, infrastructure, resorts, commercial buildings etc.
Ithmaar banking group ownership and control: 100%
www.ithmaarbank.com

SOLIDARITY GROUP HOLDINGS

One of the largest takaful (Islamic insurance) companies in the world.
Ithmaar banking group ownership and control: 33.8%
www.solidarity.com.bh

NASEEJ

Fully-integrated real estate and infrastructure development company.
Ithmaar banking group ownership and control: 29.5%
www.naseejproperties.com

FIRST LEASING BANK

Sharia-compliant equipment leasing in markets covering Bahrain, UAE, Kuwait, Qatar and Oman.
Ithmaar banking group ownership and control: 43.3%
www.1stleasingbank.com

SAKANA HOLISTIC HOUSING SOLUTIONS

Housing solutions through mortgage finance based on Islamic Sharia principles.
Ithmaar Bank and BBK each own 50%, resulting in Group controlling stake of 62.7% of Sakana
www.sakanaonline.com

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org
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