THE ITHMAAR PASSION Annual Report 2011

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Annual Report 2011

بنـــك الإثمـار
Ithmaar Bank

Contents

Passion is a key driver at Ithmaar Bank. It pervades our every thought and action as we carry our enterprise forward. Passion is often a painful process which we know only too well as we proceed with the renewal and growth of the Bank through a continuous process of reallocation of resources from low yielding that negatively impact business to high yielding. Passion drives our search for new vibrancy and strength.

Passion - A strong liking or desire for, or devotion to some activity, object or concept; an intense enthusiasm for something; derived from the late Latin *passio* and the Latin - *pati* which means to suffer.

Your Islamic banking partner

Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain. Formerly an investment bank, Ithmaar Bank B.S.C. completed a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. It is a publicly held company listed on the Bahrain Bourse and the Kuwait Stock Exchange; and is the second largest capitalised Islamic Bank on the Bahrain Bourse.

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 Enterprise of a Premier Islamic Retail Bank

Realisation of aspiration is what we capture, snapshot style, in this section. The path to such realisation consists of several key initiatives which Ithmaar Bank has been developing and working on, over the year. The success of these initiatives will fuel the Bank's continued growth, development and well-being and establish it as a regional Islamic Bank of stature, delivering sustainable returns to stakeholders.

Aiming to become a Regional Islamic Bank

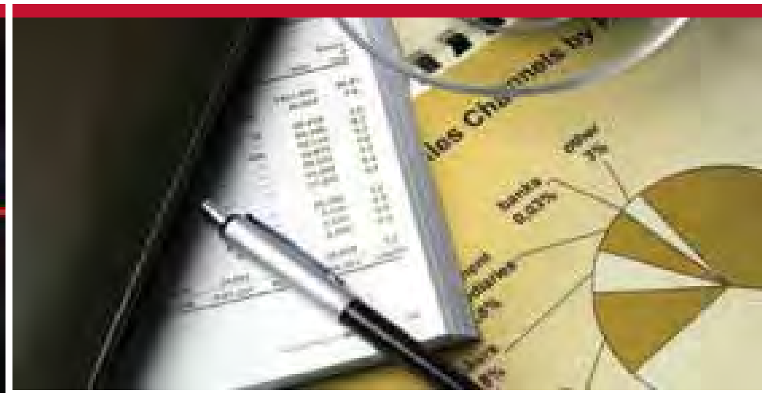
We have expanded our footprint beyond the borders of Bahrain, establishing a presence in countries across the region.

through broadening delivery channels

Growing our network of branches, ATMs and other access points and tapping new ones including social networking media are taking business further afield.

realising synergies of the group

Drawing the 'threads of enterprise' of constituent group entities for the benefit of the whole is a sine-qua-non.



reallocating resources

Reallocating assets from less productive to more profitable and operating within a framework of Islamic retail banking continue to drive growth.

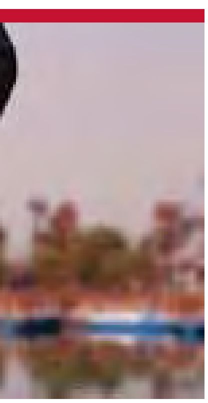
investing in IT and people

Developing and empowering our people and enhancing IT capability are vital 'building blocks' to success.

and setting a new paradigm in environmental stewardship

Measuring and disclosing our carbon footprint is but a small first step that will spur a giant leap in our quest to leave behind a better environment for our future generations.

Financial Highlights



	2011	2010 (Restated)	2009	2008	2007
Net profit/(loss) (US$ '000)	**(61,906)**	(140,008)	(251,508)	85,162	188,310
Net profit/(loss) attributable to shareholders (US$ '000)	**(62,886)**	(150,409)	(247,415)	22,168	102,755
Total equity attributable to shareholders (US$ '000)	**576,828**	656,578	711,435	923,909	1,087,808
Book value per share (US cents)	**21.50**	24.45	31.27	43.89	50.60
Earnings per share (US cents)	**(2.31)**	(5.89)	(11.31)	0.95	5.79
Total assets (US$ '000)	**6,899,420**	6,747,467	6,105,934	5,380,426	4,078,789
Funds under management (restricted and unrestricted investment accounts) (US$ '000)	**2,506,281**	2,966,362	2,206,461	1,991,673	1,723,814
Return on average shareholders' equity	**-10.20%**	-21.99%	-30.26%	2.20%	10.93%
Return on average assets	**-0.91%**	-2.18%	-4.13%	1.80%	5.09%
Return on average paid in capital	**-9.37%**	-24.26%	-45.12%	4.16%	23.07%
Cost to operating income ratio	**121.71%**	72.06%	139.31%	51.51%	41.27%
Cash dividends (US$ '000)	**–**	–	–	–	53,747
Cash dividends per share (US cents)	**–**	–	–	–	2.50
Stock dividends	**–**	–	–	10%	20%
Capital adequacy ratio	**12.88%**	13.20%	12.77%	14.41%	18.63%
Market price per share (US cents)	**6.5**	12.5	24	26	58
Price earnings multiple	**–**	–	–	27	10
Market price per share/Book value per share	**0.30**	0.51	0.77	0.59	1.15

A View from the Top

HRH Prince Amr Mohammed Al Faisal - Chairman

Mohammed Bucheerei - CEO and Member of the Board

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

It is still a little too early for celebrations. Yet, looking back on the past two years, the steady improvement recorded by the Bank in most key performance indicators is more than heartening. Not only does it hold out hope of a relatively early return to profitability, it also confirms that the bold strategy upon which we embarked in 2010 following the reorganisation with Shamil Bank is the right one.

Notwithstanding the depressed and troubled global market conditions and the unprecedented local and regional political turmoil, the Bank posted a total income of $451 million in 2011, an increase of 2.9 percent over the previous year. Although the balance sheet grew a modest 2.3 percent to reach $6.9 billion during the year, the growth in customer deposits (current accounts and unrestricted investment accounts) and financing were far more impressive. Customer deposits increased by 23.5 percent to $1.48 billion, while financing increased 8.7 percent to $2.73 billion. Such steady improvement is encouraging, but no cause for complacency. Although it suggests that we are getting things right strategically and operationally, it is hardly a milestone on the path to be traversed.

Despite improved performance and a stronger retail focused balance sheet, the year's bottom line is still negative. In the year under review shareholders of the Bank sustained a net loss of $62.9 million, notwithstanding a strong 58 percent recovery over last year's loss of $150.4 million. And while liquidity has improved significantly since the parlous position in mid-2010, capital adequacy continues to be a key focus for the Bank.

NO EASY OPTIONS IN 2011

Given the necessary readjustments and upheavals that accompanied the Bank's transformation in 2010, we should have been grateful for a quieter year...a breathing-space in which to accustom ourselves to the demands of a new business model and catch our collective breath. It was not to be. The year 2011 was unusually difficult for the world, the region and Bahrain.

Most salient, for Bahrain, was the unrest in the Kingdom since February 2011, affecting business activity and creating much uncertainty amongst investors and ordinary folks alike.

Overshadowing all of this was, of course, the Eurozone debt crisis, which raised the spectre of sovereign default in more than one European country and suggested unforeseeable political, economic and monetary turmoil resulting from the danger to a single currency. Many observers expressed fears of yet another global recession, hard on the heels of the one from which the world - and your Bank - are now slowly recovering.

Indeed, global liquidity declined even as financial markets weakened. World and regional growth slowed - and, in some markets and segments, stalled altogether.

Such was the backdrop against which Ithmaar Bank was obliged to manage its transformation. What sustained us, in the end, was our vision of what could be achieved, the passion and loyalty of our management and employees, and a determination to overcome every difficulty and obstacle with sustained, cooperative effort. The unwavering support of our shareholders and the Central Bank of Bahrain also played a key role.

A DECISION VALIDATED →

Just as we did last year, we have structured and presented this year's report so as to convey the operational and financial position of the Bank as plainly and candidly as possible. This is more than simply a question of doing what is demanded statutorily, for implicit in these figures is much that we can take pride in.

One point that clearly emerges is that the strategy we chose to follow has been proved correct. To reinvent ourselves as an Islamic retail bank was a radical move in the eyes of some, given our past history as an investment bank. Having chosen our strategy, moreover, we stuck to it even as Bahrain and the world economies were engulfed in serial crises that sapped the confidence of investors and consumers alike.

The results, this year, from our Islamic retail banking operations fully bear out our decision. The contribution of Retail Banking to revenue is the largest amongst internal business units. Encouraged by our reputation for fair dealing, and through well-designed products and services as well as innovative advertising campaigns, customers have been quick to sign up with us. We also increased our branch and ATM networks, invested in personnel development and improved a number of core systems.

Yet, even in retail banking there is no room for complacency. Our return on investment in this area is geared to improve considerably in the near future.

DISPOSAL OF A LEGACY →

Ithmaar Bank remains burdened with the carrying cost of a sizeable underperforming investment portfolio, a legacy from the financial crisis of 2008. It is, we are happy to say, a considerably lower figure than the one we started the year with. In fact following the Ithmaar-Shamil reorganisation in April 2010, we have reduced this portfolio by nearly $161 million. Had the carrying cost and the impairment provision on them been smaller, it would have been our pleasure to announce the Bank's return to profitability in 2011. Swift divestiture at the right price was and will continue to be our key objective, though increased and sustained efforts will have to be made in this area if we are to return to full profitability soon.

A QUESTION OF CAPITAL →

As mentioned earlier, the Bank aims to maintain a necessary level of capital for its ongoing growth. However a large part of its capital, in line with the current capital adequacy regulations, is allocated to support the investment portfolio, a legacy from the investment banking activities of Ithmaar Bank prior to its reorganisation with Shamil Bank in 2010. The Bank needs new capital infusion to forge ahead and exploit future opportunities for sustained growth in its core banking activities namely, Islamic retail and corporate banking.

An infusion of additional capital is essential for operational as well as statutory reasons, since it will substantially reduce our risk profile and hence reduce our borrowing costs. Raising capital is therefore a key priority in our strategic thinking as we look to the immediate future. It also means that we are making every effort to increase the value as well as the profitability of your investment to make the Bank a more attractive prospect for investors.

STRATEGIC OUTLOOK

The main drivers of our growth will continue to be retail and corporate banking. To achieve this objective, our strategy is to expand our Islamic retail and corporate banking portfolio through the introduction of new products, while seeking to improve the ratio of financing to deposits.

Corporate banking activities will be concentrated on the regional market, with particular emphasis on the SME sector in key markets such as Bahrain and Saudi Arabia. Meanwhile, the restructuring and divestiture of selected legacy investment portfolio will continue. The Asset Management Group will continue to play an important role in this area.

In International banking, we have expanded our target markets and begun intensive meetings and presentations to key prospects.

Private banking has delivered successful results despite the political upheaval in the region, and we expect to see an increase in revenues over the next few years.

ACKNOWLEDGMENTS

As stated earlier, the greater part of the credit must go to the employees and managers of the Bank for the execution of a successful turnaround in these challenging times. The value of their contribution is incalculable by any monetary measure. We would like to place on record our sincere appreciation to all members of our management and staff, as well as those of all our subsidiaries and associates around the globe. The values and the passion we share have proved their worth yet again, and we have no doubt they will continue to do so in the future.

We are most grateful to the members of the Board of Directors as well as the Sharia Supervisory Board for their wise counsel, oversight and continued support. The Board remains unswerving in its commitment to our shareholders and to the highest standards of probity and business ethics.

Thanks are also due to our numerous and varied stakeholders. In particular, we would like to 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
28 February 2012

Mohammed Bucheerei
CEO and Member of the Board

THE ITHMAAR

PASSION

Building a Sustainable Business

Already more than 60 percent of our assets are in corporate and retail banking. This reallocation of assets continues, as we move towards completing our transition from an investment bank to an Islamic retail bank. In tandem, so has been the steady increase in our income stream. We endured high front end costs to invest in growing our corporate and retail banking core businesses with a long-term view...a more painful but sustainable path of delivering on our successful strategies, versus showing short-term results. We are now on the threshold of revealing the newly resplendent Ithmaar.

Living Passion - A Year of Endurance and Reward - 2011

A Financial Review

INTRODUCTION

Ithmaar Bank, following its reorganisation in April 2010 with its wholly-owned subsidiary, Shamil Bank, continues its transformation to an Islamic Retail Bank from that of an Investment Bank.

At the time of reorganisation, a three year strategic business plan was prepared identifying the challenges that it must overcome for it to return to profitability; the most significant of them was asset allocation. Ithmaar Bank has made reasonable progress in terms of addressing these challenges and in particular in its overall performance.

Though Ithmaar Bank has reported a loss this year, its performance needs to be viewed in the context of the following challenges and results.

The global economic crisis continued to impact Ithmaar Bank's operations in respect of some of its subsidiaries and associates overseas. The unrest in Bahrain, the Bank's primary market, made matters worse. It was against this backdrop of challenging socio-economic conditions and uncertain investor sentiments that Ithmaar Bank continued to reorganise its business model, moving from an investment bank to an Islamic retail bank.

The reorganisation with Shamil Bank had its own challenges. While the market continued to offer business opportunities, competition also heightened, throwing an additional challenge to Ithmaar to complete its transformation, while being saddled with legacy issues arising from its investment banking assets.

A significant challenge for Ithmaar Bank was to rearrange its asset allocation, where more of its assets were moved to Islamic financing as opposed to investment assets. Accordingly, a critical review and plan to rationalise Ithmaar's investments were put into action. Some of them are earmarked for sale. However, though Ithmaar Bank has made progress in reducing its investment portfolio, the depressed market conditions have slowed the divestment process. On the positive side, Ithmaar Bank's core business - retail and corporate Banking - grew substantially (see separate notes on retail and corporate banking). The retail and corporate banking businesses are set to grow significantly in the medium term.

PERFORMANCE

Consolidated total income grew to $451.0 million in 2011 from $438.4 million in 2010. The growth is significant because last year's income includes one off gains totalling $82.8 million arising from two transactions one totalling $44.1 million and the other $38.7 million gain arising from an acquisition. Should we compare year on year having removed this one off income, then the growth in total income is a remarkable 27%. Importantly the growth in total income comes from a significant improvement in the income from Murabaha and other financing - a recurring and sustainable income for the longer term.

Though total income improved, it has been off set by a large increase in financing costs ($276.1 million in 2011 vs $212.8 million in 2010) and large increases in total expenses. Total expenses increased primarily in one of Ithmaar Bank's overseas subsidiaries because of an acquisition of another business in October 2010. Cost rationalisation plans are under way to contain them.

On a positive note, the net impairment provisions for the year reduced to $21.8 million compared to $209.3 million made in 2010. As before, the provisions during 2011 were estimated in line with the Bank's accounting policies.

However, despite the gains in total income and impairment provisions, they were offset by the increase in total expenses, resulting in a net loss of $62.8 million attributable to shareholders of the Bank, which is 58% lower than the net loss of $150.4 million made in 2010.

FINANCIAL POSITION

ASSETS On the asset side, Murabaha and other financing increased from $2,515 million to $2,733 million during the year. Arising from the increase in business volume, total assets increased from $6,747 million to $6,899 million in 2011, reflecting a 2.3% growth. As shown in Note 30 to the Consolidated Financial Statements on Segmental Information, corporate and retail banking now account for approximately 63% of the Group's total assets.

FUNDING It is encouraging to note a significant improvement in various sources of funding, notably customer current accounts, amounts due to investors (mainly corporates and individuals in Faysal Bank Limited) and equity of unrestricted investment account holders. Current accounts improved from $684 million to $792 million in 2011 while amounts due to investors decreased marginally from $1,970 million to $1,930 million. Further, equity of unrestricted investment account holders also increased from $1,195 million to $1,476 million during the year.

EQUITY Total owners' equity decreased from $656 million to $576 million as at 2011 mainly due to the net loss incurred for the year.

PROFITABILITY The large reduction in the net loss during the year resulted in the Return on Average Assets improving from a negative 2.18% to a negative 0.91%, while Return on Average Equity improved from a negative 21.99% to a negative 10.20%.

ASSET QUALITY

IMPAIRMENT PROVISIONS The Bank continued to review the asset portfolio and make impairment provisions on a prudent basis. A significant portion of these provisions was in relation to the investment portfolios. Details of impairment provision for assets are given in Notes 28 and 36 to the Consolidated Financial Statements.

A Financial Review

STABILITY

The Capital Adequacy Ratio (CAR) is one of the most important indicators of the stability of a bank. Accordingly, Ithmaar Bank has over the years been mindful of the need to maintain this ratio at levels above the statutory minimum. As at 31 December 2011 the consolidated CAR was 12.88%. The Bank is cognisant of the need to improve the ratio further to comfortable levels which will strengthen the stability of the institution while creating leeway for future business expansion. Ithmaar will be taking necessary steps in the coming years to further improve the CAR.

LIQUIDITY

Maintaining adequate liquidity received considerable attention throughout the year. Having raised funds through multiple sources, and refinanced certain existing liabilities to mature in 2015, the year ended on a positive note for Ithmaar. In particular, the maturity profile of the liabilities too has been improved to longer term, where more of the liabilities mature beyond one year compared to last year.

GROUP SUBSIDIARIES AND ASSOCIATES

The major operating subsidiaries and associates within the Group are briefly discussed below. Restriction on the transfer of funds or regulatory capital within the group are as per regulations in respective countries.

FAYSAL BANK LIMITED

Faysal Bank started operations in Pakistan in 1987, first as a branch of Faysal Islamic Bank of Bahrain, and then in 1995, as a locally incorporated Pakistani bank under the present name of Faysal Bank Limited (FBL). Another group entity in Pakistan, Al Faysal Investment Bank Limited, merged into FBL in 2002, which resulted in a larger, stronger and more versatile institution. FBL is a full-service banking institution offering consumer, corporate and investment banking services through a large network of branches in the country. In line with Ithmaar Bank's focus on growing its core retail business overseas, FBL fully acquired the operations of Royal Bank of Scotland (RBS) Pakistan in 2010, thus increasing the number of its branches from 133 to 220 in 2010. At 31 December 2011, FBL had increased its branches to 257. The Group owns 66.7% of Faysal Bank Limited.

FAISAL PRIVATE BANK

Faisal Private Bank, originally established in 1980 as Sharia Investment Services SA in Geneva, is the first Swiss bank exclusively dedicated to providing Islamic financial services. Faisal Private Bank is a wholly-owned subsidiary of the Group.

ITHMAAR DEVELOPMENT COMPANY

Ithmaar Development Company is a developer and manager of Ithmaar Bank's major development projects, which include real estate, infrastructure, resorts, hotels, commercial buildings and medical facilities. Many of these are high profile projects, such as the Dilmunia at Bahrain Health Island, Light of Bahrain, Reflections of Bahrain and Dilmunia at Essaouria, Morocco. Ithmaar Development Company is a wholly-owned subsidiary of the Group.

BBK

BBK was established in 1971, and has grown to become one of the largest commercial banks in Bahrain. It has a strong local and regional presence, including branches in Kuwait and India, and a representative office in Dubai, UAE. 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. It caters to a wide spectrum of customers and sectors, both locally and regionally. The Group owns 25.4% of BBK.

SAKANA HOLISTIC HOUSING SOLUTIONS

Sakana, which was established in 2005, provides both residents and non-residents an opportunity for home ownership through a mortgage finance model based on Islamic Sharia principles. With its holistic focus, Sakana's portfolio includes property consulting and property development. Ithmaar Bank and BBK each own 50%, resulting in Group controlling stake of 62.7% of Sakana.

SOLIDARITY GROUP HOLDINGS

Solidarity is one of the largest takaful (Islamic insurance) companies in the world. The company provides Islamic Sharia-compliant general and family takaful products and services in its global business. Solidarity operates two fully-owned subsidiaries in Bahrain, namely, Solidarity General Takaful and Solidarity Family Takaful, while continuing to consolidate and position itself in the markets of Jordan, Saudi Arabia, Malaysia and Egypt. The Group owns 33.8% of Solidarity.

NASEEJ B.S.C.

Headquartered in the Kingdom of Bahrain, Naseej is the first fully-integrated real estate and infrastructure development company in the MENA region. Forward-looking, socially responsible and Sharia-principled, Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs. The Group owns 29.5% of Naseej.

OUTLOOK AND STRATEGIES FOR 2012 AND BEYOND

Market conditions continue to be challenging and volatile, particularly for Ithmaar Bank that has transitioned from a wholesale investment bank to an Islamic retail bank. The turn of events that we witness today in Bahrain and in the wider Middle Eastern and North African region and the resulting sense of instability may exert further pressure on our future performance.

Following the reorganisation in 2010, Ithmaar Bank's business strategy will continue to focus on developing its core banking activity - retail and corporate banking - in Bahrain and the GCC with a view to becoming a leading regional Islamic bank. This will entail an expansion of Ithmaar's customer reach in Bahrain and overseas, as well as the introduction of innovative new products and value added services.

THE ITHMAAR

PASSION

Intense Concentration on Forward Momentum

The twin processes of reallocation of resources and growth of enterprise are beginning to reveal a newly resplendent Ithmaar...our 'legacy portfolio' though present, albeit diminishing, is not slowing our forward momentum...the passion with which we're growing our operations, products, reach and business fundamentals stand testimony.

Living Passion - A Year of Endurance and Reward - 2011

A Business Review

A RENEWED COMMITMENT →

Ithmaar Bank put itself through a radical transformation in April 2010. Leveraging the assets and capabilities of its then subsidiary Shamil Bank, the Bank turned from an investment bank into a provider of financial services and products to the man and woman in the street. These services, would adhere strictly to Islamic financial principles. Here, where the hearts of the people beat, would be found the future of Middle Eastern banking - here, where increasingly well-educated and discriminating customers drive demand for sophisticated personal-banking and allied services, and where the moral and cultural associations of Islamic banking have enormous appeal.

Following such a transformation, the newly restructured Bank at once faced two separate crises: political unrest at home and financial near-meltdown in Europe. Had our own strategy been unsound, or its execution problematic, a calamity could easily have resulted.

We firmly believe that the Bank has emerged from the travails of 2011 stronger than before. This is a testament to the decisions we made, and to the passion and commitment of the people who carried them out. The closing of the year finds us still on track towards our strategic goals, making slow but steady progress.

RETAIL BANKING →

Nothing testifies more strongly to the success of the Ithmaar strategy than our performance in what is now our core business: retail banking. It has been a splendid year for the Bank in this arena. Despite the political travails of the year and somewhat shaken business confidence, the retail banking sector remained strong, and the Bank's share within it grew. This was not achieved without effort, however; competition in the field is stiff, and in our drive to attract new customers, we could not afford to forget the existing customers of Shamil Bank, who had to be persuaded to remain with Ithmaar after the restructuring and not succumb to the blandishments of our competitors. In this context, the advertising and public relations campaign we ran in 2010 has been very helpful, raising awareness of the new image of Ithmaar Bank and helping build positive associations with the brand. All promises given to our then existing and potential customers during Ithmaar re-branding were more than fulfilled.

Advertising may temporarily win customers over, but it is the quality and standard of services and products that keep them loyal. In 2011, we sought to become more relevant and accessible to account holders by opening four new branches at convenient business and residential locations around Bahrain. This brings the total number of Ithmaar branches to 15, with one more planned for 2012. The Bank's ATM network was also expanded and improved, with real-time cash deposits now offered at many of our on-site machines. In addition, access to the Bank is facilitated through SMS, online banking, phone banking (integrated voice response or IVR) and mobile banking services as well as the Call Centre.

As part of our commitment to playing a pioneering role in the development of Bahrain's Islamic banking industry, we were among the very first banks in Bahrain to implement the International Bank Account Number (IBAN) standard. The new standard, a requirement of the Central Bank of Bahrain, assigns a unique IBAN code to each existing account, thereby making it more efficient for electronic payments.

The products and services offered through these delivery channels were further enhanced and improved in 2011. Among them was our popular Thimaar savings account, which was highly profitable despite offering customers one of the best competitive deals in the segment in terms of returns and rewards. Turnover from Thimaar in the year under review grew significantly, and we expect to see comfortable growth from this product in the coming years.

Other important developments during the year included the integration of the Bank's Card Centre with the rest of the retail banking operation, and the migration of ex-Shamil credit and debit cards to the Ithmaar brand. We also upgraded our phone banking services to provide customers with a single gateway to all the Bank's telephone-based services. The upgrade included an enhanced phone banking solution that provides additional Call Centre functionality and security, as well as additional integrated voice response (IVR) options to allow customers an even wider range of banking transactions while simultaneously improving both flexibility and response speed.

Thanks in large measure to these initiatives, Ithmaar Bank increased the number of customer relationships by about 25% in 2011. The retail financing portfolio grew by $115 million, while deposits increased by $194 million. These figures show that, as planned, retail banking was one ot the main drivers of the Bank's turnaround in 2011.

Internally, we continued to offer on-the-job training to our employees to prepare them to assume higher positions, in accordance with the career plan set for the Retail Banking Division. The monthly branch managers' meeting continues to show its worth as a forum for sharing knowledge, raising issues and promoting managerial motivation, while the well-loved Best Branch Scheme continues to motivate all branch staff members through positive, friendly competition.

As part of its endeavours to win customer satisfaction, a new Quality Assurance Unit was established during the year under review. Among many others, this Unit is responsible for monitoring the quality of services rendered to customers through the various delivery channels, conducting customer satisfaction and mystery shopper surveys, and managing customer suggestions and complaints. This scheme helps Ithmaar branches to compete strongly with other banks on all fronts.

Looking forward from last year's restructuring, near-term initiatives in retail banking will be aimed at consolidating and enhancing an already successful business model. This will involve improving service quality and delivery through all channels, broadening the retail franchise and further expanding our ATM network. New products in the pipeline include 'cardless cash' (a regional first for Ithmaar Bank), Titanium and Platinum Visa credit cards and a Platinum debit card, as well as Ithmaar Premier Banking.

Review of Corporate & SME Banking, Private Banking, International Banking, Asset Management and Treasury appears on pages 36 and 37.

A Business Review

Expanding our branch network means there's an Ithmaar Bank presence almost everywhere you look

Our widespread 24 x 7 ATM network brings fast and convenient banking out of the office and to your fingertips


Real time cash deposits

Our Auto Financing is fast, flexible and affordable with a low profit rate and puts your own vehicle within easy reach

Our Debit card, Al Rubban Credit and Master Credit cards offer fully Sharia compliant services second to none

Welcome to banking at the click of a button...Internet banking

We pioneered mobile phone banking in Bahrain, opening a vital window of access to our premium suite of services

Our Mudaraba Accounts meet the ‘littlest’ of needs...to the greatest

CORPORATE AND SME BANKING

This Division is a prominent player in this sector, especially in the growing field of small- and medium-scale enterprise (SME) financing.

The Bank serves a carefully selected customer base with a range of well-established financial products whose suitability to market needs is well established. As a result, 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. Fortunately, these challenges have since been well contained and we are fast moving towards economic recovery.

In the year under review, we created many valuable new customer relationships despite the unanticipated market downturn.

Another noteworthy feature of the year was an improvement in our geographical reach, with a new focus on countries such as Saudi Arabia, where the SME market in particular shows good potential. We have already established relationships which will begin to show material results in 2012.

Meanwhile, the Division remains focused on improving systems and personnel performance internally. New staff members have been hired and the entire division reorganised. Externally, we are engaged in identifying and addressing major regional markets and opportunities.

PRIVATE BANKING

Despite the exceptional challenging conditions of 2011, the Private Banking Division reported remarkable success that contributed, both directly and indirectly, to Bank's continued growth.

Private banking has, for example, significantly increased liabilities since 2009. This remarkable achievement is made all the more impressive by the fact that the division's performance exceeded both market growth and the general growth reported by the industry.

It was a challenging year for private banking at Ithmaar Bank. This was due not only to external events but also to an operational transformation resulting from the restructuring of the Bank. Earlier, our focus was on private placement of investment products for high net worth individuals who formed the customer base. This has now been replaced by a full-service model that offers high net worth customers a complete range of private banking products and services.

Currently, Ithmaar serves private banking customers in Bahrain and the GCC, with special focus on Saudi Arabia, the UAE and Qatar. Growth is now returning to the region as it recovers from the shocks of 2008 and, with increased investment in infrastructure, technology and low-income housing in the pipeline, the economic future looks reasonably bright. We believe there is considerable growth potential in the Gulf region for private banking: the number of high net worth individuals in the region continues to increase, and with it the demand for expert, reliable private banking services. To reach this growing market, however, the Bank needs to take an increasingly proactive approach to customers and potential customers, making itself known and reaching out to them with services and solutions that offer the returns and confidence such discriminating individuals insist upon.

More importantly, Private Banking also contributed to increasing market confidence in Ithmaar's new strategy. In fact, the division's performance in 2011 was widely recognised as a reflection of customers' trust and belief in the Ithmaar brand despite all the difficult conditions.

Ultimately, these conditions provided the Bank, and particularly the Private Banking Division, a unique opportunity to test levels of confidence. The outcome, as demonstrated by the solid growth of deposits and the high acquisition rate of new customers, is extremely reassuring despite political turmoil earlier in 2011.

During the year the Private Banking Division, together with the Retail Banking Division, introduced a service-orientated programme for high net worth Individuals. The programme, called Ithmaar Premier, aims to identify and retain the Bank's valuable clients by setting a new level of customer service which offers superior added value benefits.

More new products are on stream for introduction in 2012, among them offering wealth management solutions and Islamic finance. A new Customer Relationship Management system will be implemented in the second quarter of 2012 in order to improve service levels and capture more private banking business.

INTERNATIONAL BANKING →

This is one of the key Divisions of Ithmaar Bank, contributing significantly to the Bank's assets and profits by developing assets (financing and trade finance) outside the GCC region. Based mainly in Bahrain, its range of operations is wide, spanning the Middle East, North Africa, Turkey and the Far East.

For the division, 2011 was a year for consolidating current achievements and building strong foundations for future growth. No new products were launched, but existing ones were modified and fine-tuned in keeping with changes in customer requirements, legislative regimes, etc. More funds and efforts were invested in staff training. The main focus of activity was market identification and development. Key markets have been identified for special development in 2012-2014.

ASSET MANAGEMENT →

This Division plays a vital role in managing the Bank's financial investments and monitoring its strategic investments. Once focused on investment and acquisition, its primary aim is now to ensure that the Bank's assets are properly managed. The Division's goal is to protect and enhance the values of the assets, and identify divestment opportunities in order to maximise returns. The portfolio under the division's management is about US$1.3 billion 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. □

THE ITHMAAR PASSION

Islamic Finance...Moving with the Times

Ithmaar is passionately committed to Islamic financing. We believe it is a powerful alternative to conventional financing...yet it is true that it must also move through a process of scrutiny and evaluation as the world examines its efficacy in the current context. As products and processes evolve within Sharia norms, it is logical to expect a ‘new order’ as Islamic financing seeks to encompass the requirements of the times.

AN ESSAY - PASSION PAYS

Living Passion - A Year of Endurance and Reward - 2011

An Essay - Passion Pays

ISLAMIC FINANCING…RELEVANCE REGAINED

Beyond alliteration and word play, there is a growing belief, which began in the aftershock of the 2008 global economic crisis, that had we passionately pursued a regime of sound ethics, morals and good governance and espoused an 'economic order' that shunned greed and exploitation, economic chaos would not have prevailed as it does today.

If all the world was a stage and the global finance industry the principal actor…you'd have to say they missed a cue!

Islamic financing.

Founded upon Islamic law *(Sharia)*, Islamic financing conforms to the principles and rules of Islamic commercial jurisprudence *(fiqh al mu'amalat)*. Under its terms, Islamic financing prohibits any form of usury or charging of profit *(Riba)*, and the forging of any contracts that incorporate gambling *(Maisir)*, speculative transactions rife with uncertainty *(Gharar)* and what are deemed unlawful pursuits (Haraam) such as arms dealing and sale of alcohol/narcotics.

Unlike conventional financing, Islamic financing espouses the cause of 'shared risk' where contractual obligations for both financier and entrepreneur require that they share in both profit as well as loss of a transaction. Again, unlike conventional financing practice, this leads to a rigorous regime of double risk assessment and management by both financier and entrepreneur in order that a consistently high safety factor is applied to secure the profits and finances of both parties.

It was precisely this 'safety factor' and stringent risk management that conventional financial proponents 'threw out of the window' as the sub-prime mortgage markets collapsed in a classic display of excessive and imprudent lending. What followed was the proliferation of devious and unethical methods of securing and indemnifying lenders from default on financing through derivatives such as the infamous Credit Default Swap (CDS). It was a financial regime that enjoyed the reward whilst passing on the risk.

By any yardstick…this was greed writ large - a greed that brought global finance to its knees.

Let us examine some comment about the Islamic financing/banking model vis-à-vis the economic crisis.

POWER TO PERFORM

In April 2011, *Ravius Caba-Maria* wrote on-line - "The first stage of the crisis, during 2007 and 2008, favoured the Islamic banking system compared with the conventional system. According to a recent IMF study (Hasan, Dridi 2010) Islamic banks performed better than conventional ones in 2008 in terms of profitability, credit and asset growth. The Islamic banks' profitability crunch was less than 10 percent, whereas the conventional banks' profitability slumped more than 35 percent in 2008 compared with 2007. The cited IMF study reports that Islamic banks have maintained stronger credit growth compared to conventional banks in almost all countries and in all years, suggesting that the system has great potential for further market share expansion and a possible contribution to market stability through the available credit. The same trend was maintained on the assets side, which was less affected by de-leveraging and grew on average at a rate of more than twice that of conventional banks during the period 2007 - 2009. Because the global crisis is an on-going phenomenon, these results are provisional; however, they are supported by the Islamic banking system's characteristics".

INHERENTLY RESILIENT

In his study "Islamic Banking in the MENA Region" under the auspices of the World Bank and the Islamic Development Bank - Islamic Research & Training Institute, *Salman Syed Ali wrote* - "The Islamic banking sector has demonstrated more resilience against the financial crisis mainly due to avoidance of profit. The requirement to abstain from profit made their financing activities more tied to real economy and also required them to avoid exposure to toxic financial derivatives. The commercial risk associated with Islamic banking activities and the non-availability of lender of last resort facility to these banks also forced them to hold liquid assets in greater proportion than their conventional counterparts. All these factors helped them during the crisis. The impact of the crisis came to these banks late and indirectly through a slowdown in the real economy. Some banks were affected due to their asset concentration in the real estate sector. However, there was no case of failure of an Islamic bank in the region".

The Kingdom of Bahrain has emerged as a pioneering proponent of Islamic financing and banking not just in the Middle East but internationally too. The country has fast become an ambassador and thought leader on the subject.

On Sunday 5th February 2012, the Arabic International Daily *Asharq Alawsat* wrote -

LEADING THE WAY

"Bahrain viewed Islamic banking as being the future of the financial industry in the region, which is a vision that time has shown to be particularly shrewd as international financial centers today are competing to attract Islamic financial institutes and corporations. Bahrain today is one of the largest Islamic financial centers in the world, with 45 Islamic financial corporations operating in the country; 26 of which are Islamic banks, with the remaining 18 being Takaful [Islamic] insurance companies. Bahrain's Islamic financial assets have multiplied more than 12 times since 2000 from being worth just 1.9 billion dollars, to being worth 26.3 billion dollars in 2009. In 2000, Islamic banking made up just 1.11 percent of the total assets of the Bahrain financial industry, whereas in 2009 this figure stood at 11.1 percent. Bahrain's Islamic financial industry has witnessed annual growth of between 15 and 20 percent over the past five years.

In addition to developing infrastructure for the Islamic financial industry, Bahrain is also a member of the Islamic Financial Services Board [IFSB] which is located in Malaysia, as well as a founding member and headquarters to a number of Islamic financial service and regulatory bodies. These include the Accounting and Auditing Organization for Islamic Financial Institutions [AAOFI], the Liquidity Management Center [LCM], the International Islamic Financial Market [IIFM], the Islamic International Ratings Agency [IIRA], and the General Council for Islamic Banks and Financial Institutions [CIBAFI]".

Whilst the efficacy of Islamic financing is a proven fact, it is also true that it is not the panacea for all the economic ills of the world. Indeed, no banking concept can claim this privilege.

What then are some of the challenges facing Islamic financing today? What must be done to overcome them?

SOME CHALLENGES

Dr. Hatim El Tahir, Director of the Islamic Finance Knowledge Center (IFKC), Deloitte in the Middle East contends, “Regulatory inconsistencies within some practice areas of Islamic finance have inhibited industry growth and created performance gaps. More importantly, they have slowed its expansion and integration into the world financial market. It is evident that IFIs, largely driven by commercial goals, have not done enough to converse the fundamental nature of educating and communicating Islamic Finance’s social and economic value propositions.

This is an issue that is high on the agenda of several Gulf Islamic Financial Institutions (GIFI), and comes at a critical time of their history for three reasons: since the early twenty first century, GIFIs have expanded by leaps and bounds both in market capitalization and cross-border investments. Secondly, they have developed important institutional regulatory and industry frameworks designed to improve services and standardize practice. Thirdly, concerns about their structures, operations and practices pose special challenges for long-term sustainability.

Undoubtedly, thought leadership in Islamic Finance is playing an increasingly important role in many individual organizations. What is missing is a more holistic and strategic approach to identify and align industry leaders to develop, adapt and enforce a harmonized and standardized set of best practices. The common attributes for such an approach include developing a coherent code of practice that addresses the different financial and Sharia governance and application methods within the industry worldwide. Hence, a thought leadership initiative becomes the lead advocate for this task, which will be aimed at measuring, improving and adapting a Unified Code of Practice (UCOP) in Islamic Finance.

The process of aligning industry stakeholder practices and the more ambitious goal of developing a unified code of practice are of paramount importance. Nevertheless, the success of a thought leadership initiative relies on developing a workable, yet efficient, model to energize thought leadership programs in the industry and benefit from the experience of different practices across the world”.

Whilst debate and solution finding must take place for Islamic financing to evolve and develop further, for now it is true to say that, in respect of ‘what could have been’ vis-à-vis the global economic crisis, in the form of Islamic financing...Passion Pays! □

Corporate Governance

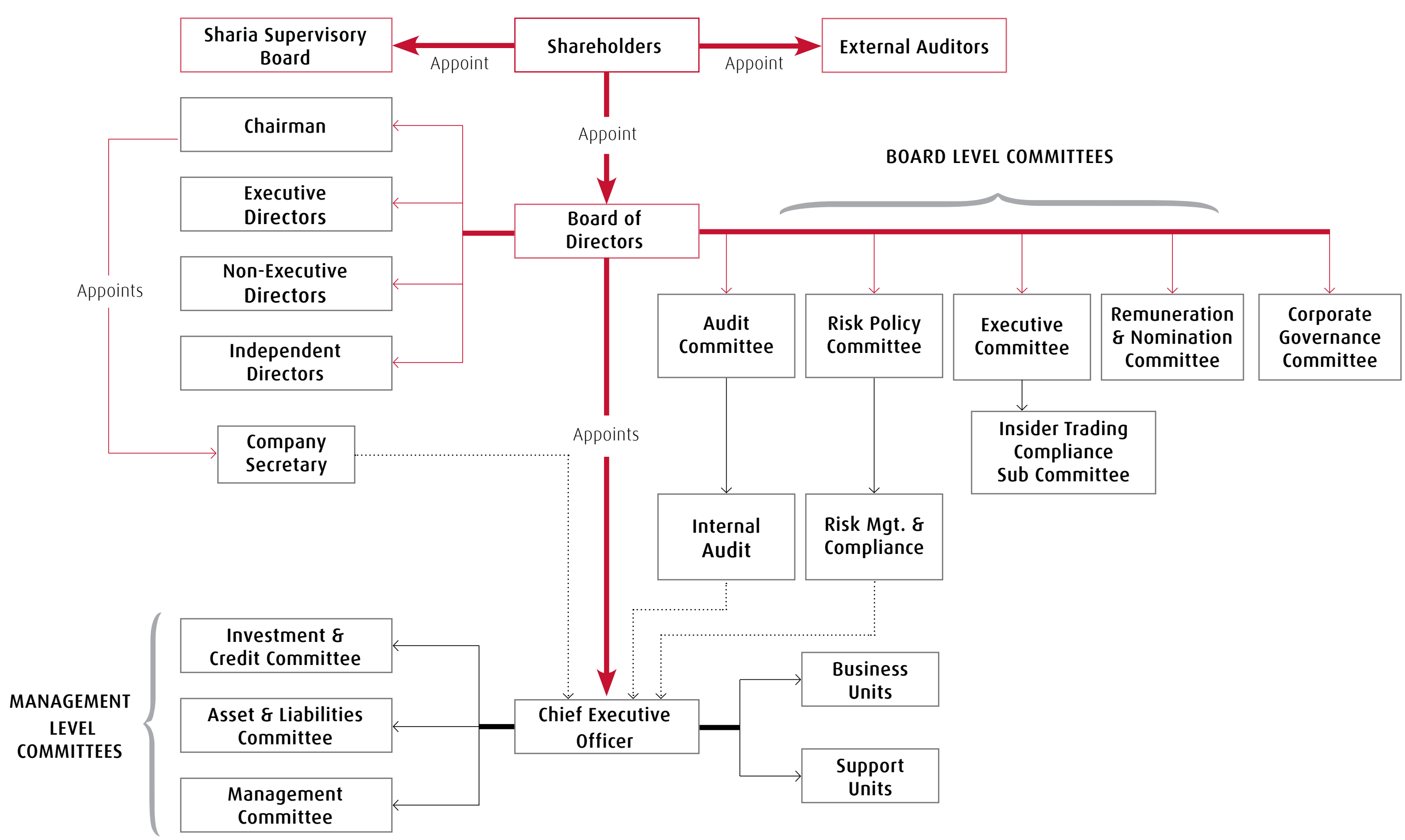
The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

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.

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

The Board of Directors comprises nine members, one Executive and eight Non-Executive, of whom four 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. 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 applicable statutory and regulatory structures.

Board members serve three year terms, unless reinstated.

The next election of Directors will take place in 2013.

BOARD'S STRUCTURE AND COMPOSITION

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.

The Board is composed of individuals whose knowledge, background, experience, and judgment are valuable to the Bank and shall comprise a Chairman, Independent Directors, Executive Directors and Non-Executive Directors.

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; a Director's fiduciary duties rest upon the Director as an individual.

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

A - Duty of Obedience

Directors must act in accordance with the Bank's rules and policies and in furtherance of its goals as stated in the mission statement, 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.

B - 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.

C - Duty of Loyalty (conflict of interest)

This duty requires the 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, insiders 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 or officers 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 and Articles of Association, the Code of Ethics & Business Conduct, the Corporate Governance Policy and the law, rules, regulations, policies and charters in place as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and 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 and 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 an appointment letter, signed by the Chairman, in which relevant information about appointment, termination and responsibilities are described. Directors also receive a copy of the Bank's Code of Ethics & Business Conduct.

CODE OF CONDUCT AND BUSINESS ETHICS

The Bank's Code of Conduct and Business 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 of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Conduct and Business 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.

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, effective 4 December 2011
- Sheikh Zamil Abdullah Al-Zamil, MEMBER
- Shaikha Hissah bint Saad Al-Sabah, MEMBER

EXECUTIVE COMMITTEE

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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

REMUNERATION & NOMINATION COMMITTEE

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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.

The Remuneration & Nomination Committee comprises:

- Shaikha Hissah bint Saad Al-Sabah, CHAIRMAN and MEMBER, effective 4 December 2011
- Sheikh Mohammed Youseef El-Khereiji, Member, effective 4 December 2011
- Nabeel Khaled Mohamed Kanoo, MEMBER, effective 4 December 2011

RISK POLICY COMMITTEE

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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, compliance procedures and methods of reporting to the Board.

The Risk Policy Committee comprises:

- Abdulhameed M. Aboumoussa, CHAIRMAN and MEMBER
- Shaikha Hissah bint Saad Al-Sabah, MEMBER, effective 4 December 2011
- Nabeel Khaled Mohamed Kanoo, MEMBER, effective 4 December 2011

CORPORATE GOVERNANCE COMMITTEE

This committee was established on 4 December 2011.

The Corporate Governance Committee was established to assist 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 shall have at least two Independent Directors, one of whom shall be the Chairman, and a member of the Sharia Supervisory Board.

The Corporate Governance Committee comprises:

- Sheikh Zamil Abdullah Al-Zamil, CHAIRMAN and MEMBER
- Nabeel Khaled Mohamed Kanoo, MEMBER
- Sheikh Dr. Osama Bahar, MEMBER

NUMBER OF BOARD AND COMMITTEE MEETINGS

Director	Main Board		Audit Committee		Executive Committee		Remuneration & Nomination Committee		Risk Policy Committee	
	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.
HRH Prince Amr Mohammed Al Faisal	4	4	NA	NA	NA	NA	NA	NA	NA	NA
Mr. Khalid Abdulla-Janahi	4	4	NA	NA	NA	NA	NA	NA	NA	NA
Tunku Dato' Ya'acob Bin Tunku Abdullah	4	4	2	2	NA	NA	3	3	5	5
Shaikha Hissah bint Saad Al-Sabah	4	4	4	2	NA	NA	3	3	NA	NA
Sheikh Mohammed Youseef El-Khereiji	4	2	NA	NA	2	1	NA	NA	3	-
Sheikh Zamil Abdullah Al-Zamil	4	3	4	4	NA	NA	NA	NA	NA	NA
Mr. Abdulhameed M. Aboumoussa	4	4	NA	NA	NA	NA	3	2	5	5
Mr. Nabeel Khaled Mohamed Kanoo	4	3	2	1	3	3	NA	NA	2	2
Mr. Mohammed A. Rahman Bucheerei	4	4	NA	NA	4	4	NA	NA	NA	NA

Elig. - Number of meetings eligible to attend
Attd. - Number of meetings attended
NA - Not applicable

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 percent of all Board meetings and the meetings of the committees on which they serve.

BOARD OF DIRECTOR COMMITTEE MEMBERSHIP

Member	Audit Committee	Corporate Governance Committee	Executive Committee	Remuneration & Nomination Committee	Risk Policy Committee
HRH Prince Amr Mohammed Al Faisal, Chairman	–	–	–	–	–
Mr. Khalid Abdulla-Janahi	–	–	–	–	–
Tunku Dato' Ya'acob Bin Tunku Abdullah	Member 19.05.2011 Chairman 04.12.2011	–	–	Off 04.12.2011	Off 04.12.2011
Shaikha Hissah bint Saad Al-Sabah	Member	–	–	Chairman 04.12.2011	Member 04.12.2011
Sheikh Mohammed Youseef El-Khereiji	–	–	–	Member 04.12.2011	Member 19.05.2011
Sheikh Zamil Abdullah Al-Zamil	Member	Chairman 04.12.2011	–	–	–
Mr. Abdulhameed M. Aboumoussa	–	–	–	Off 04.12.2011	Chairman 28.03.2010
Mr. Nabeel Khalid Kanoo	Off 19.05.2011	Member 04.12.2011	Chairman 19.05.2011	Member 04.12.2011	Member 04.12.2011
Mr. Mohammed Bucheerei	–	–	Member	–	–

Note: With effect from 4 December 2011 Sheikh Dr. Osama Bahar also serves as a member of the Corporate Governance Committee (Sharia Supervisory Board Member).
Mr. Juma Abull is also a member of the Executive Committee, effective 14 September 2010

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 annual retainer fee and sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. These fees are recommended by the Remuneration & Nomination Committee and approved by the shareholders.

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

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.

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 Articles and Memorandum of Association and the general practice of Islamic Banking, the Bank, at all times, has a Sharia Supervisory Board (SSB) elected 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 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, advices 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 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 fees are recommended by the Remuneration & Nomination Committee, 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 Articles of Association and the Memorandum of Association and subject to shareholder approval.

In 2011, a fourth member, Sheikh Dr. Osama Mohammed Saad Bahar, was added to the SBB. The profiles of all members of SSB are included in the section marked 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 departments.

The Bank's Business Units consist of

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

Support Units consist of

- Financial Control
- Human Capital
- PR & 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 monitors 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 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 - CREDIT RISK

The main objective of this Committee is to review, approve and ratify all investments and credit within its authority, review risk management reports and resolve all credit-related issues. The Committee is chaired by the Chief Executive Officer.

ASSET-LIABILITY COMMITTEE - MARKET RISK

The main functions of the Asset-Liability Committee (ALCO) 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 - OPERATIONS RISK

The Committee's principal objectives are to improve communications and cooperation among the various divisions and departments of the Bank and to optimise 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 entitled 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

All related party transactions are approved by the Board of 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 Central Bank of Bahrain's rules;
- 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, via a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, circulars to shareholders and quarterly financial reports and various announcements made during the year as well as 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 the shareholders and investors can access for information which includes Bank's profile, corporate information, press releases, financial performance, newsletters 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.

PROGRESS REPORT ON ADOPTION OF REVISED CORPORATE GOVERNANCE CODE

The Central Bank of Bahrain (CBB) issued revised corporate governance rules last year for banks and financial institutions to adopt. The revised rules, forming part of the High Level Control Rulebook of CBB ("Rulebook") conforms with the recommendations issued by the National Committee of the Corporate Governance Code and the Ministry of Industry & Commerce.

To comply with the revised Rulebook, a comprehensive gap analysis of the Bank's practices vis-à-vis the new requirements was conducted and a team was formed, supervised by the Risk Policy Committee of the Board, to address the gaps where applicable. Some of the major changes that has been adopted are as follows:

1. Development of a revised Corporate Governance Policy;
2. Development of a new Whistle-Blowing Policy;
3. Formation of the Corporate Governance Committee;
4. Reshuffling the Board Committees to adhere to minimum membership requirements as per the Rulebook;
5. Establishing a Shareholders Affairs Department.

Risk Management

Risk is an integral part of Ithmaar Bank's business and 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 best 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 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 2011 is set out in Note 35. Credit risk is the risk of potential loss arising from failure of 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, lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash collateral 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 the 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.

Ithmaar's 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

All business units are primarily responsible for managing their business activities as per the approved policies and procedures. They are also responsible for the identification and assessment of operational risks and for maintaining appropriate internal controls. The Strategic Planning division monitors the compliance with the board approved business plans and budgets for each business line.

The Bank is currently enhancing its operational risk framework to enable it to put in place a comprehensive risk and control self assessment process to identify the key risks in the business processes. This will also include a process of identifying and managing the key risk indicators, loss reporting set-up and implementing a robust business continuity plan.

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 systems to provide additional Management Information System (MIS) requirements 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 →

Ithmaar's risk management framework is complemented by robust internal controls across all aspects of the business, as well as strong support functions covering the legal, regulatory, governance, reputation, information technology, process and human resource risks.

Consequently, the effectiveness and efficiency of controls are evaluated in all new and updated products, processes and systems, or where external and internal factors impact the operating environment.

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 2012–2014 Business Plan has been performed 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 the Central Bank of Bahrain (CBB), Bahrain Bourse, Kuwait Stock Exchange (KSE), Bahrain Commercial Companies Law and Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (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 & 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 resolved up to the best satisfaction of the customers promptly.

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 is also being rolled out in line with international best 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 Kuwait Stock Exchange.

Funds under Management

The Bank provides two types of Funds under Management (FUM) classified as Un-Restricted Investments Accounts (URIA) and Restricted Investments Accounts (RIA). Investors include both individuals and corporates.

The standard of prudence is applied in the context of managing the overall portfolio including the RIA funds to enable the Bank to exercise its fiduciary responsibilities. The composition, characteristics and diversification of the Bank's funding structure is monitored within appropriate risk limits detailed in the risk policies of the Bank and relevant prospectus of the RIA funds. The optimal mix of corporate and Mudaraba fund is maintained while regularly monitoring the trend and concentration of exposures. The investment objective of the FUM is to provide optimum returns to both the account holders and to the Bank while at the same time managing risks in the utilisation of the funds. A thorough due diligence process is in place which is consistent with business and risk policy guidelines of the Bank and of the specific funds which come under the parameters of Sharia rules and regulatory framework. URIA funds are invested in Sharia compliant commercial or consumer financing as well as short and medium term investments excluding strategic investments.

The profit rate paid to URIA investors are benchmarked with the market rates. An appropriate mechanism for profit rate smoothening (such as Profit Equalisation Reserves) is in place. Fee-based income is for the account of the Bank. URIA-funds are not subject to any administration expenses. However, in the case of RIA funds specific expenses that may arise in relation to the launching and developing of funds of a Mudaraba and in deploying its funds, the same will be charged against the gross revenue of that Mudaraba as set out in the related Mudaraba agreement.

The Bank does not co-mingle the Corporate and Mudaraba funds. However, co-investments are allowed as per certain prudent policy guidelines. As a general rule, priority is given to funding and booking an asset in the fund that appropriately matches its risk profile. Investors are permitted to draw their deposits in accordance with the terms of the Mudaraba contract.

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%
30 days (1 month)	50%
90 days (3 months)	45%
180 days (6 months)	40%
360 days (12 months)	35%

Average declared rate of return or profit rate on PSIA by maturity (3-month, 6-month, 12-month, 36-month) in percentage terms paid annually:

BD denominated	1 day	7 days	1 month	3 months	6 months	1 year
Savings	0.49	–	–	–	–	–
Mudaraba	–	0.49	2.88	3.23	3.48	3.69
Private investment portfolio	–	–	3.02	3.33	3.53	3.79

US$ denominated	1 day	7 days	1 month	3 months	6 months	1 year
Savings	0.49	–	–	–	–	–
Mudaraba	–	0.49	2.95	3.23	3.48	3.69
Private investment portfolio	–	–	3.02	3.33	3.53	3.79

Board of Directors


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[1] 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) and Chairman of the Board of Directors of Al Daleel Information Systems. HRH Prince Amr is also Founder and Director of the Red Sea Consultants (Jeddah), 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.

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

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

Sheikh Zamil Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in GCC countries, and is represented as Director in various institutions such as the Chambers of Commerce, Industrial Companies and Banks.

Counting over 30 years of business experience spanning several sectors, he is currently Executive Vice President of Zamil Group Holdings Company; and is Chairman of Zamil Offshore Services Co., and Zamil Operations & Maintenance Co. Ltd.

Educated in the United States, he holds a Master of Petroleum Engineering degree from West Virginia University, USA.

[3] Sheikh Mohammed Youseef El-Khereiji
Independent, Non-Executive Board Member
Elected 11 May 2006, and 28 March 2010

Sheikh Mohammed comes from one of the leading merchant families in the Kingdom of Saudi Arabia and has over 12 years of banking experience.

He started his career as a consultant and financial adviser, which included Prudential Bache and BNP Paribas in Geneva. He is currently Chairman of Global Investment and Marketing SA, Geneva; Global Hotels and Resorts BV; Marriott European Holdings; and Creative Investment and Marketing SA. He is also Chief Financial Officer of El-Khereiji Group and Chairman of Sage Capital Management Group in Bahrain. Sheikh Mohammed is Honorary Chairman of the Swiss Red Cross as well as its international Ambassador, and is an active contributor to many charitable entities. He holds several other prominent executive Board positions in Europe and the Middle East.

He studied in Switzerland and the United Kingdom and graduated with an MBA in Marketing and Finance.

[4] Tunku Dato' Ya'acob Bin Tunku Abdullah
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 for Malaysian Assurance Alliance Berhad, where his last position was as Chairman. He also worked at Price Waterhouse in 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.

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

Shaikha Hissah has more than 12 years of banking experience.

She is the President of the Council of Arab Businesswomen and has had 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 has a Doctorate in Humane Letters.

[6] Abdulhameed M. Aboumoussa
Non-Executive Board Member
Elected 11 May 2006, and 28 March 2010

Abdulhameed Aboumoussa has more than 45 years of banking experience.

He is the Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior to this, he worked in the Central Bank of Egypt for 16 years.

He is a member of the Coordinating Council that determines the monetary and fiscal policy objectives of the Egyptian economy, and is also a member of the General Assembly of Public Sector Banks representing the interests of the Egyptian Government in state-owned banks.

He holds a Bachelor of Science 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.

[7] Khalid Abdulla-Janahi
Non-Executive Board Member
Elected 11 May 2006, and 28 March 2010

Khalid Janahi has over 25 years of banking and finance experience.

He is presently Group Chief Executive of Dar Al-Maal Al-Islami Trust (DMI Trust) and Chairman of the Board of Directors of Faisal Private Bank (Switzerland) S.A., DMI Administrative Services S.A., Islamic Investment Company of the Gulf (Bahamas) Ltd., Naseej B.S.C. [closed] and Solidarity Group Holdings B.S.C. [closed]. He is also a member of the Board of Directors of Faisal Islamic Bank of Egypt.

He holds a BSc degree in Computer Science and Accountancy from the University of Manchester, UK and is a Fellow of the Institute of Chartered Accountants in England and Wales; and serves as a Member of the Board of the Centre for International Business and Management at the University of Cambridge, UK.

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

Mohammed Bucheerei has over 42 years of experience in accounting and finance, as well as commercial and offshore banking. He has been a Member of the Ithmaar Bank's Board of Directors since March 2010 and was appointed its Chief Executive Officer in July 2010. He is also a member of the Bank's Executive Committee.

Previously, he was 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.

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

Nabeel Kanoo counts over 15 years of business experience.

He is Senior General Manager of the Kanoo Travel Group, Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, Director of Kanoo Travel Co. UK and France, 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.

He holds a Bachelor of Business Management degree from St. Edwards University, Austin, Texas.

Executive Management

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Executive Management

Executive Management

[1] MOHAMMED A. RAHMAN BUCHEEREI
Chief Executive Officer and Member of the Board. Joined the Group in January 1991. Has 42 years' experience.

[2] JUMA ABULL
Executive General Manager, Support Group. Joined the Group in January 1988. Has 32 years' experience.

[3] YOUSIF AHMED ALI AL-HAMMADI
General Manager, Commercial Banking. Joined the Bank in October 2010. Has 33 years' experience.

[4] AHMED ABDUL RAHIM
General Manager, Retail Banking. Joined the Bank in June 2006. Has 34 years' experience.

[5] MAYSAN FAISAL AL MASKATI
Executive Senior Manager, Co-Head of Asset Management. Joined the Bank in February 2007. Has 14 years' experience.

[6] MUHAMMED WASIF IJLAL
Executive Senior Manager, Co-Head of Asset Management. Joined the Bank in December 2006. Has 16 years' experience.

[7] SHAHRIAR KHOSHABI
Assistant General Manager, Head of Financial Institutions. Joined the Bank in September 2010. Has 29 years' experience.

[8] ABDUL HAKIM KHALIL AL-MUTAWA
Assistant General Manager, Head of Private Banking. Joined the Bank in January 2003. Has 30 years' experience.

[9] TAWFIQ MOHAMMED AL-BASTAKI
Assistant General Manager, Chief Risk & Compliance Officer. Joined the Group in December 1999. Has 33 years' experience.

[10] MOHAMMAD ALI
Assistant General Manager, Chief Internal Auditor. Joined the Group in January 1996. Has 45 years' experience.

[11] RAVINDRA KHOT
Assistant General Manager, Chief Financial Officer. Joined the Bank in June 2007. Has 26 years' experience.

[12] PRAKASH PATHMANATHAN
Assistant General Manager, Head of Strategic Planning. Joined the Bank in August 2007. Has 32 years' experience.

[13] SCOTT A. CRESWELL
Assistant General Manager, Head of Legal, General Counsel and Company Secretary. Joined the Group in September 1986. Has 32 years' experience.

[14] ABDULRAHMAN AL-SHAIKH
Assistant General Manager, Head of Banking Operations. Joined the Bank in August 1991. Has 39 years' experience.

[15] YOUSIF ABDULLA ALKHAN
Assistant General Manager, Head of Information Technology. Joined the Bank in December 1989. Has 23 years' experience.

[16] JASSIM ABDULKARIM SALMAN
Assistant General Manager, Head of Administration. Joined the Bank in August 2006. Has 38 years' experience.

[17] DHEYA AL-SHEKAR
Executive Senior Manager, Head of Human Capital. Joined the Bank in April 2007. Has 13 years' experience.

[18] SHARAF KHAWAJA
Executive Senior Manager, Head of Corporate Communications & PR. Joined the Bank in July 2001. Has 20 years' experience.

[19] HASAN AL-ATTAR
Executive Senior Manager, Head of Remedial Management. Joined the Group in June 2004. Has 43 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 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, who holds a Master's degree from McGill University, Canada, is a PhD candidate at the Wales University's Department of Sharia and Law. He has authored four books and delivered more than 500 lectures.

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 is also a member of the Sharia Advisory Board of six other companies and was 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.

Sharia Supervisory Board

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'a from Prince Abdul Qader Al jaazaeri University of Islamic Studies in Algeria.

Corporate Responsibility

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. We do not intend to stop there. As a progressive institution that is aligned with the three pillars of Bahrain Vision 2030 - sustainability, competitiveness and fairness - the Bank is migrating its corporate responsibility agenda to the broader context of corporate sustainability, a business approach that creates long-term value for stakeholders through responsible environmental, social and governance practices.

OUR COMMUNITY →

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 sponsored 18 under-privileged orphaned students from Grade 1 right through to Grade 12 at an accredited private school in Bahrain, which is a member of the International Baccalaureate Organisation (IBO) offering the High School Diploma as well as the International Baccalaureate Diploma curricula. Also, in collaboration with an accredited local university, Ithmaar supported undergraduate degree courses for 30 orphaned students, of whom 10 are in their final year of graduation.

Through an arrangement with the London School of Economics, Ithmaar funded postgraduate education for several promising young needy students from across the Muslim world. The sponsorship package, which we began to award in 2007, ran for a period of three years and 15 students benefited from this initiative.

In addition, Ithmaar Bank sponsored seven needy students through the Education Fund, in collaboration with accredited local universities, for undergraduate degree courses in which two of them have graduated.

Ithmaar Bank also invests its own staff time and resources on training and developing aspiring job seekers. During the year, we provided on-the-job training opportunities to 42 university students from different universities across the Kingdom. The Bank also released six of its staff for a total of 120 working hours, during which they voluntarily taught 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.

By way of awards and accolades, the Bank received a Certificate of Appreciation from the University of Bahrain in recognition of our continuous commitment to the University's Internship Programme.

HEALTH AND WELL-BEING →

Mindful of the need to support the health and well-being of the Bahraini people, Ithmaar Bank once again provided financial support to the Bahrain Cancer Society. The Society has long played an important role within the community, supporting research and offering assistance for patients and their families. It also disseminates information to the general public on the causes and treatment of cancer and methods that help its prevention.

PROMOTING GENDER EQUALITY

Ithmaar Bank honoured its female employees as the Bank celebrated Bahraini Women's Day. The national celebration, which was held under the theme 'Bahraini women in economic development', is an initiative of the Supreme Council for Women. The Council was established to promote women's rights in the Kingdom and encourage full participation in society.

BAHRAIN'S COMPETITIVE EDGE

As a pioneer of Islamic banking in the region, the Bank continues to support the development of Bahrain's banking and finance industry. Ithmaar Bank not only sponsored the Annual Sharia Conference 2011 organised by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in Bahrain, but was also the Platinum Sponsor of the AAOIFI World Bank Annual Conference on Islamic Banking and Finance in Bahrain. The latter was a two-day event held under the patronage of the Central Bank of Bahrain and organised by AAOFI in cooperation with the World Bank.

SPORTSMANSHIP AND TEAMWORK

Ithmaar Bank provided sponsorship and support for H.H. Shaikh Khalid Bin Hamad Al Khalifa Football Champion League for the Media, which was inaugurated in August 2011. The Bank sees this as a small but important contribution towards fostering sportsmanship and teamwork, this time among the news media and those running it. Ithmaar Bank had previously sponsored a number of sports and club activities in Bahrain as part of its contribution towards the Bahraini society.

OUR HUMAN CAPITAL

TRAINING AND DEVELOPMENT

As we have said before, it is the collective effort of our people that drives our enterprise. Ithmaar Bank continues to invest in their training and development to create a highly motivated, competent and innovative team that delivers value for our mutual benefit. In turn, the Bank embraces and strives to continuously improve a set of core values that guide our actions in the areas of human rights, labour standards, the environment and anti-corruption.

Training needs are assessed each year. A key input for this process is the feedback received from the annual performance and career review. In 2011, the Bank invested US$170,000 on training and development, averaging eight hours per employee. The programmes included -

- Short courses provided by the Bahrain Institute of Banking and Finance (BIBF) on Levy Training
- Short courses provided by several training institutions in accordance with Ithmaar's training requirements
- Advanced Islamic Finance Diploma
- In-house Anti Money Laundering Programme conducted by the Bank's Money Laundering Reporting Officer

Meanwhile, the Bank continues to review the organisation structure and deploy resources effectively. A global grading system was established with consultant assistance during the year to facilitate job evaluation and to survey the market for best practices in human capital benefits and pay systems. Moreover, the consultant reviewed the Bank's benefits before the reorganisation with Shamil Bank and recommended unified benefits for all employees that were duly implemented.

Staff are encouraged to acquire professional qualification as part of their career progression. Several staff have acquired professional qualification.

EMPLOYMENT TYPE AND DIVERSITY →

As of December 2011 the Bank employed 265 permanent staff in Bahrain (27 expatriates and 238 or 90% Bahrainis) and two more employees in the Qatar Representative Office. In addition, there were 13 temporary employees on contract.

The Bank encourages gender diversity. Of the permanent staff based in Bahrain, there were 193 male (73%) and 72 female (27%) employees as of December 2011.

Staff are encouraged to acquire professional qualifications as part of their career progression. Several staff have acquired professional qualifications.

BENEFITS →

Full-time employees are entitled to Medical Takaful, Life Takaful, Transportation Allowance, Telephone Allowance, Club Membership Allowance, 13-month Salary, Qard Hasan (profit-free financing) and Leaving Indemnity. Temporary employees receive a Basic Salary.

The Bank maintains a unified remuneration and bonus scheme for all employees.

HEALTH AND SAFETY →

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

The Bank permits light duties for pregnant employees, as well as off-time for lactation after they resume work. Moreover, light duties are also permitted for employees with special health conditions as recommended by an accredited medical centre.

EMPLOYEE ENGAGEMENT AND RECOGNITION →

The Bank maintains an open door policy. There is a free flow communication regime amongst staff and management, including regular and ad hoc departmental meetings.

We recognise and reward performance and dedicated service. An Employee of the Month scheme is in operation. In addition, 11 long-service employees were rewarded during the year, five of whom had served the Bank for more than 20 years, two for more than 15 years and four for more than 10 years.

The Bank also recognised and honoured 10 of our employees who were certified as professional Islamic Bankers by the General Council for Islamic Banks & Financial Institutions.

OUR ENVIRONMENT →

GOOD HOUSEKEEPING AND BUSINESS PRACTICES →

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 for correspondence, adopting energy efficient technologies and practices at the workplace and responsible disposal of waste. We have also made our first attempt at measuring and reporting our own carbon footprint, as discussed in the paragraph that follows. 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 →

What gets measured gets managed. We have thus commenced measuring and reporting our carbon footprint on a voluntary basis using the revised edition of WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard for guidance. This is our maiden public disclosure, and we are limiting the organisational boundary to Ithmaar Bank B. S. C. only. The operational boundary is likewise limited to the business of the Bank within the Kingdom of Bahrain.

Scope	Source	Consumption in 2011	Emission, kg CO_2 Equivalent	%
1 - Direct	Petrol for motor vehicles	20,951 litres	48,433	1.9
2 - Indirect	Purchased electricity	2,330,316 kWh	1,922,278	73.3
3 - Indirect; selective	Purchased chilled water for air conditioning	Estimated energy for chilling 705,615 kWh	582,062	22.2
	International business flights	196 one way and round trips totalling 585,282 km (computed individually)	68,062	2.6
	Total carbon footprint		**2,620,835**	**100.0**

As will be seen from the above table, purchased electricity usage accounted for 73% of our total greenhouse gas (GHG) emissions that amounted to 2,621 tonnes CO_2 equivalent[1] during the year. In addition, purchased chilled water for air conditioning at the Head Office and Main Branch is estimated to account for another 22% of our total GHG emissions, making our indirect GHG emissions from electricity alone to slightly over 95% of our total carbon footprint. A clear implication is that the efficient use of electricity through sound energy management practices is an area that the Bank will focus on, which will not only make the Bank a more environmentally responsible corporate citizen but also contribute positively to bottom line profits.

AWARENESS CREATION →

Ithmaar Bank extended financial support for the First Bahrain Waste Management Forum and Exhibition held in November 2011. The two-day event held under the patronage of the Minister of Municipalities and Urban Planning was hosted by the Bahrain Polytechnic under the theme 'Towards Zero Waste'.

Having played a pioneering role in the introduction and subsequent development of Islamic banking and finance in the Region, Ithmaar Bank also recognises the important role it must play in supporting the community in which it operates. In particular, the Bank recognises the importance of working towards protecting the environment, a core philosophy behind Islamic banking.

[1] It includes the six greenhouse gases covered by the Kyoto Protocol - carbon dioxide (CO_2), methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride - which have varying levels of global warming potential. The overall impact is denominated in terms of CO_2 equivalent, with mass as the unit of measure.

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011

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 2011 UNTIL 31 DECEMBER 2011, CORRESPONDING TO THE PERIOD FROM 26 MUHARRAM 1432 H UNTIL 6 SAFAR 1433 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 acts during the financial year from 1 January 2011 until 31 December 2011:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the various management teams towards Sharia-compliant transactions.
2. Studied different mechanisms of financing and prepared its documents with the concerned departments in order to develop products.
3. Examined the books, records and transactions through the internal Sharia Audit Department and auditing some of their samples as per established auditing standards.
4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period from 1 January 2011 to 31 December 2011. 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 the 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 full 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 Fund.

c. All the amounts collected as customers' donations and commitments on late payments were posted to the Charity Fund.

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

II: CONVENTIONAL ASSETS AND LIABILITIES:

The Sharia Supervisory Board identified and reviewed the 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.

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2011 UNTIL 31 DECEMBER 2011, CORRESPONDING TO THE PERIOD FROM 26 MUHARRAM 1432 H UNTIL 6 SAFAR 1433 H. (continued)

The Sharia Supervisory Board continuously reviews progresses 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 2011 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 have been calculated, in the current year's financial statements, at 0.28 cents 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 Nedham Yaqouby
Member

His Eminence Sheikh Dr. Osama Bahar
Member

Manama, Kingdom of Bahrain
19 February 2012

Report of the Directors

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2011, 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 2011, together with the consolidated income statement, changes in equity and cash flows for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of $62.9 million for 2011, attributable to the shareholders, as compared to a net loss of $150.4 million for 2010. Total assets at 31 December 2011 amounted to $6,899 million (31 December 2010: $6,747 million).

The Bank's consolidated Capital adequacy ratio under Basel II as at 31 December 2011 was 12.88% (31 December 2010: 13.20%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in note 38 to the accompanying consolidated financial statements.

DIRECTORS

The following served as Directors of the Bank during the year ended 31 December 2011:

HRH Prince Amr Mohammed Al Faisal (Chairman)
Mr. Khalid Abdulla-Janahi
Tunku Dato' Ya'acob Bin Tunku Abdullah
Mr. Abdulhameed M. Aboumoussa
Mr. Mohammed Youseef El-Khereiji
Shaikha Hissah bint Saad Al-Sabah
Sheikh Zamil Abdullah Al-Zamil
Mr. Nabeel Khaled Kanoo
Mr. Mohammed Bucheerei

DIRECTORS' SITTING FEES

Directors' sitting fees for 2011 amounted to $183,500 (2010: $320,000).

INTERESTS OF DIRECTORS

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

Name	Number of Shares	
	31 December 2011	31 December 2010
HRH Prince Amr Mohammed Al Faisal	**100,000**	100,000
Mr. Khalid Abdulla-Janahi	**20,749,693**	20,749,693
Tunku Dato' Ya'acob Bin Tunku Abdullah	**40,982**	40,982
Mr. Abdulhameed M. Aboumoussa	**–**	–
Mr. Mohammed Youseef El-Khereiji	**5,280,000**	5,280,000
Shaikha Hissah bint Saad Al-Sabah	**41,800**	41,800
Sheikh Zamil Abdullah Al-Zamil	**205,000**	–
Mr. Nabeel Khaled Kanoo	**–**	–
Mr. Mohammed Bucheerei	**105,600**	105,600

DIVIDEND

No dividend has been proposed for 2011 (2010: Nil).

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2012.

By order of the Board of Directors

HRH Prince Amr Mohammed Al Faisal
Chairman
28 February 2012

Independent Auditors' 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 2011 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 2011 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 and Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

REPORT ON REGULATORY REQUIREMENTS

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.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
28 February 2012

Consolidated Statement of Financial Position

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2011 (Audited)	At 31 December 2010 (Audited and Restated)
ASSETS			
Cash, balances with banks and central banks	3	**378,701**	373,970
Commodity placements with banks, financial and other institutions	4	**504,213**	535,121
Murabaha and other financings	5	**2,733,024**	2,515,480
Musharaka financing		**42,518**	14,614
Investments:			
Mudaraba	6	**23,493**	26,911
Investment in associates	7	**650,156**	664,988
Investment securities	8	**1,224,386**	1,247,441
Restricted investment accounts	9	**199,117**	204,278
Assets acquired for leasing	10	**59,421**	70,536
Investment in real estate	11	**390,174**	389,592
Other assets	12	**303,950**	284,564
Fixed assets	13	**132,408**	145,382
Intangible assets	14	**257,859**	274,590
Total assets		**6,899,420**	6,747,467
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts		**792,077**	684,162
Due to banks, financial and other institutions	15	**1,617,321**	1,714,025
Due to investors	16	**1,930,445**	1,970,795
Other liabilities	17	**273,434**	288,516
Total liabilities		**4,613,277**	4,657,498
Equity of unrestricted investment account holders	18	**1,476,633**	1,195,963
Minority interest	19	**232,682**	237,428
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND MINORITY INTEREST		**6,322,592**	6,090,889
Share capital	20	**670,863**	671,254
Reserves		**(94,035)**	(14,676)
Total owners' equity		**576,828**	656,578
Total liabilities, equity of unrestricted investment account holders, minority interest and owners' equity		**6,899,420**	6,747,467

These consolidated financial statements were approved by the Board of Directors on 28 February 2012 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 90 to 132 form an integral part of the consolidated financial statements.

Consolidated Income Statement

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2011 (Audited)	At 31 December 2010 (Audited and Restated)
INCOME			
Income from unrestricted investment accounts		**67,926**	61,546
Less: return to unrestricted investment accounts and provisions		**(65,018)**	(56,395)
Group's share of income from unrestricted investment accounts as a Mudarib		**2,908**	5,151
Group's share of income from restricted investment accounts as a Mudarib	22	**2,814**	4,618
Income from murabaha and other financings	23	**259,156**	184,001
Income from investments	24	**138,002**	159,578
Gain arising on acquisition of a business - net	41	**–**	38,748
Other income	25	**48,149**	46,333
Total income		**451,029**	438,429
Less: profit paid to banks, financial and other institutions - net		**(276,152)**	(212,822)
Operating income		**174,877**	225,607
EXPENSES			
Administrative and general expenses	26	**(168,407)**	(129,807)
Depreciation and amortisation	13,14	**(44,438)**	(32,763)
Total expenses		**(212,845)**	(162,570)
Net income/(loss) before provision for impairment and overseas taxation		**(37,968)**	63,037
Provision for impairment - net	28	**(21,836)**	(209,386)
Net loss before overseas taxation		**(59,804)**	(146,349)
Overseas taxation	29	**(2,102)**	6,341
NET LOSS FOR THE YEAR		**(61,906)**	(140,008)
Attributable to:			
Equity holders of the Bank		**(62,886)**	(150,409)
Minority interests	19	**980**	10,401
		(61,906)	(140,008)
Basic and diluted earnings per share	21	**US cts (2.31)**	US cts (5.89)

These consolidated financial statements were approved by the Board of Directors on 28 February 2012 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 90 to 132 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 United States Dollars 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	Accumulated losses	Total reserves	Total owners' equity
At 1 January 2011 (Audited and Restated)	**671,254**	**149,967**	**38,090**	**50,726**	**2,964**	**1,015**	**9,606**	**(267,044)**	**(14,676)**	**656,578**
Treasury shares purchased	(391)	(276)	–	–	–	–	–	–	(276)	(667)
Net loss for the year	–	–	–	–	–	–	–	(62,886)	(62,886)	(62,886)
Movement in fair value of investment securities	–	–	–	–	(8,926)	–	–	–	(8,926)	(8,926)
Movement in fair value of associates	–	–	–	–	(8,239)	–	–	–	(8,239)	(8,239)
Movement in deferred tax relating to investment securities	–	–	–	–	2,753	–	–	–	2,753	2,753
Transfer to income statement due to impairment of investment securities	–	–	–	–	2,199	–	–	–	2,199	2,199
Transfer to income statement due to disposal of investment securities	–	–	–	–	(2,093)	–	–	–	(2,093)	(2,093)
Movement in fair value of investment in real estate	–	–	–	–	–	(68)	–	–	(68)	(68)
Foreign currency translation adjustment	–	–	–	–	133	–	(1,443)	(513)	(1,823)	(1,823)
At 31 December 2011	**670,863**	**149,691**	**38,090**	**50,726**	**(11,209)**	**947**	**8,163**	**(330,443)**	**(94,035)**	**576,828**

The notes on pages 90 to 132 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2010
(Expressed in thousands of United States Dollars 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	Accumulated losses	Total reserves	Total owners' equity
At 1 January 2010	**568,832**	**161,132**	**38,090**	**150,827**	**1,989**	**–**	**59**	**(209,494)**	**142,603**	**711,435**
Reorganisation adjustments (Note 42)	–	–	–	(96,211)	8,676	–	(283)	87,818	–	–
Adjustments resulting from adoption of FAS 25 (Note 43)	–	–	–	–	1,357	–	–	–	1,357	1,357
At 1 January 2010 (Audited and Restated)	**568,832**	**161,132**	**38,090**	**54,616**	**12,022**	**–**	**(224)**	**(121,676)**	**143,960**	**712,792**
Increase in share capital (Note 20)	103,025	–	–	–	–	–	–	–	–	103,025
Costs related to rights issue	–	(10,000)	–	–	–	–	–	–	(10,000)	(10,000)
Treasury shares purchased	(2,961)	725	–	–	–	–	–	–	725	(2,236)
Treasury shares sold	2,358	(1,890)	–	–	–	–	–	–	(1,890)	468
Net loss for the year	–	–	–	–	–	–	–	(150,409)	(150,409)	(150,409)
Movement in fair value of Investment securities	–	–	–	–	3,869	–	–	–	3,869	3,869
Disposal of subsidiaries (Note 37)	–	–	–	501	–	–	–	3,169	3,670	3,670
Movement in fair value of associates	–	–	–	–	(2,578)	–	–	–	(2,578)	(2,578)
Movement in deferred tax relating to investment securities	–	–	–	–	(944)	–	–	–	(944)	(944)
Transfer to income statement due to impairment of investment securities	–	–	–	–	4,889	–	–	–	4,889	4,889
Transfer to income statement due to disposal of investment securities	–	–	–	–	(14,124)	–	–	–	(14,124)	(14,124)
Movement in fair value of investment in real estate	–	–	–	–	–	1,015	–	–	1,015	1,015
Foreign currency translation adjustment	–	–	–	–	(170)	–	9,830	(2,519)	7,141	7,141
Transfer from general reserve	–	–	–	(4,391)	–	–	–	4,391	–	–
At 31 December 2010	**671,254**	**149,967**	**38,090**	**50,726**	**2,964**	**1,015**	**9,606**	**(267,044)**	**(14,676)**	**656,578**

The notes on pages 90 to 132 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2011 (Audited)	At 31 December 2010 (Audited and Restated)
OPERATING ACTIVITIES			
Net loss before overseas taxation		**(59,804)**	(146,349)
Adjustments for:			
Depreciation and amortisation	13,14	**44,438**	32,763
Gain arising on acquisition of a business	41	**–**	(38,748)
Income from associated companies	24	**(17,816)**	(27,583)
Provision for impairment - net	28	**21,836**	209,386
Gain on sale of fixed assets	25	**(3,178)**	(1,186)
Operating profit/(loss) before changes in operating assets and liabilities		**(14,524)**	28,283
Balances with banks maturing after ninety days and including with central bank relating to minimum reserve requirement		**(10,339)**	14,498
(Increase)/decrease in operating assets			
Murabaha and other financings		**(214,502)**	(330,319)
Musharaka financing		**(27,904)**	(14,614)
Other assets		**(983)**	(86,549)
Increase/(decrease) in operating liabilities			
Customers' current accounts		**107,915**	228,897
Due to banks, financial and other institutions		**(96,704)**	(116,529)
Due to investors		**(40,350)**	330,402
Other liabilities		**(14,027)**	10,145
Increase in equity of unrestricted investment account holders		**280,670**	212,952
Taxes paid		**(13,643)**	(28,343)
Net cash (used in)/provided by operating activities		**(44,391)**	248,823
INVESTING ACTIVITIES			
Net (increase)/decrease			
Mudaraba		**–**	(2,615)
Investment in restricted investment accounts		**5,161**	(78,103)
Assets acquired for leasing		**11,115**	174
Investment securities		**(31,959)**	(341,631)
Dividend received from associates	7	**15,915**	15,766
Purchase of fixed assets		**(10,002)**	(47,011)
Investment in real estate		**(3,830)**	(20,389)
Net cash used in investing activities		**(13,600)**	(473,809)

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2011 (Audited)	At 31 December 2010 (Audited and Restated)
FINANCING ACTIVITIES			
Treasury shares purchased		-	(2,236)
Treasury shares sold		-	468
Share capital	20	-	103,025
Net cash provided by financing activities		**-**	101,257
Foreign currency translation adjustments		**21,475**	8,039
Net decrease in cash and cash equivalents		**(36,516)**	(115,690)
Cash and cash equivalents at the beginning of the year		**702,526**	818,216
Cash and cash equivalents at the end of the year	4	**666,010**	702,526

The notes on pages 90 to 132 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 United States Dollars unless otherwise stated)

	At 1 January 2011	Net Deposits/ (Withdrawals)	Gross Income	Mudarib's Fee	At 31 December 2011
Aldar Private Equity Fund*	170,324	–	–	–	170,324
Dilmunia Development Fund I L.P.*	175,869	–	(2,842)	–	173,027
Shamil Bosphorus Modaraba*	102,435	–	–	–	102,435
European Real Estate Portfolio*	22,814	(469)	–	–	22,345
Shamil China Fund*	22,779	(22,779)	–	–	–
US Development Opportunities Fund*	18,019	–	–	–	18,019
Shamil Jawaher 1	50,720	(50,087)	–	(633)	–
Shamil Jawaher 2	6,244	(6,141)	–	(103)	–
European Real Estate Placements*	72,223	54,686	110	(856)	126,163
US Real Estate Placements*	147,652	10,501	–	(361)	157,792
PPSC Placements	841,742	(703,582)	3,038	(754)	140,444
Trade Finance Placements	943	13,038	87	(17)	14,051
Listed and non-listed equities	42,795	(11,613)	2,011	(90)	33,103
Investment in Sukuk	–	520	6	–	526
Other clients funds	460	(460)	–	–	–
Total	**1,675,019**	**(716,386)**	**2,410**	**(2,814)**	**958,229**
Funds managed on agency basis	95,380	(23,961)	–	–	71,419
	1,770,399	**(740,347)**	**2,410**	**(2,814)**	**1,029,648**

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

The notes on pages 90 to 132 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2010
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2010 (Audited and Restated, refer Note 42)	Net Deposits/ (Withdrawals)	Gross Income	Mudarib's Fee	At 31 December 2010
Aldar Private Equity Fund*	171,824	–	–	(1,500)	170,324
Dilmunia Development Fund I L.P.*	182,323	–	(4,373)	(2,081)	175,869
Shamil Bosphorus Modaraba*	99,514	2,921	–	–	102,435
European Real Estate Portfolio*	24,660	(1,846)	–	–	22,814
Shamil Navigator*	15,385	(15,385)	–	–	–
Shamil China Fund*	25,574	(2,795)	–	–	22,779
US Development Opportunities Fund*	21,547	(3,528)	–	–	18,019
Shamil Jawaher 1	50,735	(15)	–	–	50,720
Shamil Jawaher 2	7,764	(1,520)	–	–	6,244
Bridge Finance Placements	20,200	(20,200)	–	–	–
European Real Estate Placements*	77,954	(5,740)	220	(211)	72,223
US Real Estate Placements*	132,719	15,353	19	(439)	147,652
PPSC Placements	106,536	734,014	1,474	(282)	841,742
Trade Finance Placements	1,390	(444)	–	(3)	943
Listed and non-listed equities	38,343	3,434	1,120	(102)	42,795
Other clients funds	489	(32)	3	–	460
Total	**976,957**	**704,217**	**(1,537)**	**(4,618)**	**1,675,019**
Funds managed on agency basis	246,493	(151,113)	–	–	95,380
	1,223,450	**553,104**	**(1,537)**	**(4,618)**	**1,770,399**

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

The notes on pages 90 to 132 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 account holders and restricted investment accounts. In respect of equity of unrestricted investment account holders, the investment account holder authorises the Group to invest the account holders' 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 account holders 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, 15 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	Economic	Country of Incorporation	Principal business activity
Faisal Private Bank (Switzerland) S.A.	100	100	Switzerland	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
Faysal Bank Limited	67	67	Pakistan	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

During 2010, the Bank sold its investments in four subsidiaries, namely DMI Jersey Limited, MFAI Jersey Limited, Faisal Finance Jersey Limited and Rayten Limited to a related party (Note 37).

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.

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 2011 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 40.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2011.

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

(I) ADOPTION OF NEW ACCOUNTING STANDARD:

The following standard which becomes effective in 2011 is relevant for the Group.

Standard	Content	Applicable for the financial years beginning or after
FAS 25	Investment in sukuk, shares and similar instruments	1 January 2011

FAS 25 was issued in July 2010. It relates to the recognition, measurement, presentation and disclosure of investments that exhibit characteristics of debt and equity instruments.

Equity type instruments are accounted at fair value through equity or fair value through income statement as appropriate. Debt type instruments are accounted at amortised cost or fair value through income statement as appropriate.

The adoption of this standard does not have any material impact on the consolidated income statement but has impact on the presentation and disclosure of the underlying investments. Accordingly the consolidated statement of financial position has been restated for the comparative periods and related accounting policies have been amended.

(II) BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost convention as modified by the revaluation of investment securities 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).

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(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 account holders 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 (the functional currency). The consolidated financial statements are presented in US Dollars, which is the Bank's presentation currency.

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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions and balances (continued)

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 statement as part of the gain or loss on sale.

Goodwill, intangibles 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.

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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash 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 financings are 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 possession of collateral 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 considers 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 considers that there is impairment in the carrying amount of Musharaka financing.

(g) Investments

1. Investments carried at amortised cost

Include 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 account holders under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments (continued)

2. Investments carried at fair value through equity (continued)

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.

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 account holders. 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 properties 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 account holders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement. Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

6. 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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments (continued)

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 price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows 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.

(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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

***1. Goodwill* (continued)**

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. 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 amortization.

(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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 account holders

Under the equity of unrestricted investment account holders (URIA), the investment account holder authorizes the Group to invest the account holders' 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 account holders 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 equalization reserve and profit to investment account holders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment account holders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment account holders 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 book value.

(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 utilized 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. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

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 return 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.

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 recognized 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 account holders

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 equalization 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.

(Expressed in thousands of United States Dollars unless otherwise stated)

3. CASH, BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central bank	**126,707**	**-**	**126,707**	113,725	-	113,725
Cash, balances with banks and central bank	**251,994**	**-**	**251,994**	260,245	-	260,245
	378,701	**-**	**378,701**	373,970	-	373,970

4. COMMODITY PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	**485,735**	**25,003**	**510,738**	516,645	25,001	541,646
Less: Provision	**(6,525)**	**-**	**(6,525)**	(6,525)	-	(6,525)
	479,210	**25,003**	**504,213**	510,120	25,001	535,121

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

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash, balances with banks and central bank	**378,701**	**-**	**378,701**	373,970	-	373,970
Commodity placements with banks, financial and other institutions - net	**479,210**	**25,003**	**504,213**	510,120	25,001	535,121
Less: Placements maturing after ninety days	**(65,194)**	**(25,003)**	**(90,197)**	(67,839)	(25,001)	(92,840)
Less: balances with central bank relating to minimum reserve requirement	**(126,707)**	**-**	**(126,707)**	(113,725)	-	(113,725)
	666,010	**-**	**666,010**	702,526	-	702,526

(Expressed in thousands of United States Dollars unless otherwise stated)

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

The movement in provision is as follows:

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**6,525**	**–**	**6,525**	6,525	–	6,525
Charge for the year	**–**	**–**	**–**	–	–	–
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**6,525**	**–**	**6,525**	6,525	–	6,525

5. MURABAHA AND OTHER FINANCINGS

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	**2,196,792**	**799,102**	**2,995,894**	2,185,747	610,043	2,795,790
Less: Provisions	**(231,693)**	**(31,177)**	**(262,870)**	(250,051)	(30,259)	(280,310)
	1,965,099	**767,925**	**2,733,024**	1,935,696	579,784	2,515,480

Other financings represent conventional loans and advances totalling $1,641 million (2010: $1,587 million) made by a subsidiary of the Bank.

The movement in provisions is as follows:

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**250,051**	**30,259**	**280,310**	111,141	28,596	139,737
Charge for the year	**36,273**	**918**	**37,191**	44,681	3,400	48,081
Write back during the year	**(39,316)**	**–**	**(39,316)**	–	–	–
Utilised during the year	**(4,916)**	**–**	**(4,916)**	–	–	–
Acquisition of a business	**–**	**–**	**–**	99,320	–	99,320
Exchange differences and other movements	**(10,399)**	**–**	**(10,399)**	(5,091)	(1,737)	(6,828)
At 31 December	**231,693**	**31,177**	**262,870**	250,051	30,259	280,310

(Expressed in thousands of United States Dollars unless otherwise stated)

6. MUDARABA

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	**984**	**37,298**	**38,282**	3,529	38,171	41,700
Less: provisions	**–**	**(14,789)**	**(14,789)**	–	(14,789)	(14,789)
	984	**22,509**	**23,493**	3,529	23,382	26,911

The movement in provisions is as follows:

	2011			2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**–**	**14,789**	**14,789**	–	14,789	14,789
Charge for the year	**–**	**–**	**–**	–	–	–
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**–**	**14,789**	**14,789**	–	14,789	14,789

(Expressed in thousands of United States Dollars unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES

Investments in associated companies, as adjusted for the Bank's share of their results (Note 24), comprise:

Name of company	**2011**	2010	% of Shareholding	Country	Activity
Unlisted:					
Solidarity Group Holding B.S.C. (C)	**70,047**	70,215	34	Bahrain	Takaful
First Leasing Bank B.S.C. (C)	**39,737**	44,817	43	Bahrain	Banking
Citic International Assets Management Limited	**65,496**	66,460	20	Hong Kong	Asset management
Sanpak Engineering	**659**	698	31	Pakistan	Manufacturing
Islamic Company for Production, Printing and Packing Materials "Icopack"	**3,503**	3,394	23	Egypt	Trading
Misr Company for Packing Materials "Egywrap"	**8,162**	7,867	23	Egypt	Trading
Faysal Asset Management Limited	**923**	1,046	30	Pakistan	Asset management
Ithraa Capital	**4,072**	4,604	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	**87,594**	86,605	29	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	**2,104**	2,020	40	Bahrain	Real estate
Islamic Trading Company E.C	**1,964**	1,974	24	Bahrain	Trading
Emerging Markets Partnership Bahrain B.S.C (C)	**871**	838	40	Bahrain	Asset management
Hupomone Capital Partners (H.C.P)	**–**	–	20	Singapore	Asset management
CIAM - Shamil Asset Management Co. Ltd.	**312**	174	50	Hong Kong	Asset management
Listed:					
BBK B.S.C	**364,712**	374,276	25	Bahrain	Banking
	650,156	664,988			

Investments in associates include conventional investments totalling $430 million (2010: $441 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES (continued)

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

	31 December 2011	31 December 2010
At 1 January	**664,988**	706,706
Share of profit before tax	**18,031**	28,373
Share of tax	**(215)**	(790)
Dividends received	**(15,915)**	(15,766)
Share of fair value reserve	**(8,239)**	(6,429)
Additions	**-**	10,000
Provisions	**-**	(55,677)
Amortisation of intangibles	**(6,748)**	(6,748)
Exchange differences	**(1,746)**	5,319
At 31 December	**650,156**	664,988

Included in investment in associates at 31 December 2011 is $94.6 million (31 December 2010: $94.6 million) of goodwill. The movement is as follows:

	31 December 2011	31 December 2010
At 1 January	**94,597**	150,274
Provision	**-**	(55,677)
At 31 December	**94,597**	94,597

The Bank has received in-principle approval from the Central Bank of Bahrain on 6 December 2010 for the proposed acquisition of the remaining shares in First Leasing Bank B.S.C (C) (FLB) through a share swap, subject to compliance with various conditions. The Bank is currently in discussion with FLB on the proposed share swap ratio.

Summarised financial position of associates that have been equity accounted:

	31 December 2011	31 December 2010
Total assets	**8,531,939**	7,737,721
Total liabilities	**6,895,034**	6,058,063
Total revenues	**349,978**	409,748
Total net profit	**86,737**	128,707

(Expressed in thousands of United States Dollars unless otherwise stated)

8. INVESTMENT SECURITIES

	31 December 2011			31 December 2010		
	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						
Debt-type instruments - listed	**-**	**-**	**-**	32,732	-	32,732
Debt-type instruments - unlisted	**54,718**	**-**	**54,718**	-	-	-
Equity securities - listed	**9,835**	**-**	**9,835**	8,608	-	8,608
	64,553	**-**	**64,553**	41,340	-	41,340
Investment securities at fair value through equity						
Equity securities - listed	**104,197**	**-**	**104,197**	117,079	-	117,079
Equity securities - unlisted	**191,388**	**84,765**	**276,153**	189,729	93,343	283,072
	295,585	**84,765**	**380,350**	306,808	93,343	400,151
Provision for impairment	**(101,331)**	**(940)**	**(102,271)**	(100,409)	(3,308)	(103,717)
	194,254	**83,825**	**278,079**	206,399	90,035	296,434
Investment securities carried at amortised cost						
Debt-type instruments - listed	**-**	**-**	**-**	51,042	-	51,042
Debt-type instruments - unlisted	**888,620**	**-**	**888,620**	864,340	-	864,340
	888,620	**-**	**888,620**	915,382	-	915,382
Provision for impairment	**(6,866)**	**-**	**(6,866)**	(5,715)	-	(5,715)
	881,754	**-**	**881,754**	909,667	-	909,667
	1,140,561	**83,825**	**1,224,386**	1,157,406	90,035	1,247,441

Investment securities include conventional investments totalling $918 million (2010: $931 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was $883 million (2010: $903 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

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

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**106,124**	**3,308**	**109,432**	50,072	–	50,072
Charge for the year	**32,289**	**–**	**32,289**	65,317	1,368	66,685
Write back during the year	**(7,590)**	**–**	**(7,590)**	(24,423)	–	(24,423)
Reclassification	**2,368**	**(2,368)**	**–**	–	–	–
Utilised during the year	**(23,937)**	**–**	**(23,937)**	–	–	–
Exchange differences	**(1,057)**	**–**	**(1,057)**	15,158	1,940	17,098
At 31 December	**108,197**	**940**	**109,137**	106,124	3,308	109,432

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 United States Dollars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

INVESTMENTS MEASURED AT FAIR VALUE

	Level 1	Level 2	Level 3	**Total**
At 31 December 2011				
Investment securities at fair value through income statement				
Debt-type instruments	54,718	–	–	**54,718**
Equity securities	9,835	–	–	**9,835**
Investment securities at fair value through equity				
Equity securities	103,642	–	174,437	**278,079**
	168,195	–	174,437	**342,632**

	Level 1	Level 2	Level 3	**Total**
At 31 December 2010				
Investment securities at fair value through income statement				
Debt-type instruments	32,732	–	–	**32,732**
Equity securities	8,608	–	–	**8,608**
Investment securities at fair value through equity				
Equity securities	93,808	–	202,626	**296,434**
	135,148	–	202,626	**337,774**

RECONCILIATION OF LEVEL 3 ITEMS

	Investment securities at fair value through equity	
	2011	2010
At 1 January	**202,626**	174,235
Total gains/(losses) recognised in		
- Income statement	**139**	(3,215)
- Equity	**–**	–
Purchases	**6,292**	67,229
Sales	**(34,579)**	(35,129)
Transfers into Level 3	**–**	30
Transfers out of Level 3	**(41)**	(524)
At 31 December	**174,437**	202,626
Total gains/(losses) for the year included in consolidated statement of income for 31 December	**540**	(3,215)

(Expressed in thousands of United States Dollars unless otherwise stated)

9. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2011			31 December 2010		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	140,705	79,058	219,763	141,633	83,291	224,924
Less: provisions	(20,646)	–	(20,646)	(20,646)	–	(20,646)
	120,059	79,058	199,117	120,987	83,291	204,278

The movement in provisions is as follows:

	31 December 2011			31 December 2010		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	20,646	–	20,646	3,500	–	3,500
Charge for the year	–	–	–	17,146	–	17,146
At 31 December	20,646	–	20,646	20,646	–	20,646

10. ASSETS ACQUIRED FOR LEASING

	31 December 2011			31 December 2010		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property	96,317	(36,896)	59,421	106,856	(36,320)	70,536

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

	31 December 2011	31 December 2010
Relating to owners	47,568	58,784
Relating to unrestricted investment accounts	11,853	11,752
	59,421	70,536

(Expressed in thousands of United States Dollars unless otherwise stated)

11. INVESTMENT IN REAL ESTATE

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	**418,722**	**-**	**418,722**	413,140	-	413,140
Less: provisions	**(28,548)**	**-**	**(28,548)**	(23,548)	-	(23,548)
	390,174	**-**	**390,174**	389,592	-	389,592

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 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**23,548**	**-**	**23,548**	6,667	-	6,667
Charge for the year	**5,000**	**-**	**5,000**	16,881	-	16,881
At 31 December	**28,548**	**-**	**28,548**	23,548	-	23,548

12. OTHER ASSETS

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Accrued receivable	**187,544**	**33,073**	**220,617**	173,454	43,722	217,176
Due from related parties	**58,321**	**-**	**58,321**	63,901	-	63,901
Taxes - deferred	**59,938**	**-**	**59,938**	53,013	-	53,013
Taxes - current	**12,962**	**-**	**12,962**	13,114	-	13,114
Assets acquired against claims	**22,633**	**-**	**22,633**	17,985	-	17,985
Provision for impairment	**(48,572)**	**(21,949)**	**(70,521)**	(59,215)	(21,410)	(80,625)
	292,826	**11,124**	**303,950**	262,252	22,312	284,564

(Expressed in thousands of United States Dollars unless otherwise stated)

12. OTHER ASSETS (continued)

The movement in provisions is as follows:

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**59,215**	**21,410**	**80,625**	32,701	17,736	50,437
Charge for the year	**11,376**	**539**	**11,915**	41,107	3,674	44,781
Write back during the year	**(22,151)**	**-**	**(22,151)**	(5,000)	-	(5,000)
Utilised during the year	**(1,131)**	**-**	**(1,131)**	-	-	-
Exchange differences	**1,263**	**-**	**1,263**	(9,593)	-	(9,593)
At 31 December	**48,572**	**21,949**	**70,521**	59,215	21,410	80,625

13. FIXED ASSETS

	Relating to owners 31 December 2011				Relating to owners 31 December 2010			
	Cost	**Accumulated depreciation**	**Provision for impairment**	**Net book amount**	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	**95,296**	**(5,543)**	**-**	**89,753**	76,569	(2,961)	-	73,608
Leasehold improvements	**31,671**	**(20,116)**	**-**	**11,555**	48,571	(19,236)	-	29,335
Furniture and equipment	**64,369**	**(52,093)**	**-**	**12,276**	61,047	(45,282)	-	15,765
Aircrafts and motor vehicles	**36,849**	**(12,070)**	**(5,955)**	**18,824**	36,935	(10,261)	-	26,674
	228,185	**(89,822)**	**(5,955)**	**132,408**	223,122	(77,740)	-	145,382

Depreciation charge for the year ended 31 December 2011 amounted to $20.9 million (31 December 2010: $10.6 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

14. INTANGIBLE ASSETS

	Relating to owners 31 December 2011			
	Cost	**Accumulated amortisation**	**Exchange differences**	**Net book amount**
Goodwill	**87,830**	**–**	**(7,139)**	**80,691**
Customer relations*	**113,896**	**(25,169)**	**(8,430)**	**80,297**
Core deposits	**155,547**	**(41,804)**	**(21,636)**	**92,107**
Other	**16,776**	**(12,012)**	**–**	**4,764**
	374,049	**(78,985)**	**(37,205)**	**257,859**

	Relating to owners 31 December 2010			
	Cost	Accumulated amortisation	Exchange differences	Net book amount
Goodwill	87,830	–	(6,415)	81,415
Customer relations*	113,896	(18,314)	(6,423)	89,159
Core deposits	155,547	(34,028)	(20,772)	100,747
Other	15,676	(12,407)	–	3,269
	372,949	(64,749)	(33,610)	274,590

Amortisation charge (including for associates) for the year ended 31 December 2011 amounted to $23.5 million (31 December 2010: $22.2 million).

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

	31 December 2011	31 December 2010
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	**66,070**	66,070
Faysal Bank Limited	**14,621**	15,345
	80,691	81,415

**Customer relations include $30 million arising from acquisition of a business (refer note 41).*

(Expressed in thousands of United States Dollars unless otherwise stated)

15. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Due to Banks	**1,152,541**	**–**	**1,152,541**	1,253,473	–	1,253,473
Due to financial and other institutions	**464,780**	**–**	**464,780**	460,552	–	460,552
	1,617,321	**–**	**1,617,321**	1,714,025	–	1,714,025

Due to banks, financial and other institutions include deposits totalling $885.5 million (2010: $878.1 million) from three counterparties having contractual maturity ranging from one month to 3 years. Out of these, deposits totalling $649.8 million (2010: $649.2 million) are from two counterparties which are subject to freeze and originating from jurisdiction under US and UN sanctions.

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.

At 31 December 2011, there were collateralized borrowings in aggregate $177.6 million (31 December 2010: $188.8 million).

Cash dividends amounting to $13.8 million (2010: $3.8 million) on certain shares pledged as collateral was directly received by the lender 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.

16. DUE TO INVESTORS

	Relating to owners	
	31 December 2011	31 December 2010
Due to corporate institutions	**1,028,050**	1,021,204
Due to individuals	**833,143**	892,572
Due to financial institutions	**69,252**	57,019
	1,930,445	1,970,795

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

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

(Expressed in thousands of United States Dollars unless otherwise stated)

17. OTHER LIABILITIES

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	**184,956**	**38,725**	**223,681**	195,810	20,210	216,020
Derivative financial instruments liabilities	**38,887**	**-**	**38,887**	44,698	-	44,698
Due to related parties	**5,187**	**-**	**5,187**	16,293	-	16,293
Provision for taxation - current	**787**	**-**	**787**	6,590	-	6,590
Provision for taxation - deferred	**4,892**	**-**	**4,892**	4,915	-	4,915
	234,709	**38,725**	**273,434**	268,306	20,210	288,516

18. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

The funds received from unrestricted investment account holders are invested on their behalf without recourse to the Group as follows:

	Notes	**31 December 2011**	31 December 2010
Commodity placement with banks, financial and other institutions	4	**25,003**	25,001
Murabaha and other financings	5	**767,925**	579,784
Mudaraba	6	**22,509**	23,382
Investment securities	8	**83,825**	90,035
Restricted investment accounts	9	**79,058**	83,291
Assets acquired for leasing	10	**11,853**	11,752
Investment in associates		**9,240**	9,240
Other assets	12	**11,124**	22,312
Due from the Bank		**504,821**	371,376
		1,515,358	1,216,173
Other liabilities	17	**(38,725)**	(20,210)
Equity of unrestricted investment account holders		**1,476,633**	1,195,963

Equity of unrestricted investment account holders at 31 December 2011 includes an amount of $3.9 million (31 December 2010: $3.5 million) representing negative investments fair value reserve in respect of investments carried at fair value through equity.

(Expressed in thousands of United States Dollars unless otherwise stated)

18. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (continued)

The movement in investments fair value reserve is as follows:

	31 December 2011	31 December 2010
At 1 January	**(3,548)**	(6,543)
Net movement during the year	**(351)**	2,995
At 31 December	**(3,899)**	(3,548)

The average gross rate of return in respect of unrestricted investment accounts was 7.02% for 31 December 2011 (31 December 2010: 6.25%) of which 5.15% (2010: 3.7%) 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.

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

	31 December 2011	31 December 2010
At 1 January	**8,155**	3,099
Net addition during the year	**10,454**	6,012
Net utilization during the year	**–**	(956)
At 31 December	**18,609**	8,155

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.

19. 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 2011		31 December 2010	
	Minority %		Minority %	
Faysal Bank Limited	**33**	**86,323**	34	92,195
Health Island B.S.C. (C)	**50**	**111,866**	50	111,342
Cityview Real Estate Development B.S.C. (C)	**49**	**1,663**	49	1,574
Marina Reef Real Estate Development B.S.C. (C)	**49**	**5,238**	49	4,862
Sakana Holistic Housing Solutions B.S.C. (C)	**50**	**27,251**	50	27,114
Others	**5**	**341**	5	341
		232,682		237,428

Minority interest in the consolidated income statement of $1 million (2010: $10.4 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of United States Dollars unless otherwise stated)

20. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
At 1 January 2010	2,275,329	568,832
Rights issue	412,100	103,025
Treasury shares purchased	(11,842)	(2,961)
Treasury shares sold	9,432	2,358
At 31 December 2010	**2,685,019**	**671,254**
Treasury shares purchased	(1,564)	(391)
At 31 December 2011	**2,683,455**	**670,863**

The Bank's total issued and fully paid share capital at 31 December 2011 comprises 2,804,050,267 shares at $0.25 per share amounting to $701 million.

The Bank owned 120,594,984 of its own shares at 31 December 2011 (31 December 2010: 119,031,285). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date. Treasury shares purchased during the year represent shares acquired from unrestricted investment accounts.

During March 2010, the Bank closed its rights issue offering which resulted in additional capital of $103 million representing 412.1 million shares at $0.25 per share.

21. 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 2011	31 December 2010
Net loss attributable to shareholders ($'000)	**(62,886)**	(150,409)
Weighted average number of issued and fully paid up ordinary shares ('000)	**2,718,757**	2,555,507
Earnings per share (Basic & Diluted) – US Cents	**(2.31)**	(5.89)

Earnings per share on non-sharia compliant income and expenses are included under note 40.

22. 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 United States Dollars unless otherwise stated)

23. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2011	31 December 2010
Income from Murabaha financing	**21,054**	22,483
Income from Other financings	**238,102**	161,518
	259,156	184,001

24. INCOME FROM INVESTMENTS

	Relating to owners	
	31 December 2011	31 December 2010
Share of profit after tax from associates (note 7)	**17,816**	27,583
Income from investments	**120,186**	103,955
Income from related party transactions (note 37)	**–**	28,040
	138,002	159,578

25. OTHER INCOME

	Relating to owners	
	31 December 2011	31 December 2010
Income from banking services	**18,264**	18,198
Fees and commission on letters of credit and guarantee	**6,984**	4,459
Other fee income	**25,155**	18,145
Foreign exchange income/(loss)	**(9,925)**	4,043
Gain on disposal of fixed assets	**3,179**	1,186
Others	**4,492**	302
	48,149	46,333

26. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2011	31 December 2010
Salaries and other benefits	**90,671**	71,378
Office expenses	**50,737**	34,933
Professional fees	**7,373**	8,342
Other administrative expenses	**19,626**	15,154
	168,407	129,807

(Expressed in thousands of United States Dollars unless otherwise stated)

27. SOCIAL RESPONSIBILITY

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

28. PROVISIONS

The movement in provisions is as follows:

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**521,786**	**69,766**	**591,552**	225,983	64,428	290,411
Charge for the year	**90,893**	**1,457**	**92,350**	238,809	7,024	245,833
Write back during the year	**(69,057)**	**–**	**(69,057)**	(29,423)	–	(29,423)
Utilised during the year	**(29,984)**	**–**	**(29,984)**	–	(1,686)	(1,686)
Acquisition of business (note 41)	**–**	**–**	**–**	100,117	–	100,117
Reclassification	**2,368**	**(2,368)**	**–**	–	–	–
Exchange differences	**(10,193)**	**–**	**(10,193)**	(13,700)	–	(13,700)
At 31 December	**505,813**	**68,855**	**574,668**	521,786	69,766	591,552

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

	31 December 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements with banks, financial and other institutions	**6,525**	**–**	**6,525**	6,525	–	6,525
Murabaha and other financings	**231,693**	**31,177**	**262,870**	250,051	30,259	280,310
Mudaraba	**–**	**14,789**	**14,789**	–	14,789	14,789
Investment in associates	**55,677**	**–**	**55,677**	55,677	–	55,677
Investments securities	**108,197**	**940**	**109,137**	106,124	3,308	109,432
Restricted investment accounts	**20,646**	**–**	**20,646**	20,646	–	20,646
Fixed assets	**5,955**	**–**	**5,955**	–	–	–
Investment in real estate	**28,548**	**–**	**28,548**	23,548	–	23,548
Other assets	**48,572**	**21,949**	**70,521**	59,215	21,410	80,625
	505,813	**68,855**	**574,668**	521,786	69,766	591,552

(Expressed in thousands of United States Dollars unless otherwise stated)

28. PROVISIONS (continued)

Total provisions of $574.7 million (2010: $591.6 million) include $29.8 million (2010: $31 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2011	31 December 2010
At 1 January	**31,046**	–
Charge for the year	**16,349**	31,046
Write back during the year	**(15,132)**	–
Utilised during the year	**(2,465)**	–
At 31 December	**29,798**	31,046

29. OVERSEAS TAXATION

	Relating to owners	
	31 December 2011	31 December 2010
Current taxes	**(7,395)**	(7,507)
Deferred taxes	**5,293**	13,848
	(2,102)	6,341

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 2011	31 December 2010
At 1 January	**6,523**	(8,112)
Charge for the year	**(7,395)**	(7,507)
Payments made	**13,643**	28,343
Exchange differences and other movements	**(596)**	(6,201)
At 31 December	**12,175**	6,523

(Expressed in thousands of United States Dollars unless otherwise stated)

29. OVERSEAS TAXATION (continued)

DEFERRED TAX ASSET/(LIABILITY)

	31 December 2011	31 December 2010
At 1 January	**48,098**	5,665
Charge for the year	**5,293**	13,848
Changes due to fair value reserve	**4,199**	1,437
Acquisition of a business (note 41)	**–**	33,557
Exchange differences and other movements	**(2,544)**	(4,097)
Adjustments resulting from adoption of FAS 25	**–**	(2,312)
At 31 December	**55,046**	48,098

30. 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.

(iv) others

	31 December 2011					31 December 2010				
	Fund Management	Retail & corporate banking	Asset Management/ Investment banking	Others	Total	Fund Management	Retail & corporate banking	Asset Management/ Investment banking	Others	Total
Income	**2,908**	**203,388**	**(35,106)**	**3,687**	**174,877**	5,151	190,527	34,835	(4,906)	225,607
Expenses and provisions	**–**	**(212,258)**	**(19,258)**	**(3,165)**	**(234,681)**	–	(254,168)	(105,602)	(12,186)	(371,956)
Income/(loss) before overseas taxation	**2,908**	**(8,870)**	**(54,364)**	**522**	**(59,804)**	5,151	(63,641)	(70,767)	(17,092)	(146,349)
Overseas taxation	**–**	**(1,936)**	**(74)**	**(92)**	**(2,102)**	–	6,710	(335)	(34)	6,341
Net loss for the year					**(61,906)**					(140,008)
Attributable to:										
Equity holders of the Bank	**2,908**	**(10,658)**	**(54,962)**	**(174)**	**(62,886)**	5,151	(68,714)	(71,814)	(15,032)	(150,409)
Minority interests	**–**	**(148)**	**524**	**604**	**980**	–	11,783	712	(2,094)	10,401
					(61,906)					(140,008)
Total assets	**1,515,356**	**4,371,981**	**941,753**	**70,330**	**6,899,420**	1,216,173	4,157,405	1,275,771	98,118	6,747,467
Total liabilities and equity of unrestricted investment account holders	**1,476,633**	**4,539,025**	**58,935**	**15,317**	**6,089,910**	1,195,963	4,405,969	215,397	36,132	5,853,461

(Expressed in thousands of United States Dollars unless otherwise stated)

30. SEGMENTAL INFORMATION (continued)

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

	31 December 2011						31 December 2010					
	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	Europe	North America	Middle East & Africa	Asia	Others	Total
Income	**19,883**	**13,511**	**(7,537)**	**145,688**	**3,332**	**174,877**	4,090	11,030	54,237	170,452	(14,202)	225,607
Expenses and provisions	**(35,957)**	**(3,592)**	**(65,151)**	**(129,217)**	**(764)**	**(234,681)**	(29,418)	(4,889)	(188,139)	(139,595)	(9,915)	(371,956)
Income/(loss) before overseas taxation	**(16,074)**	**9,919**	**(72,688)**	**16,471**	**2,568**	**(59,804)**	(25,328)	6,141	(133,902)	30,857	(24,117)	(146,349)
Overseas taxation	**(875)**	**–**	**–**	**(1,227)**	**–**	**(2,102)**	(1,021)	–	–	7,582	(220)	6,341
Net loss for the year						**(61,906)**						(140,008)
Attributable to:												
Equity holders of the Bank	**(16,949)**	**9,919**	**(73,815)**	**15,391**	**2,568**	**(62,886)**	(26,349)	6,141	(132,521)	23,381	(21,061)	(150,409)
Minority interests	**–**	**–**	**1,127**	**(147)**	**–**	**980**	–	–	(1,381)	15,058	(3,276)	10,401
						(61,906)						(140,008)
Total assets	**369,771**	**93,957**	**2,782,867**	**3,391,846**	**260,979**	**6,899,420**	368,401	105,862	2,718,758	3,263,844	290,602	6,747,467
Total liabilities and equity of unrestricted investment account holders	**311,348**	**24,071**	**2,672,428**	**3,041,231**	**40,832**	**6,089,910**	329,594	27,874	2,522,140	2,922,734	51,119	5,853,461

31. ZAKAH

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

(Expressed in thousands of United States Dollars unless otherwise stated)

32. CONTINGENT LIABILITIES AND COMMITMENTS

CONTINGENT LIABILITIES

	31 December 2011	31 December 2010
Acceptances and endorsements	**119,153**	47,356
Guarantees and irrevocable letters of credit	**731,625**	804,084
Customer claims	**413,939**	103,034
	1,264,717	954,474

COMMITMENTS

	31 December 2011	31 December 2010
Undrawn facilities, financing lines and other commitments to finance	**1,852,768**	1,385,017

33. 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 summarized below:

	USD/PKR	USD/EUR	USD/BHD	USD/PLN
As at 31 December 2011				
Total currency exposure	987,172	85,920	86,991	54,918
Reasonable shift	11.98%	3.02%	0.05%	4.95%
Total effect on income/equity	118,263	2,595	43	2,718
As at 31 December 2010				
Total currency exposure	780,766	51,272	31,410	57,215
Reasonable shift	0.06%	0.27%	0.01%	13.96%
Total effect on income/equity	468	138	3	7,987

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 United States Dollars unless otherwise stated)

33. CURRENCY RISK (continued)

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

	United States Dollar	Pakistan Rupee	Swiss Franc	Bahrain Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
31 DECEMBER 2011									
Cash, balances with banks and central bank	94,048	144,476	7,923	106,924	15,561	–	38	9,731	378,701
Commodity placements with banks, financial and other institutions	184,360	26,673	–	25,199	256,026	11,955	–	–	504,213
Murabaha and other financings	418,036	1,619,975	–	617,512	58,180	–	–	19,321	2,733,024
Musharaka financing	–	42,518	–	–	–	–	–	–	42,518
Investments:									
Mudaraba	23,493	–	–	–	–	–	–	–	23,493
Investment in associates	–	923	–	579,665	–	–	65,496	4,072	650,156
Investment securities	167,316	1,044,879	558	3,860	7,202	–	–	571	1,224,386
Restricted investment accounts	188,433	–	–	–	10,684	–	–	–	199,117
Assets acquired for leasing	47,569	–	–	11,852	–	–	–	–	59,421
Investment in real estate	47,551	8,415	49,745	229,569	54,809	85	–	–	390,174
Other assets	26,235	170,716	4,588	9,585	54,926	3	–	37,897	303,950
Fixed assets	4,047	62,373	613	65,375	–	–	–	–	132,408
Intangible assets	227,969	29,459	431	–	–	–	–	–	257,859
Total assets	**1,429,057**	**3,150,407**	**63,858**	**1,649,541**	**457,388**	**12,043**	**65,534**	**71,592**	**6,899,420**
Customer current accounts	78,386	491,836	14,360	132,258	65,046	–	–	10,191	792,077
Due to banks, financial and other institutions	63,032	443,588	292	424,802	365,928	319,337	–	342	1,617,321
Due to investors	121,219	1,763,839	–	9,979	14,641	–	–	20,767	1,930,445
Other liabilities	131,306	14,434	12,734	105,226	9,734	–	–	–	273,434
Total liabilities	**393,943**	**2,713,697**	**27,386**	**672,265**	**455,349**	**319,337**	**–**	**31,300**	**4,613,277**
Equity of unrestricted investment account holders	434,005	–	–	1,033,996	8,632	–	–	–	1,476,633
Total liabilities and equity of unrestricted investment account holders	**827,948**	**2,713,697**	**27,386**	**1,706,261**	**463,981**	**319,337**	**–**	**31,300**	**6,089,910**
Contingent liabilities and commitments	**908,436**	**1,534,229**	**44,443**	**455,221**	**122,514**	**592**	**–**	**52,050**	**3,117,485**
31 DECEMBER 2010									
Total assets	**1,611,587**	**2,955,800**	**60,359**	**1,542,509**	**400,429**	**14,032**	**66,682**	**96,069**	**6,747,467**
Total liabilities and equity of unrestricted investment account holders	**872,674**	**2,649,085**	**11,982**	**1,496,050**	**469,005**	**315,979**	**–**	**38,686**	**5,853,461**
Contingent liabilities and commitments	**541,484**	**1,079,893**	**41,728**	**463,549**	**169,371**	**–**	**–**	**43,466**	**2,339,491**

(Expressed in thousands of United States Dollars unless otherwise stated)

34. MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment account holders, 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 2011						
Cash, balances with banks and central bank	378,701	–	–	–	–	378,701
Commodity placements with banks, financial and other institutions	414,016	–	90,197	–	–	504,213
Murabaha and other financings	343,547	595,297	616,929	754,491	422,760	2,733,024
Musharaka financing	–	–	–	20,612	21,906	42,518
Investments:						
Mudaraba	5,785	–	–	17,708	–	23,493
Investment in associates	–	–	–	–	650,156	650,156
Investment securities	73,081	13,883	796,851	246,913	93,658	1,224,386
Restricted investment accounts	–	–	–	–	199,117	199,117
Assets acquired for leasing	1,010	9	227	50,129	8,046	59,421
Investment in real estate	–	–	–	262,694	127,480	390,174
Other assets	123,199	4,516	62,507	58,787	54,941	303,950
Fixed assets	–	–	–	64,608	67,800	132,408
Intangible assets	–	–	–	431	257,428	257,859
Total assets	**1,339,339**	**613,705**	**1,566,711**	**1,476,373**	**1,903,292**	**6,899,420**
Customer current accounts	792,077	–	–	–	–	792,077
Due to banks, financial and other institutions	991,919	140,904	380,332	59,614	44,552	1,617,321
Due to investors	844,690	211,225	558,690	237,596	78,244	1,930,445
Other liabilities	216,618	93	49,077	854	6,792	273,434
Total liabilities	**2,845,304**	**352,222**	**988,099**	**298,064**	**129,588**	**4,613,277**
Equity of unrestricted investment account holders	543,025	248,115	540,079	145,216	198	1,476,633
Total liabilities and equity of unrestricted investment account holders	**3,388,329**	**600,337**	**1,528,178**	**443,280**	**129,786**	**6,089,910**
Contingent liabilities and commitments	**531,822**	**202,595**	**1,144,334**	**1,175,751**	**62,983**	**3,117,485**
31 December 2010						
Total assets	**1,824,920**	**699,476**	**900,066**	**1,440,925**	**1,882,080**	**6,747,467**
Total liabilities and equity of unrestricted investment account holders	**3,485,584**	**543,422**	**1,368,997**	**396,131**	**59,327**	**5,853,461**
Contingent liabilities and commitments	**1,294,032**	**201,483**	**633,380**	**68,268**	**142,328**	**2,339,491**

(Expressed in thousands of United States Dollars unless otherwise stated)

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

Assets and liabilities of the Group, including equity of unrestricted investment account holders, 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 2011								
Cash, balances with banks and central bank	285,951	–	–	92,747	–	–	3	378,701
Commodity placements with banks, financial and other institutions	504,213	–	–	–	–	–	–	504,213
Murabaha and other financings	351,860	1,040,494	88,652	353,607	425,795	–	472,616	2,733,024
Musharaka financing	–	4,559	–	–	–	8,464	29,495	42,518
Investments:								
Mudaraba	984	58	19,062	128	–	–	3,261	23,493
Investment in associates	476,735	13,676	89,698	70,047	–	–	–	650,156
Investment securities	1,023,174	28,104	84,681	48,468	–	914	39,045	1,224,386
Restricted investment accounts	152,703	–	46,414	–	–	–	–	199,117
Assets acquired for leasing	–	5,576	47,569	–	6,188	–	88	59,421
Investment in real estate	8,415	–	381,759	–	–	–	–	390,174
Other assets	164,265	2,056	65,672	13,324	43,533	5,997	9,103	303,950
Fixed assets	64,599	–	67,809	–	–	–	–	132,408
Intangible assets	257,859	–	–	–	–			257,859
Total assets	**3,290,758**	**1,094,523**	**891,316**	**578,321**	**475,516**	**15,375**	**553,611**	**6,899,420**
Customer current accounts	48,443	186,293	26,358	156,981	261,841	3,655	108,506	792,077
Due to banks, financial and other institutions	1,617,321	–	–	–	–	–	–	1,617,321
Due to investors	135,152	246,969	23,287	320,492	833,549	118,286	252,710	1,930,445
Other liabilities	53,474	12,322	54,443	17,051	81,758	–	54,386	273,434
Total liabilities	**1,854,390**	**445,584**	**104,088**	**494,524**	**1,177,148**	**121,941**	**415,602**	**4,613,277**
Equity of unrestricted investment account holders	58,261	455,660	77,212	235,759	566,509	–	83,232	1,476,633
Total liabilities and equity of unrestricted investment account holders	**1,912,651**	**901,244**	**181,300**	**730,283**	**1,743,657**	**121,941**	**498,834**	**6,089,910**
Contingent liabilities and commitments	**1,197,913**	**1,364,270**	**45,265**	**154,190**	**42,241**	**28,525**	**285,081**	**3,117,485**
31 December 2010								
Total assets	**2,996,844**	**626,015**	**1,119,027**	**514,474**	**485,285**	**339,596**	**666,226**	**6,747,467**
Total liabilities and equity of unrestricted investment account holders	**1,742,068**	**757,461**	**402,344**	**483,226**	**1,926,320**	**34,063**	**507,979**	**5,853,461**
Contingent liabilities and commitments	**768,337**	**871,633**	**96,146**	**258,581**	**97,433**	**126,675**	**120,686**	**2,339,491**

(Expressed in thousands of United States Dollars unless otherwise stated)

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

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
31 December 2011						
Assets						
Cash, balances with banks and central bank	229,785	116,009	25,353	7,554	–	378,701
Commodity placements with banks, financial and other institutions	26,673	346,409	131,131	–	–	504,213
Murabaha and other financings	1,701,853	759,530	213,560	12	58,069	2,733,024
Musharaka financing	42,518	–	–	–	–	42,518
Investments:						
Mudaraba	–	99	854	22,540	–	23,493
Investment in associates	67,078	571,414	–	–	11,664	650,156
Investment securities	1,072,103	105,932	8,332	38,019	–	1,224,386
Restricted investment accounts	–	160,203	38,914	–	–	199,117
Assets acquired for leasing	–	59,293	–	128	–	59,421
Investment in real estate	8,415	277,204	104,555	–	–	390,174
Other assets	151,589	93,452	33,196	25,704	9	303,950
Fixed assets	62,373	69,412	623	–	–	132,408
Intangible assets	29,459	223,910	4,490	–	–	257,859
Total assets	**3,391,846**	**2,782,867**	**561,008**	**93,957**	**69,742**	**6,899,420**
Customer current accounts	549,270	163,832	59,762	8,335	10,878	792,077
Due to banks, financial and other institutions	444,662	921,198	229,373	9,538	12,550	1,617,321
Due to investors	1,920,460	9,985	–	–	–	1,930,445
Other liabilities	126,488	120,258	14,212	3,845	8,631	273,434
Total liabilities	**3,040,880**	**1,215,273**	**303,347**	**21,718**	**32,059**	**4,613,277**
Equity of unrestricted investment account holders	351	1,457,155	8,001	2,353	8,773	1,476,633
Total liabilities and equity of unrestricted investment account holders	**3,041,231**	**2,672,428**	**311,348**	**24,071**	**40,832**	**6,089,910**
Contingent liabilities and commitments	**2,572,332**	**470,903**	**40,484**	**7,186**	**26,580**	**3,117,485**
31 December 2010						
Total assets	**3,263,844**	**2,718,758**	**559,734**	**105,862**	**99,269**	**6,747,467**
Total liabilities and equity of unrestricted investment account holders	**2,922,734**	**2,522,140**	**329,594**	**27,874**	**51,119**	**5,853,461**
Contingent liabilities and commitments	**1,621,288**	**552,232**	**89,496**	**35,773**	**40,702**	**2,339,491**

(Expressed in thousands of United States Dollars unless otherwise stated)

36. RISK MANAGEMENT

CREDIT RISK

The significant concentration of credit risk at 31 December is set out in note 35.

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 recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment account holders:

	31 December 2011			31 December 2010		
	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	**355,641**	**46,913**	**402,554**	176,001	35,774	211,775
Non performing financing exposures	**390,385**	**173,086**	**563,471**	383,884	166,881	550,765
	746,026	**219,999**	**966,025**	559,885	202,655	762,540
Fair value of collateral						
Past due but performing financing exposures	**571,578**	**23,902**	**595,480**	251,093	39,096	290,189
Non performing financing exposures	**658,935**	**237,076**	**896,011**	579,839	210,763	790,602
	1,230,513	**260,978**	**1,491,491**	830,932	249,859	1,080,791

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 2011			31 December 2010		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	**42,151**	**69,938**	**112,089**	29,845	4,405	34,250

Non performing financing exposures relating to restricted investment accounts aggregate $53.8 million (2010: $53.8).

(Expressed in thousands of United States Dollars unless otherwise stated)

36. 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 2011							
Cash, balances with banks and central bank	141,638	–	–	–	–	237,063	378,701
Commodity placements with banks, financial and other institutions	419,019	–	85,194	–	–	–	504,213
Murabaha and other financings	364,577	461,083	699,349	721,026	486,989	–	2,733,024
Musharaka financing	–	–	–	20,612	21,906	–	42,518
Investments:							
Investment securities	58,004	22,899	608,411	162,615	108,798	263,659	1,224,386
Assets acquired for leasing	46,038	9	227	2,560	10,587	–	59,421
Other assets	116,488	452	23,872	9,347	–	153,791	303,950
Total financial assets	**1,145,764**	**484,443**	**1,417,053**	**916,160**	**628,280**	**654,513**	**5,246,213**
Customer current accounts	–	–	–	–	–	792,077	792,077
Due to banks, financial and other institutions	970,886	153,863	421,628	69,648	42	1,254	1,617,321
Due to investors	1,021,031	173,612	656,595	73,106	187	5,914	1,930,445
Other liabilities	663	5,930	2,246	1,685	841	262,069	273,434
Total financial liabilities	1,992,580	333,405	1,080,469	144,439	1,070	1,061,314	4,613,277
Equity of unrestricted investment account holders	554,919	240,431	535,897	145,187	199	–	1,476,633
Total financial liabilities and equity of unrestricted investment account holders	2,547,499	573,836	1,616,366	289,626	1,269	1,061,314	6,089,910
Total repricing gap	**(1,401,735)**	**(89,393)**	**(199,313)**	**626,534**	**627,011**	**(406,801)**	**(843,697)**
31 December 2010							
Total financial assets	**1,338,432**	**715,193**	**992,995**	**965,118**	**157,004**	**872,984**	**5,041,726**
Total financial liabilities and equity of unrestricted investment account holders	**2,475,946**	**522,794**	**1,699,925**	**172,421**	**425**	**981,950**	**5,853,461**
Total repricing gap	**(1,137,514)**	**192,399**	**(706,930)**	**792,697**	**156,579**	**(108,966)**	**(811,735)**

(Expressed in thousands of United States Dollars unless otherwise stated)

36. RISK MANAGEMENT (continued)

	USD	EUR	PKR	GBP	BHD	AED	PLN
As at 31 December 2011							
Total profit rate exposure	307,778	393,961	1,011,344	28,380	50,473	319,337	54,918
Reasonable shift	0.08%	0.22%	0.15%	0.20%	0.24%	0.08%	0.40%
Total effect on income	**246**	**867**	**1,517**	**57**	**121**	**255**	**220**
As at 31 December 2010							
Total profit rate exposure	207,988	407,221	971,016	30,539	115,590	315,977	57,215
Reasonable shift	0.13%	0.41%	0.05%	0.06%	0.04%	0.20%	0.19%
Total effect on income	**270**	**1,670**	**486**	**18**	**46**	**632**	**109**

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% (2010: 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	
	2011	2010
Index		
Pakistan stock exchange (+/-10%)	**7,769**	8,154

37. 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

(d) Associated companies of the Bank

(Expressed in thousands of United States Dollars unless otherwise stated)

37. 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 2011		31 December 2010	
	Relating to owners	**Relating to unrestricted investment accounts**	Relating to owners	Relating to unrestricted investment accounts
Assets				
Commodity placements with banks, financial and other institutions - note (i)	**156,846**	**25,003**	156,520	25,001
Murabaha and other financings	**205,037**	**12,809**	205,134	12,710
Investment securities	**–**	**16,983**	–	17,993
Other assets - note (i) & (ii)	**58,321**	**–**	63,901	–
Liabilities				
Customers' current accounts	**175**	**–**	777	–
Due to banks, financial and other institutions	**245,537**	**–**	228,937	–
Unrestricted investment account	**–**	**87,757**	–	103,788
Other liabilities	**5,187**	**–**	16,293	–
Funds managed by related parties	**19,831**	**–**	–	19,831

At 31 December 2011 restricted investment accounts funds invested with related parties amounted to nil (31 December 2010: $57.5 million).

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

	31 December 2011	31 December 2010
Income from financings and short-term liquid funds	**3,532**	3,912
Dividends received	**15,915**	15,766
Fee expense	**–**	4,308
Expense recovery	**11,772**	12,315
Profit paid	**134**	77
Income from sale of financings and investments - note (iii)	**–**	29,423
Profit from sale of investment - note (iv)	**–**	24,128

Note (i) - The Group has obtained pledge of specific assets totalling $149.7 million (31 December 2010: $177.8 million) against the outstanding exposure.

Note (ii) - During the quarter ended 30 September 2010, the Group sold its investment in certain subsidiaries (investment holding companies) to a related party for a consideration of $4.9 million. No gain or loss was realised on this transaction.

Note (iii) - During the quarter ended 30 September 2010, the Group recorded a profit of $29.4 million through the sale of investment in real estate, financings and receivables carried at book value of $12.9 million to a related party for a consideration of $42.3 million. The consideration was settled in-kind by transfer of investments in associate and restricted investment accounts with a book value of $42.3 million and the profit on sale reflect the write back of previous impairment charges (note 28).

Note (iv) - During the quarter ended 30 June 2010 the Group recorded a profit of $24.1 million through the sale of investment in associate carried at book value of $0.012 million to a related party for a consideration of $24.1 million. The consideration was settled in-kind by transfer of investment in real estate and investment securities with a book value of $24.1 million and the profit is included in the consolidated income statement under income from related party transactions.

(Expressed in thousands of United States Dollars unless otherwise stated)

38. 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 2011	31 December 2010
Tier 1	**688,947**	718,029
Tier 2	**49,217**	48,477
Total Capital Base	**738,164**	766,506
Total Risk-Weighted Exposures	**5,730,979**	5,805,934
Capital Adequacy Ratio	**12.88%**	13.20%

39. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2011 (2010: Nil).

40. 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 2011	31 December 2010
INCOME		
Group's share of income from funds under management	**2,078**	950
Income from other financings	**238,102**	161,518
Income from investments	**134,951**	138,779
Other income	**21,173**	42,893
Gross income	**396,304**	344,140
Less: profit paid to banks, financial and other institutions (net) - note (i)	**(228,584)**	(170,413)
Total income	**167,720**	173,727

(Expressed in thousands of United States Dollars unless otherwise stated)

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

	Year ended 31 December 2011	Year ended 31 December 2010
EXPENSES		
Administrative and general expenses note (i)	**(128,015)**	(83,546)
Depreciation and amortisation	**(29,167)**	(13,613)
Total expenses	**(157,182)**	(97,159)
Net income before provision for impairment and overseas taxation	**10,538**	76,568
Provision for impairment (net)	**(1,733)**	(109,772)
Net income/(loss) before overseas taxation	**8,805**	(33,204)
Overseas taxation	**(1,340)**	7,246
NET INCOME/(LOSS) FOR THE YEAR	**7,465**	(25,958)
Attributable to:		
Equity holders of the Bank	**7,614**	(39,623)
Minority interests	**(149)**	13,665
	7,465	(25,958)
Basic and diluted earnings per share	**US cts 0.28**	US cts (1.55)

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

Note (ii) - One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 45 (2010: 13 branches) out of total 257 branches (2010: 225 branches).

41. ACQUISITION OF A BUSINESS

One of the Group's subsidiary, Faysal Bank Limited (FBL), acquired 99.37% of the Pakistan operations of Royal Bank of Scotland (RBS) on 15 October 2010.

The acquisition has been dealt with in accordance with IFRS 3 "Business Combinations". The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. At the time of acquisition of RBS, the management was in the process of carrying out a detailed exercise for the fair valuation of assets and liabilities, and due to the proximity of the acquisition to the year ended 31 December 2010, the fair value amounts reported at 31 December 2010 included certain provisional balances. In such cases, IFRS 3 allows the acquirer to account for the acquisition using provisional values if the initial accounting for the acquisition can be determined only provisionally by the year end. However, adjustments to these provisional values consequent to completion of the initial accounting of the acquisition are required, under IFRS 3, to be incorporated in the consolidated financial statements with effect from the acquisition date, within a period of twelve months from the acquisition date. The fair values were finalised during 2011. Therefore, the consolidated financial statements for the comparative period have been restated to reflect the final values of the identified assets of RBS and the resultant adjustment to gain on acquisition.

(Expressed in thousands of United States Dollars unless otherwise stated)

41. ACQUISITION OF A BUSINESS (continued)

The fair value of the net assets acquired are as follows:

	Amount
Fair value of net assets acquired	
Fair value of net assets of RBS (excluding intangible assets)	78,463
Fair value of intangible assets of RBS - gross	30,033
Less: deferred tax on intangible assets	(10,512)
Fair value of intangible assets of RBS - net	19,521
Fair value of total net assets acquired	97,984
Fair value of 99.37% share of net assets	97,367
Less: purchase consideration	
Cash consideration (Euro 41 million) for 99.37% share	58,619
Gain on acquisition - net	**38,748**

The remaining 0.63% non-controlling interest in RBS was acquired subsequently by FBL through issuance of ordinary shares at 31 December 2010 and the resultant gain of $0.281 million has been recognised in equity for the year ended 31 December 2010 in accordance with IFRS 3.

42. REORGANISATION

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 transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010. Accordingly, the balances of owners' equity and statement of changes in restricted investment accounts as at 1 January 2010 have been restated.

43. COMPARATIVES

Prior year figures have been restated where necessary to conform to the current year presentation due to implementation of FAS 25: Investment in sukuk, shares and similar instruments and other restatements:

	Previously reported	Adjustment	Restated
31 December 2010			
Investment securities	1,240,836	6,605	1,247,441
Other assets	287,271	(2,707)	284,564
Total assets	6,743,569	3,898	6,747,467
Minority interest	236,092	1,336	237,428
Reserves	(17,238)	2,562	(14,676)

Comparative figures for previous year have been regrouped where necessary to conform to the current year presentation.

ANNEXES

Basel II Pillar III Quantitative Disclosures

at 31 December 2011

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Basel II Pillar III Quantitative Disclosures

at 31 December 2011
(Expressed in thousands of United States Dollars unless otherwise stated)

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 2011, 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 2011.

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 summarized 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 module (PCD).
- 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 United States Dollars unless otherwise stated)

6. CONSOLIDATED CAPITAL STRUCTURE FOR CAPITAL ADEQUACY PURPOSE

A	**TIER 1 CAPITAL**	
	Issued and fully paid-up ordinary capital	670,863
	Reserves	
	General reserves	56,725
	Statutory reserve	38,090
	Share Premium	149,614
	Others	(19,464)
	Accumulated losses	(209,985)
	Minority interest in the equity of subsidiaries	113,733
	Aggregation	216,307
	Sub-Total	**1,015,883**
	Regulatory deductions:	
	Goodwill	(80,692)
	Loss for the year	(63,618)
	Total Tier 1 capital before PCD deductions	**871,573**
B	**TIER 2 CAPITAL**	
	General Provision	25,407
	Unrealized gains arising from fair valuations (45%)	2,629
	Aggregation	49,217
	Total Tier 2 capital before PCD deductions	**77,253**
C	**TOTAL AVAILABLE CAPITAL (A+B)**	**948,826**
D	**GENERAL DEDUCTIONS FROM TIER 1 & 2 UNDER PCD MODULE**	
	Deduction of unconsolidated financial subsidiaries which are aggregated or deducted	(99,635)
	Deduction of unconsolidated financial associates which are aggregated or deducted	(44,122)
	Excess over maximum permitted large exposure limit	(66,905)
	Total Deductible Items	**(210,662)**
E	**TOTAL ELIGIBLE CAPITAL (C-D)**	**738,164**

Basel II Pillar III Quantitative Disclosures

at 31 December 2011
(Expressed in thousands of United States Dollars unless otherwise stated)

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

EXPOSURE FUNDED BY SELF FINANCE

	Risk weighted assets	Capital requirement
Claims on Other Sovereign	53,698	6,444
Banks	151,225	18,147
Corporate Portfolio	402,768	48,332
Investments in Securities	852,173	102,261
Holding of Real estate	1,177,470	141,296
Regulatory Retail	4,651	558
Residential Mortgage	36,323	4,359
Past due financings	64,757	7,771
Other assets	240,920	28,910
Aggregation	1,737,435	208,492
Total	**4,721,420**	**566,570**

EXPOSURE FUNDED BY UNRESTRICTED INVESTMENT ACCOUNTS (URIA)

	Risk weighted assets	Capital requirement
Corporate Portfolio	68,134	8,176
Equity portfolio	31,345	3,761
Holding of Real estate	56,270	6,752
Regulatory Retail	100,901	12,108
Past due financings	22,003	2,641
Total	**278,653**	**33,438**

(Expressed in thousands of United States Dollars unless otherwise stated)

8. GROSS CREDIT EXPOSURES:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on-balance sheet assets is as follows:		
Cash, balances with banks and central banks	378,701	376,336
Commodity placements with banks, financial and other institutions	504,213	519,667
Murabaha and other financings	2,733,024	2,624,252
Musharaka financing	42,518	28,566
Investments	2,546,747	2,575,247
Other assets	303,950	294,256
Fixed assets	132,408	138,895
Intangible assets	257,859	266,225
Total on-balance sheet credit exposure	**6,899,420**	**6,823,444**
Credit risk exposure relating to off-balance sheet items is as follows:		
Financial guarantees and irrevocable letters of credit	850,778	851,109
Financing commitments, Undrawn facilities and other credit related liabilities	2,266,707	1,877,379
Total off-balance sheet credit exposure	**3,117,485**	**2,728,488**
Total credit exposure	**10,016,905**	**9,551,932**
Total credit exposure financed by URIA	**1,515,358**	**1,365,766**
Total credit exposure financed by URIA (%)	**15%**	**14%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2011.

9. GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES:

	Asia/Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash, balances with banks and central banks	229,785	116,009	25,353	7,554	–	378,701
Commodity placements with banks, financial and other institutions	26,673	346,409	131,131	–	–	504,213
Murabaha and other financings	1,701,853	759,530	213,560	12	58,069	2,733,024
Musharaka financing	42,518	–	–	–	–	42,518
Investments	1,147,596	1,174,145	152,655	60,687	11,664	2,546,747
Other assets	151,589	93,452	33,196	25,704	9	303,950
Fixed assets	62,373	69,412	623	–	–	132,408
Intangible assets	29,459	223,910	4,490	–	–	257,859
Total on-balance sheet items	**3,391,846**	**2,782,867**	**561,008**	**93,957**	**69,742**	**6,899,420**
Off-balance sheet items	**2,572,332**	**470,903**	**40,484**	**7,186**	**26,580**	**3,117,485**
Total credit exposure	**5,964,178**	**3,253,770**	**601,492**	**101,143**	**96,322**	**10,016,905**

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

at 31 December 2011
(Expressed in thousands of United States Dollars 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, balances with banks and central banks	285,951	–	–	92,747	–	–	3	378,701
Commodity placements with banks, financial and other institutions	504,213	–	–	–	–	–	–	504,213
Murabaha and other financings	351,860	1,040,494	88,652	353,607	425,795	–	472,616	2,733,024
Musharaka financing	–	4,559	–	–	–	8,464	29,495	42,518
Investments	1,662,011	47,414	669,183	118,643	6,188	914	42,394	2,546,747
Other assets	164,265	2,056	65,672	13,324	43,533	5,997	9,103	303,950
Fixed assets	64,599	–	67,809	–	–	–	–	132,408
Intangible assets	257,859	–	–	–	–			257,859
Total on-balance sheet items	**3,290,758**	**1,094,523**	**891,316**	**578,321**	**475,516**	**15,375**	**553,611**	**6,899,420**
Off-balance sheet items	**1,197,913**	**1,364,270**	**45,265**	**154,190**	**42,241**	**28,525**	**285,081**	**3,117,485**
Total credit exposure	**4,488,671**	**2,458,793**	**936,581**	**732,511**	**517,757**	**43,900**	**838,692**	**10,016,905**

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, balances with banks and central banks	378,701	–	–	–	–	–	–	378,701
Commodity placements with banks, financial and other institutions	414,016	–	90,197	–	–	–	–	504,213
Murabaha and other financings	343,547	595,297	616,929	754,491	373,249	49,511	–	2,733,024
Musharaka financing	–	–	–	20,612	21,906	–	–	42,518
Investments	79,876	13,892	797,078	577,444	808,375	1,646	268,436	2,546,747
Other assets	123,199	4,516	62,507	58,787	54,941	–	–	303,950
Fixed assets	–	–	–	64,608	67,800	–	–	132,408
Intangible assets	–	–	–	431	–	257,428	–	257,859
Total on-balance sheet items	**1,339,339**	**613,705**	**1,566,711**	**1,476,373**	**1,326,271**	**308,585**	**268,436**	**6,899,420**
Off-balance sheet items	**531,822**	**202,595**	**1,144,334**	**1,175,751**	**50,765**	**12,218**	**–**	**3,117,485**
Total credit exposure	**1,871,161**	**816,300**	**2,711,045**	**2,652,124**	**1,377,036**	**320,803**	**268,436**	**10,016,905**

(Expressed in thousands of United States Dollars 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 2011 were as follows:

Affiliated companies	461,448
Directors & key management	13,551
Total	**474,999**

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

Non-banks	161,487
Total	**161,487**

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

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	234,963	143,501	91,462
Agriculture	12,382	2,748	9,634
Construction	39,554	7,292	32,262
Finance	31,480	1,958	29,522
Trade	105,202	57,398	47,804
Personal	62,310	26,554	35,756
Real estate	45,668	24,979	20,689
Government	488	438	50
Technology and telecommunications	634	385	249
Transportation	4,321	2,549	1,772
Other sectors	26,469	12,988	13,481
Total	**563,471**	**280,790**	**282,681**
Ageing analysis			
Over 3 months up to 1 year	87,769	7,050	80,719
Over 1 year up to 3 years	95,533	30,777	64,756
Over 3 years	380,169	242,963	137,206
Total	**563,471**	**280,790**	**282,681**

(Expressed in thousands of United States Dollars 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	251,518	45,778	297,296
Charge for the year	36,273	1,457	37,730
Write back during the year	(39,316)	–	(39,316)
Utilized during the year	(4,916)	–	(4,916)
Exchange differences	(10,004)	–	(10,004)
At 31 December	**233,555**	**47,235**	**280,790**

14. PAST DUE AND IMPAIRED FINANCINGS BY GEOGRAPHICAL AREAS:

	Gross exposure	Impairment provisions	Net exposure
Analysis by Geography			
Asia/Pacific	331,915	207,644	124,271
Middle East	198,206	52,061	146,145
Europe	33,350	21,085	12,265
Total	**563,471**	**280,790**	**282,681**

15. DETAILS OF CREDIT FACILITIES OUTSTANDING THAT HAVE BEEN RESTRUCTURED DURING THE YEAR:

Restructured financings during the year ended 31 December 2011 aggregated to $112.1 million. This restructuring had an impact of $10.1 million on present earnings during the year ended 31 December 2011. Further, this restructuring is expected to have positive impact of $2.7 million on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

(Expressed in thousands of United States Dollars unless otherwise stated)

16. CREDIT EXPOSURES WHICH ARE COVERED BY ELIGIBLE FINANCIAL COLLATERAL:

	Gross Exposure	Eligible Financial Collateral
Exposure funded by Self Finance		
Corporate portfolio	1,521,150	36,893
Banks	105,059	372
Retail	263,663	35,566
Public Sector Entities	90,273	19
Past due financings	169,161	18,002
Total	**2,149,306**	**90,852**
Exposure funded by Unrestricted Investment Accounts		
Corporate portfolio	293,358	62,205
Past due financings	76,157	21,995
Total	**369,515**	**84,200**

17. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDIZED APPROACH:

	Risk weighted assets			Capital requirement		
	31 December 2011	Maximum Value	Minimum Value	31 December 2011	Maximum Value	Minimum Value
Foreign exchange risk	152,097	152,097	69,894	18,252	18,252	8,387
Aggregation	150,601	150,601	117,640	18,072	18,072	14,117
Total	**302,698**	**302,698**	**187,534**	**36,324**	**36,324**	**22,504**

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 2011 aggregated to $51.4 million.

(Expressed in thousands of United States Dollars unless otherwise stated)

19. TIER ONE CAPITAL RATIOS AND TOTAL CAPITAL RATIOS:

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	12.02%	12.88%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis is as follows:		
Faysal Bank Limited	8.29%	10.60%

20. EQUITY POSITION IN BANKING BOOK:

At 31 December 2011, the Group's investment securities aggregated to $1,224.4 million. Out of the total investment securities, $105.9 million were listed investment securities and the remaining $1,118.5 million represented unlisted investment securities.

Cumulative realized losses from sale of investment securities during the year amounted to $8.1 million. Total unrealized losses recognized in the consolidated statement of changes in owners' equity amounted to $8.9 million.

At 31 December 2011, capital requirements using standardized approach aggregated to $43.9 million for listed investment securities and $59.8 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

21. GROSS INCOME FROM MUDARABA AND PROFIT PAID TO INVESTMENT ACCOUNT HOLDERS:

	31 December					
	2011	2010	2009	2008	2007	2006
Income from unrestricted investment accounts	**67,926**	61,546	48,835	50,033	54,500	71,893
Less: return to unrestricted investment accounts	**(65,018)**	(56,395)	(44,796)	(37,868)	(44,781)	(46,073)
Group's share of income from unrestricted investment accounts as a Mudarib	**2,908**	5,151	4,039	12,165	9,719	25,820

For the year ended 31 December 2011 the return to unrestricted investment account holders based on the average balance outstanding during the year stood at 5.2%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the year ended 31 December 2011 as a percentage of gross income from unrestricted investment accounts stood at 7%.

(Expressed in thousands of United States Dollars unless otherwise stated)

22. MOVEMENT IN PROFIT EQUALIZATION RESERVE AND PROVISIONS – URIA:

	31 December					
	2011	2010	2009	2008	2007	2006
Profit Equalization Reserve						
As at 1 January	**8,155**	3,099	3,645	2,072	764	4,795
Net addition	**10,454**	6,012	–	1,573	1,308	–
Net utilization	**–**	(956)	(546)	–	–	(4,031)
As at 31 December	**18,609**	8,155	3,099	3,645	2,072	764
Amount appropriated as a percentage of gross profit	**15%**	10%	–	3%	2%	–
Provisions						
As at 1 January	**69,766**	64,428	46,563	38,334	37,906	27,310
Net addition	**1,456**	5,465	17,865	8,229	428	10,596
Net utilization	**–**	(127)	–	–	–	–
Reclassification	**(2,367)**	–	–	–	–	–
As at 31 December	**68,855**	69,766	64,428	46,563	38,334	37,906

At 31 December 2011, the ratio of profit equalization reserve and provisions to equity of unrestricted investment account holders stood at 1% and 5% respectively.

At 31 December 2011, the ratio of financings to URIA stood at 53%.

23. AVERAGE DECLARED RATE OF RETURN ON GENERAL MUDARABA DEPOSITS:

	31 December					
	2011	2010	2009	2008	2007	2006
	Percentage					
7 Days	**0.30**	0.50	0.50	0.52	0.75	0.75
30 Days	**2.31**	3.00	3.17	3.26	4.25	4.02
90 Days	**2.90**	3.25	3.25	3.27	4.50	4.27
180 Days	**3.25**	3.50	3.50	3.51	4.70	4.52
360 Days	**3.50**	3.70	3.63	3.68	4.95	4.77

(Expressed in thousands of United States Dollars unless otherwise stated)

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	BHD	HKD	PLN
Total profit rate exposure	307,778	1,011,344	393,961	50,473	65,534	54,918
Rate shock (assumed) (+/-)	2%	2%	2%	2%	2%	2%
Total estimated impact (+/-)	**6,156**	**20,227**	**7,879**	**1,009**	**1,311**	**1,098**

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 is denominated in US Dollars, Bahraini Dinars and Pakistan 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 2011 were as follows:

Euro	8,897
UK Sterling	622
Kuwaiti Dinar	404
UAE Dirham	(302,665)
Australian Dollar	4,733
Hong Kong Dollar	62,835
Saudi Riyal	8,118
Polish Zloty	58,900
Egyptian Pound	12,327

26. LEGAL CONTINGENCIES AND COMPLIANCE:

At 31 December 2011, the Group had contingent liabilities towards customer claims aggregating to $413.9 million. The management is of the view that these claims are not likely to result into potential liabilities.

SHAREHOLDING STRUCTURE

Range	No. of Shareholders		No. of Shares		% of Shares	
	2011	2010	**2011**	2010	**2011**	2010
1-10,000	**118**	119	**625,630**	610,022	**0.02**	0.02
10,001-100,000	**2,273**	2318	**48,486,026**	50,499,140	**1.73**	1.80
100,001-1,000,000	**443**	431	**147,774,553**	139,887,776	**5.27**	4.99
1,000,001-10,000,000	**139**	142	**453,886,460**	463,690,560	**16.19**	16.54
Over 10,000,000	**32**	31	**2,153,277,598**	2,149,362,769	**76.79**	76.65
Total	**3,005**	3,041	**2,804,050,267**	2,804,050,267	**100.00**	100.00

SHAREHOLDING BY NATIONALITY

Country	**31 December 2011**			31 December 2010		
	No. of Shareholders	**No. of Shares**	**% of Shares**	No. of Shareholders	No. of Shares	% of Shares
Bahamas	**3**	**1,384,545,224**	**49.38**	3	1,384,545,224	49.38
Bahrain	**951**	**255,673,218**	**9.12**	974	259,462,710	9.25
Saudi Arabia	**951**	**465,155,877**	**16.59**	944	468,488,441	16.71
Other GCC Countries	**680**	**461,171,845**	**16.45**	682	455,847,831	16.26
Other Countries	**420**	**237,504,103**	**8.47**	438	235,706,061	8.41
Total	**3,005**	**2,804,050,267**	**100.00**	3,041	2,804,050,267	100.00

NO. OF SHARES OWNED BY THE GOVERNMENT

	No. of Shares
Ministry of Finance, Social Insurance Organisation (Pension)	**27,456,000**
Total	**27,456,000**

MAJOR SHAREHOLDERS OF ITHMAAR BANK B.S.C.

Shareholder	**No. of Shares**	**%**
1. Dar Al-Maal Al-Islami Trust	**790,416,000**	**28.19**
2. Islamic Investment Company of Gulf	**594,129,224**	**21.19**
Others	**1,419,505,043**	**50.62**
Total	**2,804,050,267**	**100.00**

Major shareholders, as defined by Bahrain Bourse, are those who hold 5% or more of the issued share capital. Only the above two shareholders met this criterion on 31 December 2011.

Share Information

INFORMATION ON MOVEMENT IN NUMBER OF SHARES

Year	Details	Basis	No. of Shares Issued	Total No. of Shares
2006	IPO		360,000,000	360,000,000
2007	Share split	4 for 1	1,080,000,000	1,440,000,000
	Bonus issue	1 for 5	288,000,000	1,728,000,000
	Share swap		446,499,970	2,174,499,970
2009	Bonus issue	1 for 10	217,449,997	2,391,949,967
2010	Rights issue		412,100,300	2,804,050,267

PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR

SHARE PRICE RELATIVE TO INDICES - 2011

Benchmark	Open	High	Low	Close	% Change in 2011
ITHMR's Share Price (in US$)	**0.125**	**0.125**	**0.065**	**0.065**	**(48.00)**
Commercial Banks Sector Index	2,005.59	2,155.31	1,803.29	1,814.05	(9.55)
Bahrain All Share Index	1,432.26	1,639.62	1,133.21	1,143.69	(20.15)
Esterad Index	1,509.60	1,830.09	1,204.97	1,218.26	(19.30)
Dow Jones Bahrain Index	121.05	125.12	96.01	98.20	(18.88)

ITHMR SHARE TRADING

	2011	2010
Volume, No. of shares	**45,433,873**	125,708,423
Value, BD	**1,615,440**	7,123,652

MARKET CAPITALISATION AND TURNOVER

Benchmark	**2011**			2010		
	Market Cap (BD)	**% of Total Market Cap**	**Share Turnover (%)**	Market Cap (BD)	% of Total Market Cap	Share Turnover (%)
ITHMR	**68,713,252**	**1.10**	**2.35**	**132,140,869**	**1.75**	**5.39**
Sector	2,393,210,243	38.26	2.09	2,567,870,918	33.96	1.72
Market	6,254,410,718	100.00	1.63	7,562,517,045	100.00	1.43

RANKING

ITHMR's ranking in 2011 out of the 42 local listed companies in the Bahrain Bourse.

	Value of Shares Traded (BD)	Volume of Shares Traded	No. of Transactions	Market Cap (BD)	Share Turnover	No. of Trading Days
Ranking	10	3	7	14	9	9

TRADING DAYS

	2011		2010	
	No. of Days	**%**	No. of Days	%
ITHMR	**103**	**42.04**	226	91.50
Market	**245**	**100.00**	247	100.00

TRADING OF DIRECTORS AND EXECUTIVE MANAGEMENT SHARES

The only trading of Directors and Executive Management shares during 2011 was the purchase of 205,000 shares by Director Sheikh Zamil Abdullah Al-Zamil on 19 January 2011. Any interests in the shares of a bank held by the spouse(s) or children of a Director or an Executive Manager, or any other person the control of whose interest in such shares lies ultimately with the Director or Executive Manager.

Scott A. Creswell, Assistant General Manager, Head of Legal, General Counsel and Company Secretary, is the only member of the Executive Management team holding Ithmaar shares. He holds 906,400 shares.

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 Mudarabah contract who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudarabah 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 Mudarabah.

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, 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
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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 →
Scott A. Creswell
Assistant General Manager,
General Counsel and Company Secretary

AUDITORS →
PricewaterhouseCoopers
P.O. Box 21144, Manama, Kingdom of Bahrain

Corporate Information

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

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

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: 43.8%
www.1stleasingbank.com

The Ithmaar Paradox, our 2010 Annual Report which was a candid account of the Bank's position and prospects was well received by organisations around the globe that recognise best practices in financial reporting. It was ranked No. 67 in the list of Top 100 Annual Reports of the World and No. 34 in the list of Top 50 Annual Reports of the EMEA region at the annual Vision Awards of the League of American Communications Professionals, competing with 5,000 entries from around the world. It also won the Gold for the Most Improved Annual Report Worldwide in addition to its category Platinum at this same competition. The report also won two Golds including Gold for the Best Chairman's Letter at the New York-based ARC Awards, the world's largest Annual Report Competition.

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