

**AL SALAM BANK
(JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
DECEMBER 31, 2010**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALSALAM BANK - SUDAN

We have audited the accompanying financial statements of Al Salam Bank - Sudan, which comprise the statements of financial position as at 31 December 2010 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards of the Accounting And Auditing Organization For Islamic Financial Institutions. 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

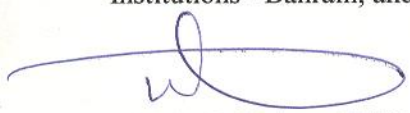
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards for Islamic Financial Institutions. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with accounting standards of The Accounting and Auditing Organization For Islamic Financial Institutions - Bahrain, and are in compliance with the requirements of the Companies Act 1925.


Mubarak El-Awad Mohamed – FCCA, FCMA
Partner
Khartoum
2 March, 2011

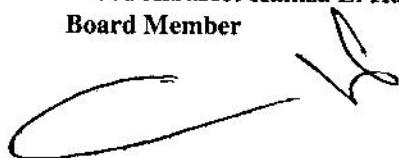


AL SALAM BANK**STATEMENT OF FINANCIAL POSITION**

As at December 31, 2010

	<i>Notes</i>	<i>2010</i> <i>SDG</i>	<i>2009</i> <i>SDG</i>
Assets			
Cash and cash equivalents	4	152,876,430	132,074,970
Central Bank of Sudan - Statutory cash reserve	5	27,139,558	6,637,363
Sales receivables (net)	6	303,807,991	336,706,254
Investments in securities and shares held for trading	7	119,374,802	97,647,507
Investments in securities held to maturity	8	95,852,097	42,000,000
Investment in Mudaraba and Walaka financing	9	454,675,463	342,577,833
Musharaka financing	10	31,155,920	-
Investments in shares available for sale	11	14,386,235	12,925,677
Investments in real estates	12	61,000,000	50,462,200
Other Assets	13	41,250,835	27,379,863
Fixed assets	14	35,925,705	37,639,693
Total Assets		1,337,445,036	1,086,051,360
Liabilities, Unrestricted Investment Accounts and Owners' Equity			
Liabilities			
Current Accounts	15	281,766,448	117,299,565
Other Liabilities	16	36,527,000	22,163,312
Provisions	17	11,585,019	10,624,327
Total Liabilities		329,878,467	150,087,204
Equity of unrestricted investment account holders	18	642,443,328	623,666,800
Owners' Equity			
Paid up capital	19	277,758,000	254,000,000
Reserves	20	48,400,560	28,151,371
Retained earnings		38,964,682	30,145,986
Total Owners' Equity		365,123,241	312,297,357
Total Liabilities, Unrestricted Investment Accounts and Owners' Equity		1,337,445,036	1,086,051,360
Contra Accounts	30	878,371,710	903,317,276

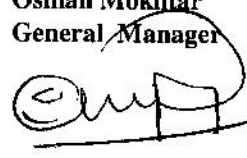
Abd Albaseet Hamza El Hassan
Board Member



Saud Mamoun Al Burair
Board Member



Osman Mokhtar
General Manager



AL SALAM BANK**INCOME STATEMENT**

YEAR ENDED DECEMBER 31, 2010

	<i>Note</i>	<i>2010 SDG</i>	<i>2009 SDG</i>
Income			
Income from Deferred sales	21	45,705,762	38,598,966
Income from investments	22	22,331,995	23,385,503
Losses from Investments revaluation	23	(5,176,019)	(472,968)
Total income from finance and investment		62,861,738	61,511,501
Less: Return on unrestricted investment accounts	18/24	(21,134,043)	(24,219,774)
Bank's share in income from investments (as Mudarib and fund owner)		41,727,695	37,291,727
Income from banking services	25	9,095,263	12,849,670
Gains on sales and purchase of foreign currency		1,697,745	2,449,295
Other income	26	1,751,192	1,564,747
Total Bank's revenue		54,271,895	54,155,439
Expenses			
Staff cost	27	(14,985,433)	(11,282,164)
Operation expenses	28	(15,051,799)	(13,609,179)
Mudaraba Investment & Finance Provisions	6/1	(4,149,280)	(14,049,337)
Total Expenses		(34,186,512)	(38,940,681)
Net operating profit		20,085,383	15,214,759
Gains on foreign exchange valuation	42	22,110,071	13,390,784
Net income before provision for zakah		42,195,454	28,605,543
Zakah	43	(4,445,576)	(5,091,284)
Business Profit Tax	44	(1,567,022)	(903,327)
Net income for the year		36,182,856	22,610,931
Earnings per share	29	0.329	0.206

AL SALAM BANK**STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2010

	<i>Note</i>	2010 <i>SDG</i>	2009 <i>SDG</i>
Operating activities			
Net income for the year		36,182,856	22,610,931
Adjusted by:			
Depreciation of fixed assets	14	3,014,684	2,633,117
Provisions	17	960,692	3,859,815
		40,158,232	29,103,863
Changes in operating assets, liabilities and unrestricted investment accounts			
Central Bank of Sudan - Statutory cash reserve	5	(20,502,195)	274,049
Sales receivables (net)	6	32,898,263	(11,786,178)
Investments		(229,370,742)	(35,227,550)
Other assets	13	(13,870,972)	18,727,832
Current accounts	15	164,466,883	37,488,631
Equity of unrestricted investment account holders	18	18,776,528	40,995,682
Dividends paid		-	(21,854,000)
Other liabilities	16	14,363,689	(3,243,258)
Prior year adjustments		12,125	(4,175,466)
Cash used in operations		(33,226,421)	21,199,741
Net cash from operating activities		6,931,811	50,303,604
Investing activities			
Purchases of fixed assets	14	(1,300,696)	(3,300,512)
Available for sale investments	11	(1,460,558)	-
Net cash (used in) investing activities		(2,761,254)	(3,300,512)
Financing activities			
Reserves	20	16,630,903	6,858,221
Net cash from financing activities		16,630,903	6,858,221
Increase / (Decrease) in cash and cash equivalents for the year		20,801,460	53,861,313
Cash at the beginning of the year	4	132,074,969	78,213,656
Cash and cash equivalents at the end of the year	4	152,876,429	132,074,969

The attached notes from 1 to 45 form an integral part of these financial statements.

AL SALAM BANK**STATEMENT OF CHANGES IN EQUITY**

YEAR ENDED DECEMBER 31, 2010

		Paid up capital	Retained earnings	Statutory reserve	Real Estate revaluation reserve	Foreign investments revaluation reserve	Total
	<i>NOTE</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>
Balance as at January 1, 2010		254,000,000	30,145,986	13,346,947	8,858,471	5,945,953	312,297,357
Paid dividends		23758000	(23,758,000)				-
Net income for the Year			36,182,856				36,182,856
Reserves	20		(3,618,286)	3,618,286	10,537,800	6,093,103	16,630,903
Prior years Adjustments			12,125				12,125
Balance as at December 31, 2010		277,758,000	38,964,681	16,965,233	19,396,271	12,039,056	365,123,241
Balance as at January 1, 2009		254,000,000	35,825,614	11,085,854	4,341,810	3,607,841	308,861,119
Paid dividends		-	(21,854,000)	-	-	-	(21,854,000)
Net income for the Year		-	22,610,931	-	-	-	22,610,931
Reserves	20	-	(2,261,093)	2,261,093	4,516,661	2,338,112	6,854,773
Prior years Adjustments		-	(4,175,466)	-	-	-	(4,175,466)
Balance as at December 31, 2009		254,000,000	30,145,986	13,346,947	8,858,471	5,945,953	312,297,357

The attached notes from 1 to 45 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

1- INCORPORATION AND ACTIVITIES

Al Salam Bank (the Bank) was established as a public company with a limited liability in Khartoum in December 28, 2004 under Companies Act 1925 with registration certificate No. 23335. The Bank is providing commercial banking services according to Islamic rules and principles.

The Bank started its commercial operations in May 2005, providing its services from its head office, which is located at Aljamhoria Street and Alhuria Street junction and Alsalam Rotana branch which is at operating from Alsalam Rotana Hotel (Africa Street).

The total number of employees at end of 2010 was 122 (2009: 93)

2- SIGNIFICANT ACCOUNTING POLICIES**i) Basis of preparation**

1. The financial statements are prepared in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as required by the Central Bank of Sudan and Shari' a Supervisory Board (SSB) requirements.

2. The functional currency is Sudanese Geneih, financial statements have been presented in Sudanese Geneih (SDG) .

3. The Financial statement were prepared in compliance with the historical cost concept as amended, except for the revaluation of securities classified as held for trading , available for sale and real estates which are valued at fair value at the end of the year .

4. The Bank uses the historical cost concept, the accrual basis in recording its assets, liabilities,

5. The Accounting policies used this year are consistent with those used last year.

ii) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any permanent impairment in value.

Depreciation of fixed assets is calculated on a straight line basis over their estimated useful lives based on Chamber of Taxation notes, as follows:

Motor vehicles	15%
Office equipment	10%
Furniture and fixtures	10%
Building	2.5%
IT equipment	20%

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

SIGNIFICANT ACCOUNTING POLICIES (continued)***iii) Foreign currencies***

All transactions in foreign currencies are recorded using the exchange rate at the date in which they were incurred. Assets and liabilities which were recorded in foreign currency are translated to Sudanese Geneih at the rate of exchange at the financial statements date which was SDG 2.6453 for US Dollar (2009:2.3758) . Exchange differences resulting from the bank investment balances and transactions in foreign currencies have been recognised in the foreign exchange investments reserve. Transfers differences resulted from bank transactions and other operation are treated in the income statement.

iv) Revenue recognition***a. Murabaha and Istisnaa***

The profits from Murabaha and Istisnaa transactions are recognized on a proportionate basis over the period of the credit.

b. Mudaraba Financing

Mudaraba financing is recognized in the Income Statement at the time of liquidation or to extent of profits being distributed or at declaration date or when such profits can reasonably be estimated.

c. Musharaka and Salam Financing

The profits from Musharaka and Salam transactions are recognized at the time of the liquidation.

d. Income from banking services

Income from banking services is recognized at the time the related services are provided and the amount of revenue can be measured reliably

h. Dividends income and Profit from Bonds

Dividend income and profit from bonds is recognized when declared or when such profits can reasonably be estimated.

v) Provision for doubtful debts

The provision for doubtful debt is based on the assessment of collectability of each debt and in accordance with the directives of the Central Bank of Sudan and the Banks policy.

vi) Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash with banks (current accounts) and balances with Central Bank of Sudan and cash in hand

vii) Provisions

Provisions are recognized when the Bank has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

SIGNIFICANT ACCOUNTING POLICIES (continued)

viii) Measurement of investments & finance at the end of the year

a. Sales receivable

Sales receivable are initially recorded at cost, at the end of the financial period sales receivables are measured at their net realizable value

b. Mudaraba

Mudaraba is measured by the amount paid or the amount placed under the disposition of the Mudarib less the portion of the Mudaraba capital recovered from the Mudarib (if any).

c. Musharaka

Musharaka is measured by the historical cost less Provision for finance losses (if any).

d. Available for sale investments

Available for sale investments are measured at fair value the difference (surplus or deficits) between the book value and fair value recognised at the revaluation reserve until its nil then any deficit will recognised at the income statement

g. Investments in securities and shares held for trading purposes

Investments which are classified “for trading” are initially recognized at cost, including acquisition charges associated with the investments. At the end of the period, held for trading securities and shares are re-measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. The gains or losses resulting from the re-measurement at fair value are reported as “Re measurement gains or losses on investments” in the income statement.

h. Investments in securities held to maturity

Investments in securities held to maturity are initially recognized at cost, including acquisition charges associated with the investment. At the balance sheet date securities held to maturity are measured at cost less impairment in value if any.

x) Zakah and Tax treatment

The Bank is subject to the Zakah and Tax regulations prescribed by the Sudanese authorities.

The Bank is subject to Business Profit Tax after excluding the Relieved profits from investments in Shahama's bonds and sudatel shares.

xi) Return on unrestricted investment account holders

The Return on unrestricted investment accounts is calculated on a yearly basis. The Bank allows the investment account holders to withdraw funds from their investment accounts before the agreed period with a condition of losing the right on profits. However at the mudaraba for fixed period the banks (as mudarib) have a right to not allow them to withdraw funds from their investment accounts until the end of agreed period.

Profits are allocated between the unrestricted investment account holders and the owners' equity according to the contribution of each of the two parties. Those profit added to their accounts after the approval of Shari'a Supervisory Board and the regulators.

xii) Liabilities

Liabilities are recognised for amounts to be paid in the future for materials and services received, whether billed by the supplier or not. These are carried at cost, which is the fair value of the consideration to be paid in the future for amounts payable.

3) Shari'a Supervisory Board (SSB)

The Bank's business activities are subject to the supervision of the Shari'a Supervisory Board, which has been appointed by the shareholders. The Shari'a Supervisory Board has the power to direct, review and supervise the activities of the Bank to ensure that they are in compliance with Shari'a rules and principles. This includes issuing an annual report to the shareholders.

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	2010 <i>SDG</i>	2009 <i>SDG</i>
4. Cash and cash equivalents		
Cash in hand & in ATM	7,110,222	5,753,154
Balances with Central Bank of Sudan	50,620,320	92,305,572
Cash with foreign correspondent banks	95,145,888	34,013,124
Current accounts with local banks	-	3,120
	<u>152,876,430</u>	<u>132,074,970</u>

	2010 <i>SDG</i>	2009 <i>SDG</i>
5. Central Bank of Sudan - Statutory cash reserve		
Local currency	24,879,685	6,023,465
Foreign currency	2,259,873	613,898
	<u>27,139,558</u>	<u>6,637,363</u>

	2010 <i>SDG</i>	2009 <i>SDG</i>
6. Sales receivables (net)		
Murabaha	172,724,471	180,631,953
Istisnaa (Mugawala)	172,385,159	201,532,855
Others	44,987,708	45,151,872
	<u>390,097,338</u>	<u>427,316,680</u>
Less: Deferred profits	<u>(75,029,965)</u>	<u>(81,321,647)</u>
	315,067,373	345,995,033
Less : provision for doubtful debts (note 6/1/1)	<u>(11,259,382)</u>	<u>(9,288,779)</u>
Sales receivables (net)	<u>303,807,991</u>	<u>336,706,254</u>

	2010 <i>SDG</i>	2009 <i>SDG</i>
6/1/. Provisions for finance and investment doubtful debts		
<u>General provision :</u>		
Balance at 1 January	3,361,145	3,187,855
Provision for the year	899,887	173,290
Balance at 31 December	<u>4,261,032</u>	<u>3,361,145</u>
<u>Specific provision :</u>		
Balance at 1 January	18,620,907	5,721,435
Provision for the year	3,249,393	13,876,047
Recovered provision	-	(976,575)
Balance at 31 December	<u>21,870,300</u>	<u>18,620,907</u>
Total Provision (General +Specific) note 6/1/1	<u>26,131,332</u>	<u>21,982,052</u>
Total Provision expensed (General +Specific) for the year	<u>4,149,280</u>	<u>14,049,337</u>

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

6/1/1.Total Provisions for finance & investment doubtful debts (General +Specific)	2010 SDG	2009 SDG
Provision for doubtful debts (note 6)	11,259,382	9,288,779
Provision for finance losses (note 9)	14,557,244	12,693,273
Provision for finance losses (Musharaka note 10)	314,706	-
	26,131,332	21,982,052
7. Investments in securities and shares held for trading	2010 SDG	2009 SDG
<u>Quoted investment</u>		
Shahama securities	52,000,000	54,250,000
Sudatel shares	3,158,992	4,400,990
AL Salam Bank - Bahrain	12,478,072	11,639,842
King Abdullah City shares	2,874,956	3,137,653
	70,512,020	73,428,484
<u>Unquoted investment</u>		
Aman –Dubai shares	2,928,289	2,629,958
Al salam First Real Estate Fund	44,726,989	20,504,579
Foreign Investment Funds	1,207,504	1,084,485
	48,862,782	24,219,023
Total Investments in securities and shares held for trading	119,374,802	97,647,507
	2010 SDG	2009 SDG
8. Investments in securities held to maturity		
Shahama Securities (note 8/1)	63,852,097	10,000,000
Shihab Securities (note 8/2)	2,000,000	2,000,000
Government Bonds (3 years) (note 8/3)	30,000,000	30,000,000
	95,852,097	42,000,000

8/1. Shahama Securities

This is a government certificates issued from Ministry of Finance on behalf of Sudan government and marketed by Sudan Financial Service Company based on Musharaka contract , They are exchange at Khartoum Stock Market, the average annual return on this certificates is 15%.

8/2. Shihab Securities

These are sukuk issued by Sudan Financial Service Company to investors to invest in central bank building assets fund. The relation between the Sudan Financial Service Company and the investors is based on agency agreement.

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

8/3. Government Bonds

These bonds are issued by Ministry of Finance and are marketed by Sudan Financial Services Company, the average annual return on these bonds is 15%.

	2010 SDG	2009 SDG
9. Investment in Mudaraba		
Mudaraba with customers - Individuals *	67,735,446	13,304,480
Mudaraba with Banks	121,645,246	91,438,851
Wakala with Banks	279,852,015	250,527,775
	<u>469,232,707</u>	<u>355,271,106</u>
Less : provision for finance and investment risk losses (note 6/1/1)	(14,557,244)	(12,693,273)
	<u>454,675,463</u>	<u>342,577,833</u>

*Mudaraba with individuals

Mudaraba with individuals includes a defaulting mudaraba with a customer amounting to USD 5.3 million which defaulted on 25 September 2008. The bank sued the customer through a lawyers office and arbitration process started according to the terms of the Mudaraba contract. In compliance with the Central Bank of Sudan requirements relating to provisions, the bank has made a 100% provision of USD 5.3 million.

10. Musharaka financing

	SDG	SDG
Musharaka with corporate & customers	31,470,626	-
Less : provision for finance losses (note 6/1/1)	(314,706)	-
	<u>31,155,920</u>	<u>-</u>

11. Investments in shares available for sale Share%

	2010 SDG	2009 SDG
Ownership %		
Al Salam Bank-Algeria 5%	14,336,235	12,875,677
Al Salam Real Estate Company 50%	50,000	50,000
	<u>14,386,235</u>	<u>12,925,677</u>

12. Investments in real estates

These represent five pieces of land with different area fully owned by the bank.

They are in different locations in khartoum and Khartoum North towns . Their purchase cost was SDG 41.6 million ,whereas their market values at 31 December 2010was SDG 61 million (2009: SDG 50.4 million) see note 20.1.

	2010 SDG	2009 SDG
13. Other assets		
Staff loans	560,004	313,246
Other receivables (note 13-1)	39,316,505	25,860,581
Prepayments	1,260,095	1,206,036
Central Bank of Sudan window	114,231	-
	<u>41,250,835</u>	<u>27,379,863</u>

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	2010	2009
13-1. Other receivables	SDG	SDG
Accrued income on investments	25,004,672	22,735,488
Receivable - Al salam First Real Estate Fund	14,311,833	3,125,093
Assets acquired for Murabaha financing		
	<u>39,316,505</u>	<u>25,860,581</u>

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

14- Fixed Assets

	Motor Vehicles	Furniture and fixture	Office Equipment	IT equipment	Freehold Land and building	Total
	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>
<u>Cost at :</u>						
January 1, 2010	407,490	4,904,783	1,841,251	8,088,155	28,559,215	43,800,894
Additions	115,600	418,934	140,243	620,082	5,837	1,300,696
December 31, 2010	523,090	5,323,717	1,981,494	8,708,237	28,565,052	45,101,590
<u>Depreciation at :</u>						
January 1, 2010	145,405	693,936	312,633	3,688,701	1,320,526	6,161,201
For the year	66,917	503,039	187,925	1,656,635	600,168	3,014,684
December 31, 2010	212,322	1,196,975	500,558	5,345,336	1,920,694	9,175,885
<u>Net book value at :</u>						
December 31, 2010	310,768	4,126,742	1,480,936	3,362,901	26,644,358	35,925,705
December 31, 2009	262,085	4,210,847	1,528,618	4,399,454	27,238,689	37,639,693

The attached notes from 1 to 45 form an integral part of these financial statements.

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	2010 SDG	2009 SDG
15. Current accounts		
Local currency	214,720,660	109,951,261
Foreign currency	67,045,788	7,348,304
	<u>281,766,448</u>	<u>117,299,565</u>
16. Other liabilities		
Other creditors	1,515,307	670,215
Accrued expenses	786,301	369,150
Outstanding cheques	3,843,184	2,448,411
Shareholders, Board of Directors and Shari' a board Remunerations Provision	17,184,290	17,631,601
Cash margin against letters of credit	2,871,724	687,425
Cash margin against letters of guarantee	10,326,194	356,510
	<u>36,527,000</u>	<u>22,163,312</u>
17. Provisions		
End of service benefits	227,138	227,137
Social Insurance	381,933	174,297
Provision for staff bonus	3,588,602	2,788,928
Board of directors remuneration	810,000	971,176
Income tax provision	564,748	468,177
Zakat provision (note 42)	4,445,576	5,091,284
Business profit tax provision (note 43)	1,567,022	903,327
	<u>11,585,019</u>	<u>10,624,327</u>
18. Equity of unrestricted investment account holders		
Unrestricted investment account balances	621,784,135	601,941,616
Return on unrestricted investment accounts (note 24)	21,134,043	24,219,774
Advance payment	(474,850)	(2,494,590)
	<u>642,443,328</u>	<u>623,666,800</u>

Investment deposits comprise investments in US Dollars and others in SDGs with maturities varying from one month to two years.

	2010 SDG	2009 SDG
19. Capital		
Authorized and paid up	<u>277,758,000</u>	<u>254,000,000</u>

The authorized share capital of the Bank comprises 110,000,000 shares of nominal value of one USD each equivalent to SDG 2.54 each.

An increase in capital of SDG23,758,000 was made during 2010 representing bonus shares.

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	2010	2009
20. Reserves	SDG	SDG
Real Estate revaluation reserve (note 20/1)	19,396,271	8,858,471
Foreign exchange investments reserve (note 20/2)	12,039,056	5,945,953
Statutory Reserve (note 20/3)	16,965,233	13,346,947
	48,400,560	28,151,371

20/1.Real Estate revaluation reserve

The lands held for investment purposes by the Bank were revaluated by a Sudanese Consultancy Firm licensed by the Organizing Council for Consultancy Firms (OCCF) at 31 December 2010 resulting in a re-valuation surplus for both unrestricted investment accounts and the shareholders each according to their share percentage of the investment portfolio. The unrestricted investment holders share of the reserve was SDG 7.8 Million at end of 2010.

20/2.Foreign exchange investments reserve

Gains of the foreign exchange from investments are excluded from income statements and included in the equity as foreign exchange investments reserve.

This reserve relates to investments in foreign currencies at the date of the financial statements . The reserve belongs to both the shareholders and investment depositors according to the share of each in the investment portfolio.

The investment depositors share at end of 2010 was SDG12.7 million.

20/3.Statutory Reserve

As required by the Banking Regulation Law of 2003 and the Central Bank of Sudan Circular dated 7 April 2007. 10% of net profit has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 100% of the paid up share capital.

	2010	2009
21. Income from Deferred sales	SDG	SDG
Murabaha income	29,779,807	22,735,910
Istisnaa income	12,265,000	12,156,342
Other income	3,660,955	3,706,714
	45,705,762	38,598,966

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
22. Income from investments		
Securities (Shahama)	10,809,296	10,022,639
Securities (Shihab)	209,000	228,000
Government bonds	4,216,000	4,500,000
Foreign investment funds	1,471,869	1,524,207
Shares (Sudatel)	151,692	-
Mudaraba	548,237	39,409
Musharaka	300,000	-
Investment accounts- Local banks	1,563,341	415,234
Investment accounts- Foreign banks	3,062,560	6,656,014
	<u>22,331,995</u>	<u>23,385,503</u>
	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
23. Losses from Investments revaluation		
Shahama securities	(2,250,000)	750,000
Sudatel Company shares	(1,241,998)	(1,984,501)
King Abdullah City shares	(578,910)	526,392
AL Salam Bank – Bahrain shares	(1,105,111)	235,141
	<u>(5,176,019)</u>	<u>(472,968)</u>
	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
24. Return of Holders of Unrestricted Investment Accounts		
Share of profits before Mudarib share	51,608,758	32,381,876
Mudarib share of profit	<u>(36,653,879)</u>	<u>(20,258,367)</u>
Net return after Mudrib share	14,954,879	12,123,509
The bank donated profit	6,179,164	12,096,265
Final balance after donation (note 18)	<u>21,134,043</u>	<u>24,219,774</u>
	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
25. Income from banking services		
Book keeping and cheques issuance fees	416,923	359,659
Letters of credit	2,638,607	3,292,291
Letters of Guarantee	5,065,705	8,520,265
Transfers and acceptances	293,099	313,692
Administrative fees	514,958	316,303
SMS commission	143,661	28,500
After Sale Services commission	22,310	18,960
	<u>9,095,263</u>	<u>12,849,670</u>
	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
26. Other Income		
Income from mail and communications	27,419	18,955
Others	1,723,773	1,545,792
	<u>1,751,192</u>	<u>1,564,747</u>

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
27. Staff cost		
Basic salary	5,882,453	4,533,712
Eids bonus	1,532,706	1,178,721
Type of work allowance	109,550	108,626
Uniform allowance	971,843	-
End of service benefit	14,000	184,560
Additional Wages	-	4,491
Delegations and Training	161,612	87,670
Staff performance bonus	3,887,085	3,416,339
Health Insurance	250,210	167,462
Social Insurance	999,240	889,834
Transportation	8,324	4,162
Annual Leave allowances	1,168,410	706,587
	14,985,433	11,282,164
	<i>2010</i>	<i>2009</i>
	<i>SDG</i>	<i>SDG</i>
28- Operation expenses		
Stationery & equipment	538,287	461,479
Maintenance & Repair	807,200	1,116,800
Telecommunications	624,050	693,005
Fuel and lubricant	46,274	23,896
Electricity & water	485,365	526,317
Insurance	376,216	338,106
Guarding	197,440	185,727
Cars rentals	172	3,684
Rent	1,642,831	1,804,791
Gardening	21,000	9,000
Legal consultancy fees	827,170	481,121
Expenses of General Assembly	263,670	279,796
Audit fees	298,992	375,806
Sharia Supervisory Board expenses	114,800	179,671
Board of directors and Shari' a board remuneration	1,114,390	814,878
Engineering consultancies	55,750	14,500
Subscriptions	567,629	421,102
Hospitality	71,361	47,581

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

	<i>2010</i>	<i>2009</i>
28- Operation expenses (continued)	SDG	SDG
Cleaning	288,170	336,578
Miscellaneous	388,197	61,774
Visas and Hotels expenses	549,680	605,859
Banks charges	33,773	15,554
Donations and gifts	531,099	277,400
Swift	19,556	86,185
Advertising	1,057,592	268,370
Deposits Guarantee Fund	918,389	1,406,451
National switch transfer Expenses	157,762	123,733
Central Bank of Sudan penalties	40,300	16,900
Depreciation (note 14)	3,014,684	2,633,117
	15,051,799	13,609,179

	<i>2010</i>	<i>2009</i>
29- Earning Per Share	SDG	SDG
Net profit for the year	36,182,856	22,610,931
Number of share	110,000,000	110,000,000
Earning Per Share	0.329	0.206

	<i>2010</i>	<i>2009</i>
30- Contra accounts	SDG	SDG

Contra accounts are not included in the financial statements of the bank as follow :

Letters of credit	12,100,333	75,940,880
Letters of guarantee	866,271,377	827,376,396
	878,371,710	903,317,276

31- Concentration of investments – Economic sector

The total Investments for 2010 amounted to SDG 421,142,112 (2009: SDG 346,817,461) and it was distributed according to economic sector as follows:

	<u>2010</u>	<u>2009</u>
Industry	%43	49.00%
Commercial	%4	6.00%
Transportation	%4	4.00%
Agriculture	%10	4.00%
Other sectors	%39	37.00%
Total (note 34)	100.00%	100.00%

32. Social responsibility

With regard to the Bank's role in supporting the needy and poor people, the Bank has allocated Zakat for this year the amounting to SDG 4.4 Million (2009: SDG5 Million). Moreover, during the year the Bank has discharged its social responsibilities by training the employees and by donations payments.

33. Related party transactions

These represent transactions with related parties, i.e. shareholders , board of directors and senior management of the Bank, and companies of which they are principal shareholders. These transactions are conducted in an arm length basis.

2010

	Principal Shareholders & Board of Directors and their companies	Key Mangers	Total at December 31, 2010
	SDG	SDG	SDG
Financial position items :			
Murabaha	1,296,600	15,387,374	16,683,974
Mudaraba	1,800,000		1,800,000
			-
Investment accounts	1,587,180	-	1,587,180
Current accounts	1,502,563	789,644	2,292,207
Income statement Items :			
Murabaha income	110,211	403,971	514,182
Top Management remuneration			
Remuneration	810,000	1,186,694	1,996,694

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

33. Related party transactions (cont)

2009

	Principal Shareholders & Board of Directors and their companies	Key Mangers	Total at December 31, 2009
	SDG	SDG	SDG
Financial position items :			
<i>Murabaha</i>	-	7,182,278	7,182,278
			-
<i>Investment accounts</i>	475,160	-	475,160
<i>Current accounts</i>	457,724	477,898	935,622
Income statement Items :			
<i>Murabaha income</i>	-	178,095	178,095
Top Management remuneration			
<i>Remunerations</i>	784,014	847,639	1,631,653
Contra accounts :			
<i>Letters of credit</i>	72,844,467	-	72,844,467

34. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures continuously.

The Bank seeks to manage its credit risk exposure through the diversification of financing and investment activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

Analysis of investments concentration by economic sector is provided in note 31.

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

35. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

The maturity profile of the Bank's assets and liabilities is as follows:

For 2010

Assets	Within 3 months	3 to 6 months	6 to 12 months	Over one year	Total
	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>
Cash and cash equivalents	152,876,430	-	-	27,139,558	180,015,988
Sales receivable	15,813,627	2,643,572	23,430,246	261,920,546	303,807,991
Investments in securities and shares	119,374,802	-	95,852,097	-	215,226,899
Mudaraba and Wakala	56,675,302	15,790,600	100,357,546	281,852,015	454,675,463
Musharaka	441,000	-	30,714,920	-	31,155,920
Investments in real estate	-	-	-	61,000,000	61,000,000
Other assets	26,964,002	-	14,286,833		41,250,835
Investments in affiliates	-	-	-	14,386,235	14,386,235
Fixed assets	-	-	-	35,925,705	35,925,705
Total Assets	372,145,163	18,434,172	264,641,642	682,224,059	1,337,445,036
Owner's equity and Liabilities					
Owner's equity	-	28,846,285	-	335,985,493	364,831,778
Current accounts	281,766,448	-	-	-	281,766,448
Other liabilities	6,144,792	-	-	30,382,208	36,527,000
Provisions	2,815,345	8,894,208	-	227,137	11,936,690
Equity of un-restricted investments account	210,983,694	2,308,554	429,055,472	35,400	642,383,120
Total liabilities and shareholders' equity	501,710,279	40,049,047	429,055,472	366,630,238	1,337,445,036

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

35. Liquidity risk (cont)*For 2009*

Assets	Within 3 months	3 to 6 months	6 to 12 months	Over one year	Total
	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>
Cash and cash equivalents	132,074,970	-	-	6,637,363	138,712,333
Sales receivable	16,774,994	564,002	33,244,284	286,122,974	336,706,254
Investments in securities and shares	97,647,507	-	42,000,000	-	139,647,507
Mudaraba	45,743,957	4,751,600	282,582,276	9,500,000	342,577,833
Musharaka	-	-	-	-	-
Investments in real estate	-	-	-	50,462,200	50,462,200
Other assets	1,585,932	-	16,631,942	9,161,989	27,379,863
Investments in affiliates	-	-	-	12,925,677	12,925,677
Fixed assets	-	-	-	37,639,693	37,639,693
Total Assets	293,827,360	5,315,602	374,458,502	412,449,896	1,086,051,360
Owner's equity and Liabilities					
Owner's equity	-	-	-	312,297,357	312,297,357
Current accounts	117,299,565	-	-	-	117,299,565
Other liabilities	20,080,011	-	-	2,083,301	22,163,312
Provisions	5,994,611	3,688,103	-	941,613	10,624,327
Equity of un-restricted investments account	105,651,620	120,575,402	397,404,377	35,400	623,666,799
Total liabilities and shareholders' equity	249,025,807	124,263,505	397,404,377	315,357,671	1,086,051,360

36. Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

37. Shares prices risk

Shares prices risk is a risk that the value of the shares will fluctuate as a result of changes in the market prices of the shares. The Board of Directors of the Bank sets limits on the amounts and types of shares to be acquired for investments purposes. The investments committee of the Bank regularly monitors these limits.

38. Profit rate risk

The profit rate risk refers to the risk due to change of profit rates, which might affect the future earnings of the Bank. Exposure to profit rate risk is managed by the Bank through diversification of assets portfolio and by matching the maturities of assets and liabilities.

In line with the policy approved by the Board of Directors, the assets and liabilities committee performs regular review of the assets and liabilities in order to ensure that the maturity gap between assets and liabilities is maintained at minimum levels and also to ensure that financing and investments are made for quality assets at higher rate of return.

39. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Bank's Board of Directors. These limits are monitored continuously to ensure that the net exposure is kept to an acceptable level.

Assets and liabilities in foreign currency are mainly denominated in US Dollars and other Foreign currencies. The bank foreign currencies net position was as follows:-

	2010	2009
	USD	USD
Assets	306,346,910	294,716,202
Less: Liabilities	(160,072,104)	(157,515,086)
Net foreign Currency Position	466,419,014	452,231,288

AL SALAM BANK**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

40. Capital adequacy

The Bank monitors the adequacy of its capital using the ratios established by Central Bank of Sudan.

	2010	2009
	SDG	SDG
<i>Core capital</i>	379,281,365	289,916,424
<i>Total risk weighted assets</i>	1,073,506,941	368,535,916
The Bank's capital adequacy ratio	35%	79%
Minimum capital adequacy ratio required	12%	12%

41. Fund under management

Al Salam First Real Estate Fund was established on 1st October 2007 as a closed fund for four years. The bank manages Al Salam Real Estate Fund (the Fund) as fund manager (Mudarib) and ownership holder with share of 43,2% of total fund which amounted to \$20,000,000 which equal to SDG 52,906, 000 at end of 2010 (2009: SDG 47,516, 000). The bank bought a number of the funds units during 2010 which increased the banks share to 75%.

During the period the fund has invested in real estate locally and abroad.

Summary of net assets of the funds

	2010	2009
Balance at the beginning of the year	53,267,426	43,072,440
Profit (Loss) for the year	(3,214,797)	508,106
Profit distributions	-	(4,751,600)
Reserves (Resulting from revaluation of real estate investments)	-	14,438,480
Net assets at year end	50,052,629	53,267,426

Net assets of the fund included a receivable amount of USD 3.8 Million (SDG 8.8 Million) under collection.

42. *Gains on foreign exchange*

Represents gain on valuation of foreign currency balances at year end. These gains relate to joint investment portfolio (depositors and shareholders).

The depositors share at year end was SDG 9.8 million

43 *Zakat*

The bank paid its zakat liabilities up to 2009 and provided for 2010 zakat liability.

44. *Business Profit Tax*

The bank obtained final tax clearance certificate up to 2009 and provided for 2010.

45. *Comparative Figures*

Certain of the comparative amounts have been re-classified to conform with current year classification. These re-classification did not affect the comparative year profits or equity.