

AL SALAM BANK
(JOINT STOCK COMPANY)
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 2011 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

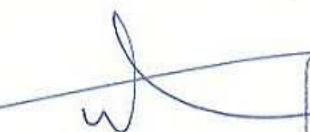
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards of the Accounting and Auditing Organization Islamic Financial Institutions. Those standards require that we comply with ethical requirements and plan 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 2011 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
 11 February, 2012

Mubarak Elawad & Co.

11 FEB 2012

Chartered Certified Accountants

AL SALAM BANK**STATEMENT OF FINANCIAL POSITION**

As at December 31, 2011

	<i>Notes</i>	2011 SDG	2010 SDG
Assets			
Cash and cash equivalents	5	218,864,582	152,876,430
Central Bank of Sudan - Statutory cash reserve	6	40,311,392	27,139,558
Sales receivables (net)	7	279,898,990	303,807,991
Investments in securities and shares held for trading	8	19,510,499	119,374,802
Investments in securities held to maturity	9	131,114,000	95,852,097
Investment in Mudaraba and Walaka financing	10	483,944,702	454,675,463
Musharaka financing	11	28,656,262	31,155,920
Investments in shares available for sale	12	14,980,214	14,386,235
Investments in real estates	13	162,780,490	61,000,000
Other Assets	14	22,416,397	41,250,835
Fixed assets	15	33,605,916	35,925,705
Total Assets		1,436,083,444	1,337,445,036
Liabilities, Unrestricted Investment Accounts and Owners' Equity			
Liabilities			
Current Accounts	16	309,467,140	281,766,448
Other Liabilities	17	64,347,462	36,446,000
Provisions	18	13,838,764	11,666,019
Total Liabilities		387,653,366	329,878,467
Equity of unrestricted investment account holders	19&25	671,154,163	642,443,328
Owners' Equity			
Paid up capital	20	277,758,000	277,758,000
Reserves	21	58,147,259	48,400,560
Retained earnings		41,370,654	38,964,681
Total Owners' Equity		377,275,914	365,123,241
Total Liabilities, Unrestricted Investment Accounts and Owners' Equity		1,436,083,444	1,337,445,036
Contra Accounts	31	878,909,513	878,371,710

Mohamed Omair Ben Yousof
Chairman

Husain Mohamed Salim Al Mecza
Deputy Chairman

Osman Mokhtar Ahmed
General Manager

AL SALAM BANK**INCOME STATEMENT**

YEAR ENDED DECEMBER 31, 2011

	<i>Note</i>	<i>2011 SDG</i>	<i>2010 SDG</i>
Income			
Income from deferred sales	22	36,960,872	45,705,762
Income from investments	23	36,110,983	22,331,995
Losses from investments revaluation	24	(4,125,200)	(5,176,019)
Total income from finance and investment		68,946,655	62,861,738
Less: Return on unrestricted investment accounts	19&25	(16,252,411)	(21,134,043)
Bank's share in income from investments (as Mudarib and fund owner)		52,694,244	41,727,695
Income from banking services	26	10,406,227	9,095,263
Gains on sales and purchase of foreign currency		2,220,065	1,697,745
Other income	27	2,562,640	1,751,192
Total Bank's revenue		67,883,176	54,271,895
Expenses			
Staff cost	28	(21,925,526)	(14,985,433)
Operation expenses	29	(16,242,534)	(15,011,499)
Mudaraba investment & finance Provisions	7/1	(949,954)	(4,149,280)
Central Bank of Sudan penalties		(16,900)	(40,300)
Total expenses		(39,134,914)	(34,186,512)
Net operating profit		28,748,262	20,085,383
Gains on foreign exchange valuation	43	17,879,611	22,110,071
Net income before provision for zakah		46,627,873	42,195,454
Zakah	44	(4,769,368)	(4,445,576)
Business Profit Tax	45	(2,294,296)	(1,567,022)
Net income for the year		39,564,209	36,182,856
Earnings per share	30	0.360	0.329

Mohamed Omair Ben Yousof
Chairman

Husain Mohamed Salim Al Meeza
Deputy Chairman

Osman Mokhtar Ahmed
General Manager

AL SALAM BANK**STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2011

	<i>Note</i>	2011 <i>SDG</i>	2010 <i>SDG</i>
Operating activities			
Net income for the year		39,564,209	36,182,856
Adjusted by:			
Depreciation of fixed assets	15	3,500,331	3,014,684
Provisions	18	2,172,745	960,692
		45,237,285	40,158,232
Changes in operating assets, liabilities and unrestricted investment accounts			
Central Bank of Sudan - Statutory cash reserve	6	(13,171,834)	(20,502,195)
Sales receivables (net)	7	23,909,001	32,898,263
Investments		(63,947,671)	(229,370,742)
Other assets	14	18,834,438	(13,870,972)
Current accounts	16	27,700,692	164,466,883
Equity of unrestricted investment account holders	19	28,710,835	18,776,528
Dividends paid		(29,098,296)	-
Other liabilities	17	27,901,462	14,363,689
Prior year adjustments		(4,103,517)	12,125
Cash used in operations		16,735,110	(33,226,421)
Net cash from operating activities		61,972,395	6,931,811
Investing activities			
Purchases of fixed assets	15	(1,180,542)	(1,300,696)
Available for sale investments	12	(593,979)	(1,460,558)
Net cash (used in) investing activities		(1,774,521)	(2,761,254)
Financing activities			
Reserves	21	5,790,278	16,630,903
Net cash from financing activities		5,790,278	16,630,903
Increase / (Decrease) in cash and cash equivalents for the year		65,988,152	20,801,460
Cash at the beginning of the year	5	152,876,430	132,074,970
Cash and cash equivalents at the end of the year	5	218,864,582	152,876,430

The attached notes from 1 to 47 form an integral part of these financial statements.

AL SALAM BANK

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2011

		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, 2011		277,758,000	38,964,681	16,965,233	19,396,271	12,039,056	365,123,241
Paid dividends			(29,098,297)				(29,098,297)
Net income for the Year			39,564,209				39,564,209
Reserves	21		(3,956,421)	3,956,421	8,707,009	(2,916,730)	5,790,279
Prior years Adjustments			(4,103,517)				(4,103,517)
Balance as at December 31, 2011		277,758,000	41,370,655	20,921,654	28,103,280	9,122,326	377,275,915
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	21		(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

The attached notes from 1 to 47 form an integral part of these financial statements.

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 Aljamhuria Street and Alhuria Street junction and Alsalam Rotana branch which is at operating from Alsalam Rotana Hotel (Africa Street).

The number of the bank's employees as at 31 December 2011 was 148 (2010: 122).

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 accrual basis in recording its assets, liabilities, revenues and expenses.

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	30%

iii) Impairment of Financial assets

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 2.7549 against one US dollar (2010: 2.6453). Exchange differences resulting from the bank's investment balances and transactions in foreign currencies have been recognised in the foreign exchange investments reserve. Exchange differences resulted from bank's 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.

viii) Employees end of service benefits

End of service benefits payable to employees at the end of their services is provided for in accordance with Sudanese labour law.

SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Measurement of investments & finance at the end of the period

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 prescribed by the Sudanese authorities and Sharia Supervisory Board decisions.

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

These investments are excluded from Zakah base computation as double Zakah is not allowed because investees pay their Zakah.

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) Regulatory and supervisory agency

The bank's operations are subject to the supervision and regulation of the Central Bank of Sudan Law for 2002 and the Banking regulations law of 2004. The bank complies with the circulars and memos of the Central Bank of Sudan.

4) 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, 2011

	2011 <i>SDG</i>	2010 <i>SDG</i>
5. Cash and cash equivalents		
Cash in hand & in ATM	7,163,647	7,110,222
Balances with Central Bank of Sudan	182,553,832	50,620,320
Cash with foreign correspondent banks	29,147,103	95,145,888
	<u>218,864,582</u>	<u>152,876,430</u>

	2011 <i>SDG</i>	2010 <i>SDG</i>
6. Central Bank of Sudan - Statutory cash reserve		
Local currency	34,126,618	24,879,685
Foreign currency	6,184,774	2,259,873
	<u>40,311,392</u>	<u>27,139,558</u>

	2011 <i>SDG</i>	2010 <i>SDG</i>
7. Sales receivables (net)		
Murabaha	204,481,057	172,724,471
Istisnaa (mugawala)	130,370,549	172,385,159
Others	41,753,302	44,987,708
	<u>376,604,908</u>	<u>390,097,338</u>
Less: Deferred profits	<u>(85,416,039)</u>	<u>(75,029,965)</u>
	291,188,869	315,067,373
Less : provision for doubtful debts (note 7/1/1)	<u>(11,289,879)</u>	<u>(11,259,382)</u>
Sales receivables (net)	<u>279,898,990</u>	<u>303,807,991</u>

	2011 <i>SDG</i>	2010 <i>SDG</i>
7/1 Provisions for finance and investment doubtful debts		
<u>General provision :</u>		
Balance at 1 January	4,261,032	3,361,145
Provision for the year	<u>(54,735)</u>	<u>899,887</u>
Balance at 31 December	<u>4,206,297</u>	<u>4,261,032</u>
<u>Specific provision :</u>		
Balance at 1 January	21,870,300	18,620,907
Provision for the year	<u>1,004,689</u>	<u>3,249,393</u>
Balance at 31 December	<u>22,874,989</u>	<u>21,870,300</u>
Total provision (General +Specific) note 7/1/1	<u>27,081,286</u>	<u>26,131,332</u>
Total provision expensed (General +Specific) for the year	<u>949,954</u>	<u>4,149,280</u>

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

YEAR ENDED DECEMBER 31, 2011

7/1/1.Total Provisions for finance & investment doubtful debts (General +Specific) at year end	2011 SDG	2010 SDG
Provision for doubtful debts (note 7)	11,289,879	11,259,382
Provision for finance risks (note 10)	15,501,950	14,557,244
Provision for finance risks (note 11)	289,457	314,706
	<u>27,081,286</u>	<u>26,131,332</u>

8. Investments in securities and shares held for trading	2011 SDG	2010 SDG
<u>Quoted investment</u>		
Shahama securities	-	52,000,000
Sudatel shares	2,658,144	3,158,992
AL Salam Bank - Bahrain	9,439,919	12,478,072
King Abdullah City shares	3,132,751	2,874,956
	<u>15,230,814</u>	<u>70,512,020</u>

Unquoted investment

Islamic Insurance and Reinsurance Co. (Aman) – Dubai shares	3,049,614	2,928,289
Al salam First Real Estate Fund (note 13)	-	44,726,989
Foreign investment funds	1,230,071	1,207,504
	<u>4,279,685</u>	<u>48,862,782</u>
Total Investments in securities and shares held for trading	<u>19,510,499</u>	<u>119,374,802</u>

9. Investments in securities held to maturity	2011 SDG	2010 SDG
Shahama Securities (note 9/1)	119,114,000	63,852,097
Shihab Securities (note 9/2)	2,000,000	2,000,000
Government Bonds (note 9/3)	-	30,000,000
Shama Securities (note 9/4)	10,000,000	-
	<u>131,114,000</u>	<u>95,852,097</u>

9/1. 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 17%.

9/2. Shihab Securities

These are sukuk issued by Sudan Financial Service Company to investors to invest in Central Bank of Sudan's 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, 2011

9/3. 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%.

9/4. Shama Securities

These are 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 exchanged at Khartoum Stock Market, the average annual return on these certificates is 15%.

	2011	2010
	SDG	SDG
10. Investment in Mudaraba		
Mudaraba with customers - Individuals *	104,698,970	67,735,446
Mudaraba with Banks	102,774,305	121,645,246
Wakala with Banks	291,973,377	279,852,015
	499,446,652	469,232,707
Less : provision for finance and investment risk losses (note 7/1/1)	(15,501,950)	(14,557,244)
	483,944,702	454,675,463

* Mudaraba with individuals include a doubtful mudaraba with an individual amounting to USD 5.3 million since 25/ 9/2008.

The bank sued the individual through a law firm and arbitration procedures are in progress based on mudaraba contract.

In accordance with Central Bank of Sudan regulations and circulars a 100% provision of USD 5.3 million was made.

	2011	2010
	SDG	SDG
11. Musharaka financing		
Musharaka with clients (corporates & individuals)	28,945,719	31,470,626
Less : provision for finance losses (note 7/1/1)	(289,457)	(314,706)
	28,656,262	31,155,920

12. Investments in shares available for sale	Share%	2011	2010
	Ownership %	SDG	SDG
Al Salam Bank-Algeria	5%	14,930,214	14,336,235
Al Salam Real Estate Company	50%	50,000	50,000
		14,980,214	14,386,235

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

YEAR ENDED DECEMBER 31, 2011

13. Investments in real estates

These represent 6 pieces of land with varying area's sizes fully owned by the bank in prime locations in Khartoum and Khartoum North. In addition to 28 pieces of land located in Ajman Emirate of U.A.E owned by the bank upon liquidation of Al Salam First Real Estate Fund. The cost of all these pieces of land was SDG 134.6 million whereas their fair market value was, as at 31 December 2011, SDG 162.8 million (2010: 61 million) – see notes 21/1 and 42.

	2011	2010
14. Other assets	SDG	SDG
Staff loans	885,166	560,004
Other receivables (note 14-1)	17,421,455	39,316,505
Prepayments	1,713,720	1,260,095
Central Bank of Sudan window	-	114,231
Projects under process	2,396,056	-
	22,416,397	41,250,835
	2011	2010
14-1. Other receivables	SDG	SDG
Accrued income from investments	6,926,462	25,004,672
Debit balances - (Note 14-1/1)	10,494,993	14,311,833
	17,421,455	39,316,505

14-1/1 Debit balances

These represent an amount of USD 3.8 million equivalent to SDG 10,494,993 at end of 2011 due to the bank upon liquidation of AlSalam First Real Estate Fund on 27 October 2011 and is under collection.

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

YEAR ENDED DECEMBER 31, 2011

15- Fixed Assets

	Motor Vehicles <i>SDG</i>	Furniture and fixture <i>SDG</i>	Office Equipment <i>SDG</i>	IT equipment <i>SDG</i>	Freehold Land and buildings <i>SDG</i>	Total <i>SDG</i>
<u>Cost at :</u>						
January 1, 2011	523,090	5,323,717	1,981,494	8,708,237	28,565,052	45,101,590
Additions	218,350	159,613	163,680	607,933	30,966	1,180,542
December 31, 2011	<u>741,440</u>	<u>5,483,330</u>	<u>2,145,174</u>	<u>9,316,170</u>	<u>28,596,018</u>	<u>46,282,132</u>
<u>Depreciation at :</u>						
January 1, 2011	212,322	1,196,975	500,558	5,345,336	1,920,694	9,175,885
For the year	97,571	539,625	205,615	2,056,908	600,612	3,500,331
December 31, 2011	<u>309,893</u>	<u>1,736,600</u>	<u>706,173</u>	<u>7,402,244</u>	<u>2,521,306</u>	<u>12,676,216</u>
<u>Net book value at :</u>						
December 31, 2011	<u>431,547</u>	<u>3,746,730</u>	<u>1,439,001</u>	<u>1,913,926</u>	<u>26,074,712</u>	<u>33,605,916</u>
December 31, 2010	<u>310,768</u>	<u>4,126,742</u>	<u>1,480,936</u>	<u>3,362,901</u>	<u>26,644,358</u>	<u>35,925,705</u>

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

YEAR ENDED DECEMBER 31, 2011

	2011	2010
	SDG	SDG
16. Current accounts		
Local currency	248,092,645	214,720,660
Foreign currency	61,374,495	67,045,788
	309,467,140	281,766,448
17. Other liabilities		
Other creditors	2,034,907	1,515,307
Accrued expenses	289,187	705,301
Outstanding cheques	4,015,046	3,843,184
Dues to Shareholders and others (Note 17/1)	33,644,313	17,184,290
Cash margin against letters of credit	6,024,805	2,871,724
Cash margin against letters of guarantee	12,115,008	10,326,194
Purchased foreign currencies	6,224,196	-
	64,347,462	36,446,000

17/1. Dues to shareholders and others

A major portion of this amount represents unclaimed salaries and wages of certain companies and shareholders unpaid dividends.

	2011	2010
	SDG	SDG
18. Provisions		
End of service benefits	227,137	227,138
Social Insurance	668,462	381,933
Provision for staff bonus	4,091,000	3,588,602
Board of directors' remuneration	826,000	810,000
Sharia'a supervisory board remuneration	83,000	81,000
Income tax provision	879,501	564,748
Zakah provision (Note 44)	4,769,368	4,445,576
Business profit tax provision (note 45)	2,294,296	1,567,022
	13,838,764	11,666,019
19. Equity of unrestricted investment account holders		
Unrestricted investment account balances *	655,584,978	621,784,135
Return on unrestricted investment accounts (Note 25)	16,252,411	21,134,043
Advance payments	(683,226)	(474,850)
	671,154,163	642,443,328

* (Investment deposits comprise balances in USD and SDG and their maturities range between one month to two years).

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

YEAR ENDED DECEMBER 31, 2011

	2011	2010
	SDG	SDG
20. Capital		
Authorized and paid up	277,758,000	277,758,000

The authorized share capital of the Bank comprises 100,000,000 shares of nominal value of SDG 2.54 each. Share capital was increased by SDG 23,758,000 representing bonus share during 2010.

	2011	2010
	SDG	SDG
21. Reserves		
Real Estate revaluation reserve (note 21/1)	28,103,280	19,396,271
Foreign exchange investments reserve (note 21/2)	9,122,325	12,039,056
Statutory Reserve (note 21/3)	20,921,654	16,965,233
	58,147,259	48,400,560

21/1. Real estate revaluation reserve

Represent revaluation surplus of land owned by the Bank in side and outside Sudan. The surplus is owned by both the unrestricted investment accounts holders and the shareholders each according to their share percentage of the investment portfolio.

The unrestricted investment account holders share was SDG 15.5 million at year end.

21/2. 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.

The reserve relates to revaluation of investment in foreign currencies as at the year end. It is owned by investment depositors and shareholders each according to his share in the joint investment portfolio. The depositors share at year end was SDG 5 million.

21/3. Statutory reserve

As required by the Banking Regulation Law of 2004 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.

	2011	2010
	SDG	SDG
22. Income from deferred sales		
Murabaha income	24,288,572	29,779,807
Istisnaa income	11,019,600	12,265,000
Other finance income	1,652,700	3,660,955
	36,960,872	45,705,762

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

YEAR ENDED DECEMBER 31, 2011

	2011	2010
	SDG	SDG
23. Income from investments		
Securities (Shahama)	13,773,933	10,809,296
Securities (Shihab)	171,000	209,000
Government bonds	1,500,000	4,216,000
Foreign investment funds	-	1,471,869
Income from Alsalam First Real Estate Fund	9,126,779	-
Shares (Sudatel)	209,250	151,692
Mudaraba	5,384,666	548,237
Musharaka	3,327,997	300,000
Investment accounts- Local banks	734,026	1,563,341
Investment accounts- Foreign banks	1,883,332	3,062,560
	36,110,983	22,331,995

	2011	2010
	SDG	SDG
24. Losses from Investments revaluation		
Shahama securities	-	(2,250,000)
Sudatel Company shares	(710,099)	(1,241,998)
King Abdullah City shares	140,043	(578,910)
AL Salam Bank – Bahrain shares	(3,555,144)	(1,105,111)
	(4,125,200)	(5,176,019)

	2011	2010
	SDG	SDG
25. Return of Holders of Unrestricted Investment Accounts		
Share of profits before Mudarib (bank) share	30,766,611	51,608,758
Mudarib share of profit	(14,684,384)	(36,653,879)
Net return after Mudarib share	16,082,227	14,954,879
The bank's donated profit	170,184	6,179,164
Final balance after donation (Note 19)	16,252,411	21,134,043

Mudarib (Bank) share in mudaraba net profits range between 25% & 80% whereas rabul mal share of net profits range between 20% & 75%.

	2011	2010
	SDG	SDG
26. Income from banking services		
Book keeping and cheques issuance fees	553,962	416,923
Letters of credit	1,620,619	2,638,607
Letters of guarantee	7,344,580	5,065,705
Transfers and acceptances	366,384	293,099
Administrative fees	453,429	514,958
SMS commission	58,123	143,661
After sale services commission	9,130	22,310
	10,406,227	9,095,263

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

YEAR ENDED DECEMBER 31, 2011

	<i>2011</i>	<i>2010</i>
	<i>SDG</i>	<i>SDG</i>
27. Other Income		
Income from mail and communications	36,416	27,419
Others (note 27/1)	2,526,224	1,723,773
	<u>2,562,640</u>	<u>1,751,192</u>

27/1. Others

These included income from agents of insurance companies, outbound transfers and ATMS.

	<i>2011</i>	<i>2010</i>
	<i>SDG</i>	<i>SDG</i>
28. Staff cost		
Basic salary	8,298,809	5,882,453
Eids bonus	1,990,831	1,532,706
Nature of work allowance	157,826	109,550
Uni-form allowance	1,436,231	971,843
End of service benefit	234,075	14,000
Training	202,282	161,612
Staff performance bonus	6,429,530	3,887,085
Health Insurance	302,394	250,210
Social Insurance	1,427,272	999,240
Transportation	-	8,324
Annual Leave allowances	1,446,276	1,168,410
	<u>21,925,526</u>	<u>14,985,433</u>

	<i>2011</i>	<i>2010</i>
	<i>SDG</i>	<i>SDG</i>
29- Operation expenses		
Stationery & equipment	599,348	509,377
Maintenance & Repairs	1,318,446	807,200
Telecommunications	785,520	624,050
Fuel and lubricants	75,861	46,274
Electricity & water	502,619	485,365
Insurance	602,411	376,216
Guarding	192,198	197,440
Cars rentals	-	172
Rent of branches and ATMS	1,675,704	1,642,831
Gardening	22,355	21,000
Legal consultancy fees	391,878	827,170
Expenses of General Assembly	291,445	263,670
Audit fees	298,992	298,992
Sharia Supervisory Board expenses	99,426	114,800
Board of Directors Expenses	331,173	304,390
Board of Directors' remuneration	826,000	810,000
Engineering consultancies	-	55,750
Subscriptions	636,186	567,629
Hospitality	93,320	71,361

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

YEAR ENDED DECEMBER 31, 2011

	<i>2011</i> <i>SDG</i>	<i>2010</i> <i>SDG</i>
29- Operation expenses (continued)		
Cleaning	263,255	288,170
Miscellaneous	140,299	388,197
Visas and hotels expenses	897,484	549,680
Banks charges	25,660	33,773
Donations and gifts	212,540	531,099
Swift	4,667	19,556
Advertising	1,123,704	1,057,592
Deposits Guarantee Fund	1,133,445	918,389
National switch transfer expenses	175,300	157,762
Newspapers, books and journals	22,967	28,910
Depreciation (Note 15)	3,500,331	3,014,684
	<u>16,242,534</u>	<u>15,011,499</u>

	<i>2011</i> <i>SDG</i>	<i>2010</i> <i>SDG</i>
30- Earning per shares		
Net profit for the year	39,564,209	36,182,856
Number of shares	110,000,000	110,000,000
Earnings per share	<u>0.360</u>	<u>0.329</u>

	<i>2011</i> <i>SDG</i>	<i>2010</i> <i>SDG</i>
31- Contra accounts		
Contra accounts are not included in the financial statements of the bank as follow :		
	<i>2011</i> <i>SDG</i>	<i>2010</i> <i>SDG</i>
Letters of credit	19,197,336	12,100,333
Letters of guarantee	859,712,177	866,271,377
	<u>878,909,513</u>	<u>878,371,710</u>

32- Concentration of investments – Economic sector

The total Investments for 2011 amounted to SDG 420,392,952 (2010: SDG 421,142,112) and it was distributed according to economic sector as follows:

	<u>2011</u>	<u>2010</u>
Industry	39%	%43
Commercial	2%	%4
Transportation	5%	%4
Agriculture	7%	%10
Other sectors	47%	%39
Total (note 35)	<u>100.00%</u>	<u>100.00%</u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

33. Social responsibility

With regard to the Bank's role in supporting the needy and poor people, the Bank has allocated Zakat for this year amounting to SDG 4.8 Million (2010: SDG 4.4 Million). Moreover, during the year the Bank has discharged its social responsibilities by training its employees and by donations payments.

34 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.

2011

	Principal Shareholders & Board of Directors members and their companies	Key Managers	Total at December 31, 2011
	<i>SDG</i>	<i>SDG</i>	<i>SDG</i>
Balance sheet items :			
Murabaha	695,817	14,705,628	15,401,445
Mudaraba	700,000		700,000
			-
Investment accounts	2,754,900	-	2,754,900
Current accounts	620,998	997,706	1,618,704
Income statement Items :			
Murabaha income	59,144	403,971	463,115
Musharka income	-	-	-
Mudaraba income	70,000	-	70,000
Top Management remuneration			
Remuneration	826,000	1,363,020	2,189,020

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

34. Related party transactions (cont)**2010**

	Principal Shareholders & Board of Directors members and their companies	Key Managers	Total at December 31, 2010
	SDG	SDG	SDG
<i>Balance sheet items :</i>			
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
<i>Income statement Items :</i>			
Murabaha income	110,211	403,971	514,182
Musharka income	-	-	-
Mudaraba income	-	-	-
Remunerations	810,000	1,186,694	1,996,694

35. 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 32.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

36. 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, as at the year end, 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 2011

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	218,864,582	-	-	40,311,392	259,175,974
Sales receivable	16,049,973	27,294,957	18,721,944	217,832,116	279,898,990
Investments in securities and shares	19,510,499	-	131,114,000	-	150,624,499
Mudaraba	52,941,649	291,973,377	45,157,321	93,872,355	483,944,702
Musharaka	8,967,519	-	19,688,743	-	28,656,262
Investments in real estate	-	-	-	162,780,490	162,780,490
Other assets	11,947,776	-	10,468,621	-	22,416,397
Investments in affiliates	-	-	-	14,980,214	14,980,214
Fixed assets	-	-	-	33,605,916	33,605,916
Total Assets	328,281,998	319,268,334	225,150,629	563,382,483	1,436,083,444
Owner's equity and Liabilities					
Owner's equity	-	30,303,900	-	347,849,163	378,153,063
Current accounts	309,467,140	-	-	-	309,467,140
Other liabilities	32,965,015	-	9,036,510	22,345,938	64,347,463
Provisions	13,802,740	-	-	227,137	14,029,877
Equity of un-restricted investments accounts	242,045,544	339,770,444	5,208,690	83,061,223	670,085,901
Total liabilities and shareholders' equity	598,280,439	370,074,344	14,245,200	453,483,461	1,436,083,444

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

YEAR ENDED DECEMBER 31, 2011

36. Liquidity risk (cont)*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 accounts	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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37. 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.

38. 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.

39. 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.

40. 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:-

	2011	2010
	USD	USD
<i>Assets</i>	279,486,765	306,346,910
<i>Liabilities</i>	(170,218,819)	(160,072,104)
Net foreign currency position	109,267,946	146,274,806

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

YEAR ENDED DECEMBER 31, 2011

41. Capital adequacy

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

	2011	2010
	SDG	SDG
<i>Core capital</i>	321,483,259	379,281,365
<i>Total risk weighted assets</i>	1,072,200,332	1,073,506,941
The Bank's capital adequacy ratio	30%	35%
Minimum capital adequacy ratio required	12%	12%

42. Al Salam First Real Estate Fund

The fund, which was closed for 4 years, was established on 1 October 2007 and managed by the bank as mudarib and rabulmal.

The bank's net assets were progressively bought by the bank until it owned 75% by end of 2010.

The fund was liquidated in October 2011 and all its net assets were bought by the bank (see note 13).

Summary of net assets of the fund

	2011	2010
	SDG	SDG
Balance at the beginning of the year	50,052,629	53,267,426
Loss for the year	-	(3,214,797)
Fund liquidation	(50,052,629)	
	-	50,052,629

43. Gains on foreign exchange

These represent gain on valuation of foreign currency balances at year end. They are Jointly owned by investors and shareholders. Investors share was SDG 9.9 million at end 2011.

44. Zakat

The bank paid its zakat liabilities up to 2010 and provided for 2011 zakat liability.

45. Business Profit Tax

The bank obtained final tax clearance certificate up to 2010 and provided for 2011.

46. 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.

47. Approval of financial statements

These financial statements were approved by the bank's Board of Directors in their meeting dated 11 February, 2012.