

Albaraka Islamic Bank B.S.C. (c)

**Basel II, Pillar III Disclosures
30 June 2009**

(Unaudited)

Albaraka Islamic Bank B.S.C. (c)

Basel II, Pillar III Disclosures

for the period ended 30 June 2009 (Unaudited)

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1 Introduction

Albaraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 07 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has four commercial branches in the Kingdom of Bahrain and twenty nine commercial branches in Pakistan (the "Branches").

The principal activities of the Bank are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Quarterly Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 Capital Adequacy

Table – 1. Capital Structure

The following table summarizes the eligible capital as of 30 June 2009 after deductions for Capital Adequacy Ratio (CAR) calculation.

	<i>Tier 1</i> <i>US \$</i>	<i>Tier 2</i> <i>US \$</i>
Components of capital		
Issued and fully paid ordinary shares	122,457,800	
General reserves	8,687,143	
Legal / statutory reserves	21,111,106	
Others Surplus	(6,612,681)	
Retained profit brought forward	35,426,516	
Less:		
Current interim cumulative net losses	8,495,254	
Unrealised gross losses arising from fair valuing equity securities	430,356	
Tier 1 Capital before PCD deductions	172,144,274	-
Unrealised gain arising from fair valuing equities (45% only)		658,504
Profit equalization reserve		504,093
Investment risk reserve		1,901,331
Tier 2 Capital before PCD deductions		3,063,928
Total available capital		175,208,202
Deductions		
Excess amount over materiality thresholds in case of investment in commercial entities	(29,126,989)	(29,126,989)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(26,063,061)	
Total Deductions	(55,190,050)	(29,126,989)
Tier 1 and Tier 2 eligible capital	116,954,224	
TOTAL ELIGIBLE CAPITAL		116,954,224

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2 Capital Adequacy (continued)

Table – 2. Capital requirement by type of Islamic financing contracts

The following table summarises the capital requirements by type of Islamic financing contracts;

Type of Islamic Financing Contracts	<i>Capital requirements</i> <i>US \$</i>
Sales receivables	14,598,264
Ijarah Muntahia Bittamleek & Ijarah income receivable	1,389,056
Musharaka investments	1,068,325
Mudaraba investments	1,988,849
	<u>19,044,494</u>

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures as of 30 June 2009 subject to standardized approach of market risk and related capital requirements;

	<i>Self Financed</i> <i>US \$</i>	<i>PSIA</i> <i>US \$</i>
Market Risk - Standardised Approach		
Equity position risk	314,354	-
Foreign exchange risk	717,550	436,966
Total of Market Risk - Standardised Approach	<u>1,031,904</u>	<u>436,966</u>
Multiplier	<u>12.5</u>	<u>12.5</u>
	12,898,800	5,462,075
Eligible Portion for the purpose of the calculation	100%	30%
RWE to be used in CAR Calculation	<u>12,898,800</u>	<u>1,638,623</u>
TOTAL MARKET RISK WEIGHTED EXPOSURES		<u>14,537,423</u>
MINIMUM CAPITAL REQUIREMENT (12%)		<u>1,744,491</u>

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures as of 30 June 2009 subject to basic indicator approach of operational risk and related capital requirements;

	<i>US \$</i>
Indicators of operational risk	
Average Gross income	54,436,125
Multiplier	<u>12.5</u>
	680,451,563
Eligible Portion for the purpose of the calculation	<u>15%</u>
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE	<u>102,067,734</u>
MINIMUM CAPITAL REQUIREMENT (12%)	<u>12,248,128</u>

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2 Capital Adequacy (continued)

Table – 5. Capital Adequacy Ratios

The following are Capital Adequacy Ratios as of 30 June 2009 for total capital and Tier 1 capital;

	Total capital ratio	Tier 1 capital ratio
Capital Adequacy Ratio	26.16%	26.16%

3 Risk Management

3.1 Credit Risk

Table – 6. Credit Risk Exposure

The following table summarises the amount of gross funded and unfunded credit exposure as of 30 June 2009 and average gross funded and unfunded exposures over the period from 1 January 2009 to 30 June 2009 allocated in own capital and current account and profit sharing investment account;

	<i>Own capital and current account</i>		<i>Profit Sharing Investment Account (PSIA)</i>	
	<i>*Average gross Total gross credit exposure US \$</i>	<i>exposure over the period US \$</i>	<i>Average gross Total gross credit exposure US \$</i>	<i>risk exposure over the period US \$</i>
<u>Funded Exposure</u>				
Cash and balances with banks	85,537,456	99,183,204	121,382,597	110,811,451
Sales receivables	33,415,291	30,858,423	371,595,801	416,591,543
Mudaraba financing	16,273,741	16,355,819	1,000,000	2,132,500
Ijara Muntahia Bittamleek	4,409,652	3,571,908	42,952,090	46,125,974
Musharaka financing	4,480,000	4,480,000	16,446,683	16,743,241
Investments	108,726,289	107,676,397	31,874,673	33,104,456
Investment properties	1,878,796	1,878,667	-	-
Ijara income receivables	2,460,041	2,513,445	11,093,935	10,849,779
Premises and equipment	12,947,677	12,508,694	-	-
Other assets	7,686,094	7,001,086	9,537,727	9,045,892
<u>Unfunded Exposure</u>				
Contingencies and commitments	64,166,721	64,304,939	-	-
Total	341,981,758	350,332,582	605,883,506	645,404,836

*Average Balances are computed based on Quarter end balances

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 7. Credit Risk – Geographic Breakdown

The following table summarises the geographic distribution of exposure as of 30 June 2009, broken down into significant areas by major types of credit exposure;

	<i>Own capital and current account</i>		<i>Profit Sharing Investment Account (PSIA)</i>	
	<i>*Geographic area</i>		<i>*Geographic area</i>	
	<i>Middle East US \$</i>	<i>Other Asian countries US \$</i>	<i>Middle East US \$</i>	<i>Other Asian countries US \$</i>
Cash and balances with banks	29,168,416	56,369,040	66,147,040	55,235,557
Sales receivables	33,415,291	-	234,071,133	137,524,668
Mudaraba financing	16,273,741	-	1,000,000	-
Ijara Muntahia Bittamleek	4,409,653	-	21,409,464	21,542,625
Musharaka financing	4,480,000	-	-	16,446,683
Investments	98,050,839	10,675,450	28,191,753	3,682,920
Investment properties	1,878,796	-	-	-
Ijara income receivables	2,460,041	-	7,423,964	3,669,971
Premises and equipment	10,557,850	2,389,827	-	-
Other assets	6,384,710	1,301,383	-	9,537,728
Total	207,079,337	70,735,700	358,243,354	247,640,152

* The two geographical segments are Middle East and Other Asian Countries. Other Asian Countries predominantly includes Branch's operations in Pakistan.

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 8. Credit Risk – Counterparty Type Breakdown

The following table summarises the distribution of funded and unfunded exposure as of 30 June 2009 by counterparty type;

	<i>Own capital and current account</i>		<i>Profit Sharing Investment Account (PSIA)</i>	
	<i>Funded US \$</i>	<i>Unfunded US \$</i>	<i>Funded US \$</i>	<i>Unfunded US \$</i>
Cash items	8,886,775	-	-	-
Claims on Sovereigns	34,709,702	-	19,993,419	-
Claims on Public Sector Entities	11,335,450	-	30,809,447	-
Claims on banks	54,825,478	11,735,680	148,145,729	-
Claims on corporates	46,179,530	52,431,041	345,676,298	-
Mortgage	-	-	3,153,579	-
Past dues receivables	5,095,550	-	31,771,635	-
Equity investment	75,157,018	-	-	-
Equity Sukuk	187,706	-	844,924	-
Investment in Funds	16,423,271	-	599,236	-
Holding of Real Estate	16,929,264	-	15,351,510	-
Other assets	8,085,293	-	9,537,729	-
Total	277,815,037	64,166,721	605,883,506	-

3 Risk Management (continued)

Table – 9. Credit Risk – Related Party Transactions

The following table summarises the balances with related parties as of 30 June 2009 ;

	<i>Own capital and current account Funded US \$</i>	<i>Profit Sharing Investment Account (PSIA) Funded US \$</i>
Cash and balances with bank	-	72,952
Sales Receivable	9,881,283	5,310,566
Mudaraba Financing	16,273,741	-
Ijarah Muntahia Bittamleek	-	1,879,168
Non trading Investments	74,631,510	307,733
Other Assets	752,874	208,295
Total	101,539,408	7,778,714

All transactions with related parties have been made on arms length basis.

Table – 10. Credit Risk – Concentration of Risk

Following balances representing the concentration of risk to individual counterparties as of 30 June 2009;

Counterparties *	Funded US \$
Counterparty # 1	88,713,236
Counterparty # 2	62,218,389
Counterparty # 3	39,943,352
Counterparty # 4	33,146,008

* The exposure is in excess of the 15% individual obligor limit.

Counterparty 2,3 & 4 comprise interbank exposures that are exempt as per CBB rules.

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 11. Credit Risk – Residual Contractual Maturity Breakdown

68.6% of Bank assets are funded by Profit sharing investment Accounts, while 31.4% are funded by Bank's own capital and current accounts. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2009, broken down by major types of credit exposure;

	<i>Maturity breakdown</i>								<i>Total US \$</i>
	<i>Up to 3 months US \$</i>	<i>3 to 6 months US \$</i>	<i>6 months to 1 year US \$</i>	<i>1 to 3 years US \$</i>	<i>3 to 5 years US \$</i>	<i>5 to 10 years US \$</i>	<i>Over 10 years US \$</i>	<i>No fixed maturity US \$</i>	
Assets									
Cash and balances with banks	185,816,076	-	-	-	-	-	-	21,103,977	206,920,053
Sales receivables	150,841,046	67,813,350	84,372,286	78,568,280	21,700,186	1,151,386	564,558	-	405,011,092
Mudaraba financing	-	-	1,000,000	16,216,326	57,415	-	-	-	17,273,741
Ijara Muntahia Bittamleek	3,763,856	2,092,919	6,080,538	28,868,016	5,964,332	592,081	-	-	47,361,742
Musharaka financing	3,036,678	2,136,859	4,067,269	8,352,423	2,253,987	278,806	800,661	-	20,926,683
Investments	7,902,634	1,100,000	9,291,168	32,785,115	88,522,045	-	1,000,000	-	140,600,962
Investment properties	1,878,796	-	-	-	-	-	-	-	1,878,796
Ijara income receivables	13,553,976	-	-	-	-	-	-	-	13,553,976
Premises and equipment	-	-	-	-	-	-	-	12,947,677	12,947,677
Other assets	9,912,982	865,509	3,707,192	2,559,137	-	-	-	179,001	17,223,821
Total Assets	376,706,044	74,008,637	108,518,453	167,349,297	118,497,965	2,022,273	2,365,219	34,230,655	883,698,543
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to banks and financial institutions	21,955,135	-	-	3,281,844	-	-	-	-	25,236,979
Current accounts	53,637,653	-	-	-	-	-	-	-	53,637,653
Other liabilities	8,553,029	2,303,512	4,605,343	5,779,869	845,899	59,830	-	-	22,147,482
Total liabilities	84,145,817	2,303,512	4,605,343	9,061,713	845,899	59,830	-	-	101,022,114
Unrestricted investment accounts	358,510,529	90,701,837	70,201,345	21,703,021	64,766,774	-	-	-	605,883,506
Total equity	-	-	-	-	-	-	-	176,792,923	176,792,923
Total liabilities, unrestricted investment accounts and equity	442,656,346	93,005,349	74,806,688	30,764,734	65,612,673	59,830	-	176,792,923	883,698,543
Net gap	(65,950,302)	(18,996,712)	33,711,765	136,584,563	52,885,292	1,962,443	2,365,219	(142,562,268)	-
Cumulative net gap	(65,950,302)	(84,947,014)	(51,235,249)	85,349,314	138,234,606	140,197,049	142,562,268	-	-
Restricted Investment Accounts	42,633,681	12,883,766	6,600,000	22,115,272	105,000,000	-	-	-	189,232,719

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 12. Credit Risk – Non performing facilities and Provisions

The following table summarises the total non performing facilities and provisions disclosed by counterparty type as of 30 June 2009;

<i>Non-performing Islamic financing contracts</i>	<i>Own capital and current account</i>								
	<i>Aging of Non performing facilities</i>				<i>Specific provisions</i>				
	<i>90 To 180 Days</i>	<i>181 To 270 Days</i>	<i>Over 270 Days</i>	<i>Opening Balance</i>	<i>Charges during the period</i>	<i>Write-Back during the period</i>	<i>Write-offs during the period</i>	<i>* Balance at the end of the period</i>	
	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>
Claims on corporates / banks	56,939,381	39,471,358	7,082,039	10,385,984	19,809,363	9,592,915	(1,768,287)	(4,889,789)	22,744,202
Total	56,939,381	39,471,358	7,082,039	10,385,984	19,809,363	9,592,915	(1,768,287)	(4,889,789)	22,744,202

* The balance includes US \$ 2,922,417 of provision relating to the performing facilities amounting USD 17,082,114.

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 13. Credit Risk – Non performing facilities and Provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of 30 June 2009;

	<i>Non- performing Islamic financing contracts US \$</i>	<i>Specific provision US \$</i>
Middle East	42,323,766	15,442,425
Other Asian countries	14,615,615	7,301,778
Total	56,939,381	22,744,202

Table – 14. Credit Risk – Restructured Islamic financing contracts

The following table summarises the total outstanding islamic financing contracts as of 30 June 2009 that have been restructured during the period.

	<i>Total US \$</i>
Restructured Islamic financing contracts	2,760,513

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 15. Counterparty Credit Risk Exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of 30 June 2009;

	Gross positive FV of contracts US \$	* Collateral held US \$
Cash and balances with banks	206,920,053	-
Sales receivables	405,011,092	247,024,181
Mudaraba financing	17,273,741	-
Ijara Muntahia Bittamleek	47,361,742	60,378,436
Musharaka financing	20,926,683	16,446,683
Investments	140,600,962	-
Investment properties	1,878,796	-
Ijara income receivables	13,553,976	-
Premises and equipment	12,947,677	-
Other assets	17,223,821	-
Total	883,698,543	323,849,300

* Collateral are restricted to exposure amount of financing facilities.

3.2 Market Risk

Table – 16. Market Risk Capital Requirements

The following table summarises the capital requirement for each category of market risk as of 30 June 2009.

	Equity position risk US \$	Foreign exchange risk US \$
Risk weighted exposure (RWE)	3,929,425	10,607,998
Capital requirements (12%)	471,531	1,272,960
Maximum value of RWE	3,929,425	15,246,585
Minimum value of RWE	3,501,282	10,607,998

3.3 Equity Positions in the banking book

Table – 17. Equity Position Risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 2009;

	<i>Total gross exposure US \$</i>	<i>Average gross exposure over the period US \$</i>	<i>Publicly held US \$</i>	<i>Privately held US \$</i>	<i>Capital Requirement US \$</i>
Sukuks	45,646,334	46,000,661	-	45,646,334	3,442,820
Equity Investment	76,652,852	76,690,344	-	76,652,852	13,862,829
Funds	16,337,063	16,232,170	11,712,907	4,624,156	2,056,303
	138,636,249	138,923,175	11,712,907	126,923,342	19,361,952

Table – 18. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or (losses) during the period ended 30 June 2009;

	<i>US \$</i>
Cumulative realized gains arising from sales or liquidations in the reporting period	-
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	4,218,293
Unrealized gross losses included in Tier One Capital	(430,356)
Unrealized gains included in Tier Two Capital (45% only)	658,504

3.4 Unrestricted Investment Accounts (“URIA”)

Table – 19. Unrestricted Investment Account

The following table summarises the breakdown of unrestricted investment accounts as of 30 June 2009;

	<i>US \$</i>
URIA - Banks	216,875,418
URIA - Non-banks	386,602,663
Profit equalisation reserve (PER)	504,093
Investment risk reserve (IRR)	1,901,332
Total	605,883,506
PER to URIA (%)	0.08%
IRR to URIA (%)	0.32%

3 Risk Management (continued)

3.4 Unrestricted Investment Accounts (“URIA”) (continued)

Table – 20. Unrestricted Investment Account by Islamic Financing product type

The following table summarises the percentage of URIA financing for each type of Shari’a-compliant contract to total URIA financing as of 30 June 2009;

Sales receivable	83.86%
Mudaraba investments	0.23%
Musharaka investments	3.71%
Ijarah Muntahia Bittamleek & Ijarah income receivable	12.20%

Table – 21. Unrestricted Investment Account by Counterparty Type

The following table summarises the percentage of financing for each category of counterparty to total financing as of 30 June 2009;

Counterparty type

Banks	8.05%
Investment Firms	14.80%
Corporates	76.44%
Residentials	0.71%

Table – 22. Unrestricted Investment Account Share of Profit

The following table summarises the share of profits earned by and paid out to unrestricted investment accounts and the Bank as Mudarib for the period ended 30 June 2009;

Share of profits earned by IAH, before transfers to or from reserves	23,009,030
Percentage share of profit earned by IAH before transfer to/from reserves	3.51%
Share of profit paid out to IAH after transfer to/from reserves	18,684,951
Percentage share of profit paid out to IAH after transfer to/from reserves	2.85%
Share of profit paid out to Bank as mudarib	4,078,431
Mudarib Fee to Total Investment Profits	18%

Table – 23. Profit Equalisation and Investment Risk Reserve Movement

The following table summarises the movement on Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) and utilization and computation of PER and/or IRR during the period ended 30 June 2009;

	<i>Profit Equalisation Reserve US \$</i>	<i>Investment Risk Reserve US \$</i>
Opening Balance	479,489	1,680,288
Amount appropriated	24,604	221,044
Amount utilized	-	-
Closing Balance	504,093	1,901,332

3 Risk Management (continued)

3.4 Unrestricted Investment Accounts (“URIA”) (continued)

Table – 24. Unrestricted Investment Account Percentage Return to Profit Rate of Return

The following table summarises the average declared rate of return or profit rate on profit sharing investment accounts for the period ended 30 June 2009;

	<i>3 month</i>	<i>6 month</i>	<i>12 month</i>	<i>36 month</i>
Percentage of average declared rate of return to profit rate of return				
Bahrain Operations	1.3%-3.6%	1.4%-3.9%	1.5%-4.3%	4.6%
Pakistan Operations	8.4%	9.0%	10.4%	11.8%

Table – 25. Unrestricted Investment Account by type of Assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the period ended 30 June 2009;

	<i>Opening Actual Allocation US\$</i>	<i>Movement US\$</i>	<i>Closing Actual Allocation US\$</i>
Cash and balances with banks	104,895,456	16,487,141	121,382,597
Sales receivable	478,340,145	(106,744,344)	371,595,801
Mudaraba financing	3,265,000	(2,265,000)	1,000,000
Ijarah Muntahia Bittamleek	41,913,578	1,038,511	42,952,089
Musharaka financing	19,420,234	(2,973,551)	16,446,683
Investments	33,939,573	(2,064,900)	31,874,673
Ijarah income receivables	18,625,516	(7,531,581)	11,093,935
Other assets	6,442,660	3,095,068	9,537,728
Total	706,842,162	(100,958,656)	605,883,506

Table – 26. Unrestricted Investment Account Profit Earned and Paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years

	<i>Profit Earned</i>		<i>Profit paid to PSIA</i>	
	<i>US\$</i>	<i>%age</i>	<i>US\$</i>	<i>%age</i>
2009	23,009,030	* 7.0%	18,684,951	* 5.7%
2008	40,892,470	5.7%	36,367,057	5.1%
2007	47,762,553	6.7%	41,047,490	5.7%
2006	38,378,321	7.1%	33,447,950	6.2%
2005	17,208,894	5.0%	14,712,834	4.3%

* Annualised

3 Risk Management (continued)

3.5 Restricted Investment Accounts (“RIA”)

Table – 27. Restricted Investment Account by Islamic product type

The following table summarises the breakdown of restricted investment accounts as of 30 June 2009;

Islamic Products

Sales receivables	85%
Mudaraba financing	9%
Investments	6%

Table – 28. Restricted Investment Account by Counterparty Type

The following table summarises the percentage of financing for each category of counterparty to total financing as of 30 June 2009;

Counterparty type

Banks	21%
Corporates	79%

Table – 29. Restricted Investment Account by type of Assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the period ended 30 June 2009;

	<i>Opening Actual Allocation US\$</i>	<i>Movement US\$</i>	<i>Closing Actual Allocation US\$</i>
Sales receivables	140,725,472	19,391,332	160,116,805
Mudaraba financing	14,155,621	2,845,021	17,000,641
Investments	12,102,821	12,452	12,115,273
Total	166,983,914	22,248,805	189,232,719

3.6 Liquidity Risk

Table – 30. Liquidity Ratios

The following table summarises the liquidity ratios as of 30 June 2009;

Liquid assets to total assets	24.13%
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3 Risk Management (continued)

3.7 Profit Rate Risk

Table – 31. Profit Rate Risk in Banking Book

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

Table – 32. Quantitative Indicators of Financial Performance and Position

The following table summarises the basic quantitative indicators of financial performance for the past 5 years;

	<i>*June</i> <i>2009</i>	<i>Dec</i> <i>2008</i>	<i>Dec</i> <i>2007</i>	<i>Dec</i> <i>2006</i>	<i>Dec</i> <i>2005</i>
Return on average equity	-9.4%	1.3%	2.2%	-2.6%	4.3%
Return on average assets	-1.8%	0.2%	0.4%	-0.4%	0.6%
Cost to Income Ratio	103.0%	80.1%	75.7%	94.4%	60.1%
Liquid assets to total assets	24.1%	26.1%	17.2%	14.8%	29.4%

* Annualised.