Al Baraka Islamic Bank B.S.C. (c)

Basel II, Pillar III Disclosures
31 December 2011

(Unaudited)

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1 INTRODUCTION

Al Baraka 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 7 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 six commercial branches in the Kingdom of Bahrain.

During the year ended 31 December 2010, the shareholders of the Bank approved the merger of the Pakistan branches of the Bank with and into the Emirates Global Islamic Bank Limited (EGIBL) under a "Scheme of Amalgamation" after necessary approvals from the regulatory authorities. The scheme was sanctioned by the State Bank of Pakistan (SBP) vide its order dated 30 September 2010 and in pursuance thereof, the effective date of amalgamation was announced by the SBP as close of business on 29 October 2010 vide its letter no. BPRD (R&P-01)/2010-8040 dated 21 October 2010. Further, the name of EGIBL has been changed to Al Baraka Bank (Pakistan) Limited with effect from close of business on 29 October 2010 as notified by SBP through notification no. BPRD (R&P-01)/8365/2010.

As a result of the above amalgamation the separate existence of Pakistan branches ceased. As a consideration for the amalgamation the Bank acquired 49.64% of the total paid up capital of Al Baraka Bank (Pakistan) Limited. The Bank subsequently increased its shareholding in Al Baraka Bank (Pakistan) Limited to 64.64%.

The principal activities of the Bank and its subsidiaries (the "Group") 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

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("AIH").

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of:

	31 December 2011		31 December 2010	
	Tier 1	Tier 2	Tier 1	Tier 2
	US $	US $	US $	US $
Components of capital				
Issued and fully paid ordinary shares	**122,457,800**	-	122,457,800	-
General reserves	**8,687,143**	-	8,687,143	-
Legal / statutory reserves	**21,748,828**	-	21,571,062	-
Others	**(3,305,494)**	-	-	-
Retained profit brought forward	**14,976,863**	-	13,376,970	-
Minority interest in consolidated subsidiaries	**21,816,108**	-	22,259,882	-
Less:				
Goodwill	**20,563,499**	-	21,598,197	-
Unrealised gross losses arising from fair valuing equity securities	**7,542,916**	-	4,644,544	-
Tier 1 Capital before PCD deductions	**158,274,833**	-	162,110,116	-
Unrealised gain arising from fair valuing equities (45% only)		-		111,067
Profit equalisation reserve		**524,542**		965,311
Investment risk reserve		**2,737,120**		1,156,962
Tier 2 Capital before PCD deductions		**3,261,662**		2,233,340
Total available capital		**161,536,495**		164,343,456
Deductions				
Excess amount over maximum permitted large exposure limit	**(25,150,759)**	**(25,150,759)**	(27,352,142)	(27,352,142)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(21,889,097)**	-	(25,118,802)	-
Total Deductions	**(47,039,856)**	**(25,150,759)**	(52,470,944)	(27,352,142)
Tier 1 and Tier 2 eligible capital	**111,234,977**	-	109,639,172	-
Total eligible capital		**111,234,977**		109,639,172

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	*31 December 2011* Capital requirements US $	*31 December 2010* Capital requirements US $
Sales receivables	**19,838,787**	14,659,085
Ijara Muntahia Bittamleek & Ijara income receivable	**3,124,817**	2,311,085
Musharaka	**2,269,668**	1,973,285
Mudaraba financing	**1,564,570**	1,763,558
	26,797,842	20,707,013

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2011		*31 December 2010*	
	Self Financed US $	URIA US $	Self Financed US $	URIA US $
Market risk - standardised approach				
Equity position risk	**71,040**	**-**	481,816	-
Foreign exchange risk	**6,167,963**	**261,282**	5,271,237	119,955
Total of market risk - standardised approach	**6,239,003**	**261,282**	5,753,053	119,955
Multiplier	**12.50**	**12.50**	12.50	12.50
	77,987,538	**3,266,025**	**71,913,163**	**1,499,438**
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**77,987,538**	**979,808**	71,913,163	449,831
Total market RWE		**78,967,345**		72,362,994
Minimum capital requirement (12%)		**9,476,081**		8,683,559

Table – 4. Capital Requirements for operational risk

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

	31 December 2011 US $	*31 December 2010* US $
Indicators of operational risk		
Average gross income	**54,585,907**	52,875,036
Multiplier	**12.5**	12.5
	682,323,838	660,937,950
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**102,348,576**	99,140,693
Minimum capital requirement (12%)	**12,281,829**	11,896,883

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2011		31 December 2010	
	US $	US $	US $	US $
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	17.05%	17.05%	20.54%	20.54%

Legal restrictions on capital and income mobility

Distributing profits by subsidary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e Pakistan). Mobilsation of capital, reserves and equivilant funds out of the subsidary to the parent is subject to the local rules and regulations. The parent is not subject to and ristriction to support its subsidary in the form of deposits or capital. However, as a procedure, a prior writen approval has to be obtained from the CBB for increasing investment in subsidary.

Table - 6. The Group's subsidiary capital adequacy ratios

The following is the Group's subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2011		31 December 2010	
	US $	US $	US $	US $
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	15.29%	15.26%	15.88%	15.88%

3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2011				*31 December 2010*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $	**Average gross exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit risk exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit exposure over the period US $*
Funded								
Cash and balances with banks	227,821,125	171,538,306	25,213,075	25,904,581	89,133,059	119,376,300	110,886,672	65,053,398
Sales receivables	113,597,068	29,640,734	493,760,773	544,792,870	6,769,989	18,900,822	531,631,398	440,253,742
Mudaraba financing	7,672,998	8,221,221	17,883,626	20,937,289	9,963,633	13,211,446	15,102,600	11,275,113
Ijara Muntahia Bittamleek	-	42,963	102,557,275	93,810,585	154,078	1,126,279	93,046,568	73,014,388
Musharaka	4,480,000	4,480,000	58,488,432	55,265,741	4,479,999	4,480,000	51,111,079	24,719,980
Investments	122,122,322	128,943,473	299,810,645	255,932,185	220,290,459	136,105,938	93,413,981	55,862,330
Investment in real estate	2,941,826	2,576,288	-	-	1,480,205	1,480,206	-	-
Ijara income receivables	1,374,289	1,052,441	24,076,119	22,890,868	609,070	986,570	17,887,273	14,059,609
Premises and equipment	24,647,941	25,514,433	-	-	26,918,263	17,095,275	-	-
Other assets	16,182,041	19,736,744	34,591,810	24,577,598	7,215,453	4,776,402	44,868,751	18,431,111
Unfunded exposure								
Contingencies and commitments	289,272,304	207,912,890	-	-	148,378,334	123,615,157	-	-
	810,111,914	**599,659,493**	**1,056,381,755**	**1,044,111,717**	515,392,542	441,154,395	957,948,322	702,669,671

*Average balances are computed based on quarter end balances.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2011				31 December 2010			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US $	Other Asian countries US $	Middle East US $	Other Asian countries US $	Middle East US $	Other Asian countries US $	Middle East US $	Other Asian countries US $
Cash and balances with banks	118,756,715	109,064,410	6,170,549	19,042,526	38,028,010	51,105,050	23,433,010	87,453,661
Sales receivables	113,597,068	-	268,980,599	224,780,174	6,769,989	-	308,845,604	222,785,794
Mudaraba financing	7,672,998	-	17,883,626	-	9,963,633	-	15,102,600	-
Ijara Muntahia Bittamleek	-	-	73,107,622	29,449,653	154,078	-	58,293,363	34,753,205
Musharaka	4,480,000	-	6,072,140	52,416,292	4,479,999	-	955,008	50,156,071
Investments	79,721,853	42,400,469	44,154,276	255,656,369	86,321,943	133,968,516	40,603,277	52,810,704
Investment in real estate	2,941,826	-	-	-	1,480,205	-	-	-
Ijara income receivables	1,374,289	-	18,239,003	5,837,116	609,070	-	12,578,362	5,308,911
Premises and equipment	11,186,733	13,461,208	-	-	11,517,206	15,401,057	-	-
Other assets	-	16,182,041	12,260,051	22,331,759	2,833,699	4,381,754	2,083,811	42,784,940
	339,731,482	**181,108,128**	**446,867,866**	**609,513,889**	162,157,832	204,856,377	461,895,035	496,053,286

* The primary segment adopted by the Group is geographic, since the Group operates to provide products and services in separate economic environments having risk and rewards that are different for each economic environment. The two geographical segments are Middle East and Other Asian Countries. Other Asian Countries predominantly includes subsidiary's operations in Pakistan.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2011				31 December 2010			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US $	Unfunded US $	Funded US $	Unfunded US $	Funded US $	Unfunded US $	Funded US $	Unfunded US $
Cash items	10,327,229	-	6,489,020	-	10,580,876	-	5,045,124	-
Claims on Sovereigns	92,737,897	-	269,196,778	-	152,070,746	-	93,654,770	-
Claims on Public Sector Entities	8,540,639	-	66,167,280	-	-	-	106,145,848	-
Claims on banks	274,449,174	169,437,835	146,774,256	-	67,421,093	36,796,567	210,864,015	-
Claims on corporate	16,314,249	119,834,469	433,716,426	-	20,109,250	111,581,767	402,210,280	-
Mortgage	-	-	38,859,105	-	-	-	35,054,642	-
Past dues receivables	-	-	45,019,435	-	-	-	43,455,944	-
Equity investment	64,493,950	-	281,261	-	67,335,184	-	338,947	-
Equity Sukuk	-	-	-	-	-	-	-	-
Investment in Funds	9,928,754	-	5,000,000	-	16,547,556	-	599,230	-
Holding of Real Estate	21,973,116	-	10,481,302	-	14,492,671	-	15,140,918	-
Other assets	22,074,602	-	34,396,892	-	18,456,832	-	45,438,604	-
	520,839,610	**289,272,304**	**1,056,381,755**	-	367,014,208	148,378,334	957,948,322	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence and Fitch for assigning risk weight to assets.

3 RISK MANAGEMENT (continued)

Table – 10. Credit risk – related party transactions

The following table summarises the balances with related parties as of:

	31 December 2011		*31 December 2010*	
	Self financed Funded US $	***Financed by IAH Funded US $***	*Self financed Funded US $*	*Financed by IAH Funded US $*
Cash and balances with bank	-	306,344	-	72,369
Sales Receivable	-	30,362,685	-	8,253,988
Musharaka	-	339,394	2,032,515	-
Mudaraba Financing	7,672,998	17,883,627	9,963,633	15,129,675
Ijara Muntahia Bittamleek	-	6,095,406	-	121,098
Investments	63,673,835	260,808	66,410,535	304,901
Ijara Income Receivable	-	29,968	-	19,508
Other Assets	1,328	655,560	1,176,935	631,348
	71,348,161	**55,933,792**	79,583,618	24,532,887

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

The Group's intra-group transactions as of 31 December 2011 is its investment in subsidiary of USD 61,961 thousand and amount receivable of USD 1,064 thousand by the Bank from its subsidiary.

3 RISK MANAGEMENT (continued)

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2011:

Counterparties *	*Funded* *US $*
Counterparty # 1	244,784,588
Counterparty # 2	134,235,497
Counterparty # 3	116,060,288
Counterparty # 4	99,213,428
Counterparty # 5	74,120,767
Counterparty # 6	62,465,746
Counterparty # 7	43,826,097
Counterparty # 8	41,415,688
Counterparty # 9	35,812,746
Counterparty # 10	35,119,438
Counterparty # 11	27,341,960
Counterparty # 12	25,797,250

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 1,2,3,4.6,7,8,9,10,11 & 12 are exempt as per the CBB rules or separate exemption have been obtained from the CBB.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2010:

Counterparties *	*Funded* *US $*
Counterparty # 1	74,061,163
Counterparty # 2	51,888,173
Counterparty # 3	42,230,512
Counterparty # 4	38,894,282
Counterparty # 5	36,490,742
Counterparty # 6	35,144,540

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 2,3,4.5 & 6 comprise interbank exposures that are exempt as per the CBB rules.

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments/payments.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2011					31 December 2010				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $
Banks	-	-	-	-	-	303,603	-	-	-	-
Corporates	11,936,203	60,781,018	21,214,237	23,481,556	16,085,225	17,191,331	72,482,579	32,904,752	31,522,030	8,055,797
Investment Firms	-	37,384,463	-	37,384,463	-	-	37,372,445	-	37,372,445	-
Individuals	2,568,097	5,082,513	1,201,071	3,112,015	769,427	6,339,591	4,374,646	1,230,451	2,028,688	1,115,507
Others	-	899,895	-	-	899,895	-	-	-	-	-
	14,504,300	**104,147,889**	**22,415,308**	**63,978,034**	**17,754,547**	23,834,525	114,229,670	34,135,203	70,923,163	9,171,304

Table – 13. Credit Risk – provision against facilities by counterparty type

The following table summarises the total provisions against facilities disclosed by counterparty type as of 31 December 2011:

	Specific allowances						
	Opening Balance US $	Charges during the year .US $	Write-Back during the year US $	Write-offs during the year US $	Transferred from investment risk reserve US $	Exchange difference on opening balance US $	Balance at the end of the year US $
Corporates	38,605,217	10,451,889	(14,405,308)	(7,344,875)	(1,339,857)	(1,241,322)	24,725,744
Investment Firms	22,556,464	-	-	-	-	-	22,556,464
Individuals	2,898,476	2,298,686	(483,865)	-	-	(95,746)	4,617,551
	64,060,157	**12,750,575**	**(14,889,173)**	**(7,344,875)**	**(1,339,857)**	**(1,337,068)**	**51,899,759**

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. Credit Risk – provision against facilities by counterparty type (continued)

The following table summarises the total provisions against non performing facilities disclosed by counterparty type as of 31 December 2010:

	Specific allowances							
	Opening Balance US $	*Charges during the year US $*	*Write-Back during the year US $*	*Write-offs during the year US $*	*Acquisition of a subsidiary US $*	*Transferred from investment risk reserve US $*	*Exchange difference on opening balance US $*	*Balance at the end of the year US $*
Corporates	18,173,276	3,825,989	(1,595,710)	(172,461)	17,098,619	1,339,857	(64,353)	38,605,217
Investment Firms	18,686,222	3,870,242	-	-	-	-	-	22,556,464
Individual	2,512,107	686,393	(291,052)	-	-	-	(8,972)	2,898,476
	39,371,605	8,382,624	(1,886,762)	(172,461)	17,098,619	1,339,857	(73,325)	64,060,157

A collective provision of US $ 500 thousand was charged against financing facilities during the year, 2010.

Table – 14. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2011			*31 December 2010*		
	Non-performing Islamic financing contracts US $	***Specific provision US $***	***Collective provision* US $***	*Non-performing Islamic financing contracts US $*	*Specific provision US $*	*Collective provision US $*
Middle East	52,531,660	29,896,875	500,000	66,864,598	37,041,190	500,000
Other Asian	51,616,229	22,002,884	-	47,365,072	27,818,967	-
	104,147,889	**51,899,759**	**500,000**	114,229,670	64,860,157	500,000

* Collective provision is calculated based on estimates by the management keeping in view general economic and market conditions, effecting investment and financing portfolio of the Group.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2011 Total US $	*31 December 2010 Total US $*
Restructured Islamic financing contracts	**11,957,182**	6,449,139

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

3 **RISK MANAGEMENT (continued)**

a) **Credit risk (continued)**

Table – 16. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2011		31 December 2010	
	Gross positive FV of contracts *US $*	**** Collateral held*** *US $*	Gross positive FV of contracts *US $*	** Collateral held* *US $*
Cash and balances with banks and financial institution	253,034,200	-	200,019,731	-
Sales receivables	607,357,841	605,434,440	538,401,387	524,515,848
Mudaraba financing	25,556,624	-	25,066,233	-
Ijara Muntahia Bittamleek	102,557,275	102,557,275	93,200,646	93,200,646
Musharaka	62,968,432	62,968,432	55,591,078	54,676,895
Investments	421,932,967	-	313,704,440	-
Investment in real estate	2,941,826	-	1,480,205	-
Ijara income receivables	25,450,408	-	18,496,343	-
Premises and equipment	24,647,941	-	26,918,263	-
Other assets	50,773,851	-	52,084,204	-
	1,577,221,365	**770,960,147**	1,324,962,530	672,393,389

Table – 17. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2011		31 December 2010	
	Gross positive FV of contracts US $	***Collateral held US $***	*Gross positive FV of contracts US $*	*Collateral held US $*
Ijara Muntahia Bittamleek & Ijara income receivable	**128,007,683**	**53,447,496**	111,696,989	66,426,680

b) **Market risk**

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Table – 18. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2011		31 December 2010	
	Equity position risk US $	***Foreign exchange risk US $***	*Equity position risk US $*	*Foreign exchange risk US $*
RWE	**888,000**	**78,079,345**	6,022,696	66,340,295
Capital requirements (12%)	**106,560**	**9,369,521**	722,724	7,960,835
Maximum value of RWE	**6,986,290**	**91,018,980**	6,022,696	66,340,295
Minimum value of RWE	**888,000**	**67,004,080**	2,619,645	10,772,631

3 **RISK MANAGEMENT (continued)**

b) **Market Risk (continued)**

Table – 19. 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 31 December 2011:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	**340,488,817**	**303,410,571**	**-**	**340,488,817**	**1,905,814**
Managed funds	**7,129,153**	**9,756,071**	**7,129,153**	**-**	**855,498**
Private equity	**64,974,638**	**64,747,028**	**20,435**	**64,954,203**	**11,618,587**
Real estate related	**2,403,412**	**2,247,169**	**-**	**2,403,412**	**374,723**
Others	**6,492,948**	**2,741,427**	**-**	**6,492,948**	**329,456**
	421,488,968	**382,902,266**	**7,149,588**	**414,339,380**	**15,084,078**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2010;

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	226,926,369	95,978,499	-	226,926,369	2,771,290
Managed funds	12,191,949	11,758,557	12,191,949	-	1,421,573
Private equity	65,634,541	71,776,806	-	65,582,617	11,619,649
Real estate related	4,449,313	3,776,313	-	4,449,313	679,736
Others	1,490,920	1,860,345	-	1,490,920	83,159
	310,693,092	185,150,520	12,191,949	298,449,219	16,575,407

Table – 20. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2011 ***US $***	*31 December 2010* *US $*
Cummalative realised gains arising from sale or liquidation	**2,239,967**	84,690
Total unrealised losses recognised in the balance sheet but not through P&L	**(7,542,916)**	(4,397,728)
Unrealised gross losses included in Tier One Capital	**(7,542,916)**	(4,644,544)
Unrealised gains included in Tier Two Capital (45% only)	**-**	111,067

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. The Bank holds and maintain two separate pools of funds, one for its own funds and another for Equity of Investment Accountholders. Both of these pools are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Investment in Shari' a compliant opportunities
b) Targeted returns
c) Compliance with credit and Investment policy and overall business plan and
d) Diversified portfolio

Funds are fully invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group. These self financed assets are deducted from Total Assets to arrive at "Jointly Financed Assets". To segregate the Jointly Financed Assets into SF and Investment Accountholders (IAH), the Group applies formula to identify the proportional share of each fund's in the Jointly Financed Assets .

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These fund are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 3 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

The basis applied by the Group in arriving at the investment account holders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

Investment risk reserve
The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Profit equalisation reserve
The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk
The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan, Bahrain offshore, Bahrain Commercial).

Complaint procedure
A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it's website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges
A financial penalty of US $ 1.5 thousand was charged by SBP to the Group's subsidiary in Pakistan during the year.

The Group charged US $ 2 thousand to customers as penalty for default which was disposed through charity contribution.

Non-Shari'a complaint income

The Group earned US $ 690 thousand non-shari'a compliant income which was disposed through charity contribution.

Table – 21. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2011	*31 December 2010*
	US $	*US $*
PER to IAH (%)	**0.05%**	0.10%
IRR to IAH (%)	**0.26%**	0.12%

Table – 22. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	31 December 2011	*31 December 2010*
Sales receivable	**70.86%**	70.86%
Mudaraba investments	**2.57%**	2.57%
Musharaka	**8.39%**	8.39%
Ijara Muntahia Bittamleek & Ijara income receivable	**18.17%**	18.17%

3 **RISK MANAGEMENT (continued)**

c) **Equity of Investment Accountholders (continued)**

Table – 23. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	31 December 2011	*31 December 2010*
Banks	**22.54%**	31.34%
Investment Firms	**2.72%**	0.58%
Corporates	**24.40%**	42.87%
Residentials	**13.91%**	11.69%
Others	**36.44%**	13.52%

Table – 24. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2011	*31 December 2010*
Administrative expenses charged to equity of investment accountholders holders	**2,090,090**	3,593,505
Share of profits earned by IAH, before transfers to/from reserves	**86,984,643**	45,896,366
Percentage share of profit earned by IAH before transfer to/from reserves	**8.33%**	6.25%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**68,601,248**	29,786,963
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**6.57%**	4.05%
Share of profit paid out to Bank as mudarib	**18,583,863**	15,291,259
Mudarib Fee to total Investment Profits	**21.36%**	33.32%

Table – 25. Equity of Investment Accountholders 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 and the changes in the asset allocation for the year ended 31 December 2011:

	Opening Actual Allocation US$	*Movement US$*	*Closing Actual Allocation US$*
Cash and balances with banks	**110,886,672**	**(85,673,597)**	**25,213,075**
Sales receivable	**531,631,398**	**(37,870,625)**	**493,760,773**
Mudaraba financing	**15,102,600**	**2,781,026**	**17,883,626**
Ijara Muntahia Bittamleek	**93,046,568**	**9,510,707**	**102,557,275**
Musharaka	**51,111,079**	**7,377,353**	**58,488,432**
Investments	**93,413,981**	**206,396,664**	**299,810,645**
Ijara income receivables	**17,887,273**	**6,188,846**	**24,076,119**
Other assets	**44,868,751**	**(10,276,941)**	**34,591,810**
	957,948,322	**98,433,433**	**1,056,381,755**

3 **RISK MANAGEMENT (continued)**

c) **Equity of Investment Accountholders (continued)**

Table – 25. Equity of Investment Accountholders by type of assets (continued)

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 year ended 31 December 2010;

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
Cash and balances with banks	97,178,370	13,708,302	110,886,672
Sales receivable	394,562,450	137,068,948	531,631,398
Mudaraba financing	327,000	14,775,600	15,102,600
Ijarah Muntahia Bittamleek	43,579,906	49,466,662	93,046,568
Musharaka	15,951,126	35,159,953	51,111,079
Investments	34,774,991	58,638,990	93,413,981
Ijarah income receivables	8,508,322	9,378,951	17,887,273
Other assets	9,427,742	35,441,009	44,868,751
	604,309,907	353,638,415	957,948,322

Table – 26. Equity of Investment Accountholders 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:

	Profit earned		*Profit paid to IAH*	
	US$	*%age*	*US$*	*%age*
2011	**86,984,643**	**8.33%**	**68,601,248**	**6.57%**
2010	45,896,366	6.11%	29,786,963	4.05%
2009	46,278,164	6.90%	35,740,826	5.30%
2008	42,843,699	6.00%	36,367,056	5.06%
2007	47,762,553	6.65%	41,047,490	5.72%
2006	38,378,321	7.11%	33,447,950	6.20%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table - 27. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2011:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**6,990,556**	**2,097,167**	**251,660**
Claims on PSEs	**3,227,005**	**968,102**	**116,172**
Claims on Banks	**54,697,184**	**16,409,155**	**1,969,099**
Claims on Corporates	**413,238,429**	**123,971,529**	**14,876,583**
Mortgage	**39,780,488**	**11,934,146**	**1,432,098**
Past due facilities	**52,208,069**	**15,662,421**	**1,879,491**
Investment in securities	**7,911,665**	**2,373,500**	**284,820**
Holding of Real Estates	**20,962,603**	**6,288,781**	**754,654**
Other Assets	**34,396,893**	**10,319,068**	**1,238,288**
	633,412,892	**190,023,869**	**22,802,865**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2010:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	14,783,148	4,434,944	532,193
Claims on PSEs	37,577,347	11,273,204	1,352,784
Claims on Banks	75,832,862	22,749,859	2,729,983
Claims on Corporates	357,368,822	107,210,647	12,865,278
Mortgage	34,515,694	10,354,708	1,242,565
Past due facilities	48,762,764	14,628,829	1,755,459
Investment in securities	1,386,540	415,962	49,915
Holding of Real Estates	30,281,835	9,084,551	1,090,146
Other Assets	45,686,084	13,705,825	1,644,699
	646,195,096	193,858,529	23,263,022

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment Accountholders is invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 28. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic product as of:

Islamic products

	31 December 2011	*31 December 2010*
Sales receivables	**90.54%**	86.10%
Mudaraba financing	**5.15%**	7.39%
Investments	**4.32%**	6.51%

Table – 29. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	31 December 2011	*31 December 2010*
Banks	**49.76%**	16.24%
Corporate	**50.24%**	83.76%

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 30. Off-balance sheet equity of Investment Accountholders 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 and the changes in the asset allocation for the year ended 31 December 2011:

	Opening actual allocation US$	***Movement US$***	***Closing actual allocation US$***
Sales receivables	**157,477,950**	**77,883,042**	**235,360,992**
Mudaraba financing	**13,520,253**	**(145,018)**	**13,375,235**
Investments	**11,902,902**	**(677,619)**	**11,225,283**
	182,901,105	**77,060,405**	**259,961,510**

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 year ended 31 December 2010:

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
Sales receivables	173,021,185	(15,543,235)	157,477,950
Mudaraba financing	17,143,535	(3,623,282)	13,520,253
Investments	12,170,828	(267,926)	11,902,902
	202,335,548	(19,434,443)	182,901,105

Table – 31. Off-balance sheet equity of Investment Accountholders historical returns

The following table summarises the historical returns over the past five years:

	Dec 2011	*Dec 2010*	*Dec 2009*	*Dec 2008*	*Dec 2007*
Gross Income	**458,674**	2,756,802	1,116,995	5,736,106	6,526,706
Mudarib Fee	**110,062**	261,157	195,459	403,207	361,424

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment Accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

3 RISK MANAGEMENT (continued)

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 32. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2011	*31 December 2010*
Liquid assets to total assets	**29.22%**	26.66%
Short term assets to short term liabilities	**64.4%**	73.64%

3 RISK MANAGEMENT (continued)

e) Liquidity risk

Table – 33. Quantitative indicators of financial performance and position

	Dec 2011*	*Dec 2010**	*Dec 2009*	*Dec 2008*	*Dec 2007*
Return on average equity	**1.4%**	2.8%	-15.5%	1.3%	2.2%
Return on average assets	**0.2%**	0.5%	-2.7%	0.2%	0.4%
Cost to Income Ratio	**91.0%**	75.3%	103.5%	80.1%	75.7%

* Return based on total income and equity (including non-controlling interest)

4 OTHER QUALITATIVE DISCLOSURES

Any transactions which are outside the normal course of business are approved by Board of Directors, like:

- Approval of credit limits beyond certain level i-e $15 million for Bahrain and $10 million for Pakistan.
- Approval of balances write off.
- Approval of budget with a detailed layout of planned capital expenditure, financing and investing facilities and expenses for all divisions.

Remuneration and Board Affairs Committee is responsible for inducting, educating and orienting new directors and for conducting seminars and other training programs from time to time for Board members.

Termination arrangement of directors is provided in Articles of Association (Article 32). The Articles actually embodies the provisions of the Commercial Law and CBB Rule Book in this matter.

The Board, its Committees and individual directors are regularly assessed with respect to their effectiveness and contribution.

The responsibility for payment of Zakat is on individual shareholders and investment account holders. However, in Pakistan Zakah is deducted at source by the branch from the Equity of Investment accountholders as required by local laws.