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

Basel II, Pillar III Disclosures
30 June 2011

(Unaudited)

Content **Page**

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 (the "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 Albaraka 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 subsidiary (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 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:

	30 June 2011	
	Tier 1	*Tier 2*
	US $	*US $*
Components of capital		
Issued and fully paid ordinary shares	**122,457,800**	**-**
General reserves	**8,687,143**	**-**
Legal / statutory reserves	**21,571,062**	**-**
Others	**(168,534)**	**-**
Retained profit brought forward	**13,376,970**	**-**
Minority interest in consolidated subsidiaries	**22,863,577**	**-**
Less:		
Goodwill	**21,598,197**	**-**
Unrealised gross losses arising from fair valuing equity securities	**5,390,644**	**-**
Tier 1 Capital before PCD deductions	**161,799,177**	**-**
Current interim profits (reviewed by external auditors)		**2,691,300**
Unrealised gain arising from fair valuing equities (45% only)		**149,063**
Profit equalization reserve		**987,870**
Investment risk reserve		**2,686,567**
Tier 2 Capital before PCD deductions		**6,514,800**
Total available capital		**168,313,977**
Deductions		
Excess amount over maximum permitted large exposure limit	**(27,590,334)**	**(27,590,334)**
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(21,075,534)**	**-**
Total Deductions	**(48,665,868)**	**(27,590,334)**
Tier 1 and Tier 2 eligible capital	**113,133,309**	**-**
Total eligible capital		**113,133,309**

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	*30 June 2011 Capital requirements US $*
Sales receivables	**16,384,306**
Ijara Muntahia Bittamleek & Ijara income receivable	**2,465,389**
Musharaka	**1,529,815**
Mudaraba financing	**1,943,149**
	22,322,659

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:

	30 June 2011	
	Self Financed US $	*Financed by IAH US $*
Market risk - standardised approach		
Equity position risk	**553,027**	**-**
Foreign exchange risk	**5,370,368**	**16,692**
Total of market risk - standardised approach	**5,923,395**	**16,692**
Multiplier	**12.50**	**12.50**
	74,042,438	**208,650**
Eligible Portion for the purpose of the calculation	**100%**	**30%**
Risk Weighted Exposures ("RWE") for CAR Calculation	**74,042,438**	**62,595**
Total market RWE		**74,105,033**
Minimum capital requirement (12%)		**8,892,604**

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:

	30 June 2011 US $
Indicators of operational risk	
Average gross income	**52,875,036**
Multiplier	**12.5**
	660,937,950
Eligible Portion for the purpose of the calculation	**15%**
Total operational RWE	**99,140,693**
Minimum capital requirement (12%)	**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:

	30 June 2011	
	US $	***US $***
	Total capital ratio	**Tier 1 capital ratio**
Capital adequacy ratio	**19.97%**	**19.97%**

Legal restrictions on capital and income mobility

There are no major restrictions in distributing profits by the subsidiary to the parent. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i-e Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investment in subsidiary.

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:

	30 June 2011	
	US $	***US $***
	Total capital ratio	**Tier 1 capital ratio**
Capital adequacy ratio	**15.90%**	**15.86%**

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 period 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:

	30 June 2011			
	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 $*
Funded				
Cash and balances with banks	**168,654,603**	**144,968,062**	**19,766,011**	**12,673,019**
Sales receivables	**1,500,018**	**1,500,042**	**592,358,153**	**559,780,017**
Mudaraba financing	**7,604,883**	**8,781,207**	**28,626,755**	**23,607,520**
Ijara Muntahia Bittamleek	**19,352**	**53,220**	**90,029,290**	**87,918,248**
Musharaka	**4,480,000**	**4,480,000**	**56,393,370**	**54,258,865**
Investments	**136,128,489**	**132,036,358**	**241,703,061**	**248,067,134**
Investment properties	**2,941,561**	**2,210,883**	**-**	**-**
Ijara income receivables	**1,121,475**	**870,816**	**22,684,144**	**22,013,641**
Premises and equipment	**25,881,229**	**26,143,968**	**-**	**-**
Other assets	**22,737,886**	**24,715,300**	**16,260,062**	**16,100,550**
Unfunded				
Commitments and contingent liabilities	**177,908,294**	**179,408,954**	**-**	**-**
	548,977,790	**525,168,810**	**1,067,820,846**	**1,024,418,994**

*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:

	30 June 2011			
	Self financed		*Financed by IAH*	
	**geographic area*		**geographic area*	
	Middle East	*Other Asian countries*	*Middle East*	*Other Asian countries*
	US $	*US $*	*US $*	*US $*
Cash and balances with banks	**44,952,910**	**123,701,693**	**5,708,211**	**14,057,800**
Sales receivables	**1,500,018**	**-**	**338,684,288**	**253,673,865**
Mudaraba financing	**7,604,883**	**-**	**28,626,755**	**-**
Ijara Muntahia Bittamleek	**19,352**	**-**	**57,865,685**	**32,163,605**
Musharaka	**4,480,000**	**-**	**4,155,121**	**52,238,249**
Investments	**91,662,515**	**44,465,974**	**31,251,252**	**210,451,809**
Investment properties	**2,941,561**	**-**	**-**	**-**
Ijara income receivables	**1,121,475**	**-**	**17,618,799**	**5,065,345**
Premises and equipment	**11,367,508**	**14,513,721**	**-**	**-**
Other assets	**503,133**	**22,234,753**	**5,247,169**	**11,012,893**
	166,153,355	**204,916,141**	**489,157,280**	**578,663,566**

* 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 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:

	30 June 2011			
	Self financed		*Financed by IAH*	
	Funded	*Unfunded*	*Funded*	*Unfunded*
	US $	*US $*	*US $*	*US $*
Cash items	**14,065,281**	**-**	**-**	**-**
Claims on Sovereigns	**105,227,123**	**-**	**241,508,336**	**-**
Claims on Public Sector Entities	**8,963,646**	**-**	**25,995,975**	**-**
Claims on banks	**96,059,256**	**63,078,939**	**242,848,993**	**-**
Claims on corporate	**12,064,103**	**114,829,355**	**457,197,616**	**-**
Mortgage	**-**	**-**	**40,402,284**	**-**
Past dues receivables	**1,140,829**	**-**	**41,892,130**	**-**
Equity investment	**67,780,254**	**-**	**290,901**	**-**
Investment in Funds	**14,208,422**	**-**	**-**	**-**
Holding of Real Estate	**22,636,624**	**-**	**9,091,163**	**-**
Other assets	**28,923,958**	**-**	**8,593,448**	**-**
	371,069,496	**177,908,294**	**1,067,820,846**	-

3 RISK MANAGEMENT (continued)

Table – 10. Credit risk – related party transactions

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

	30 June 2011	
	Self financed Funded US $	*Financed by IAH Funded US $*
Cash and balances with bank	-	62,409
Sales Receivable	-	11,626,400
Musharaka	-	277,276
Mudaraba Financing	7,663,686	27,931,926
Ijara Muntahia Bittamleek	-	108,642
Non trading Investments	63,673,835	607,222
Ijara Income Receivable	-	-
Other Assets	1,852	314,137
	71,339,373	40,928,012

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

The Group's intra-group transactions as of 30 June 2011 is its investment in subsidiary of USD 61,961 thousand and amount receivable of USD 1,113 thousand by the Bank from its subsidiary.

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2011:

Counterparties *	*Funded US $*
Counterparty # 1	193,717,698
Counterparty # 2	74,113,252
Counterparty # 3	47,817,664
Counterparty # 4	41,074,852
Counterparty # 5	39,312,745
Counterparty # 6	35,620,000
Counterparty # 7	28,498,342
Counterparty # 8	27,486,293
Counterparty # 9	25,844,453

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 3,4,6,7,8 & 9 comprise interbank exposures that are exempt as per the CBB rules.
Counterparty 1 & 5 comprises of exposures that the Group has obtained exemption from the CBB.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (continued)

73.1% of Group assets are financed by equity of IAH, while 26.9% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2011, broken down by major types of credit exposure:

	Up to 3 months US $	*3 to 6 months US $*	*6 months to 1 year US $*	*1 to 3 years US $*	*3 to 5 years US $*	*5 to 10 years US $*	*Over 10 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS									
Cash and balances with banks	140,451,996	-	-	-	-	-	-	47,968,618	188,420,614
Sales receivables	363,252,399	73,472,825	78,871,491	38,173,687	10,530,510	2,068,186	-	27,489,073	593,858,171
Mudaraba financing	25,733,509	2,366,527	1,786,849	6,344,753	-	-	-	-	36,231,638
Ijara Muntahia Bittamleek	4,611,010	5,078,272	10,009,940	40,660,929	10,390,499	8,029,260	10,502,565	766,167	90,048,642
Musharaka	9,551,096	10,328,605	5,372,219	10,438,773	3,106,493	2,472,665	1,917,382	17,686,137	60,873,370
Investments	8,933,203	2,349,097	17,989,068	244,694,248	98,052,212	4,813,722	1,000,000	-	377,831,550
Investment properties	2,941,561	-	-	-	-	-	-	-	2,941,561
Ijara income receivables	12,294,380	466,383	947,448	4,650,518	1,923,745	988,496	1,470,778	1,063,871	23,805,619
Premises and equipment	1,670,853	202,513	2,857,627	1,743,737	5,172,560	1,940,594	925,834	11,367,511	25,881,229
Goodwill	-	-	-	-	-	-	-	21,598,197	21,598,197
Other assets	14,427,559	1,680,274	3,036,099	2,091,281	10,687,450	139,249	-	6,936,036	38,997,948
Total assets	583,867,566	95,944,496	120,870,741	348,797,926	139,863,469	20,452,172	15,816,559	134,875,610	1,460,488,539
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS									
Due to banks and financial institutions	46,768,043	4,738,077	203,679	-	-	-	-	-	51,709,799
Current accounts	59,821,914	17,977,600	13,411,026	17,482,585	9,161,868	-	-	-	117,854,993
Other liabilities	19,727,422	3,565,447	6,734,576	5,693,502	679,424	307,890	-	-	36,708,261
Total liabilities	126,317,379	26,281,124	20,349,281	23,176,087	9,841,292	307,890	-	-	206,273,053
Equity of investment accountholders	540,643,470	161,593,048	235,845,878	76,336,375	50,902,589	2,499,486	-	-	1,067,820,846
Total owners' equity	-	-	-	-	-	-	-	186,394,640	186,394,640
Total liabilities, Equity of investment accountholders and owner's equity	666,960,849	187,874,172	256,195,159	99,512,462	60,743,881	2,807,376	-	186,394,640	1,460,488,539
Net gap	(83,093,283)	(91,929,676)	(135,324,418)	249,285,464	79,119,588	17,644,796	15,816,559	(51,519,030)	-
Cumulative net gap	(83,093,283)	(175,022,959)	(310,347,377)	(61,061,913)	18,057,675	35,702,471	51,519,030	-	-
Off-balance sheet equity of investment	61,468,202	7,756,391	-	11,596,481	107,094,383	-	-	-	187,915,457

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 or more days. 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 or more days, 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.

Table – 13. 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:

	30 June 2011				
			Aging of non performing facilities		
	Past due but performing US $	*Non-performing Islamic financing contracts US $*	*3-6 Months US $*	*6-12 Months US $*	*1 Year & above US $*
Banks	-	-	-	-	-
Corporates	**24,367,122**	**59,268,037**	**7,764,911**	**16,092,196**	**35,410,930**
Investment Firms	-	**37,372,445**	-	-	**37,372,445**
Residentials	**1,441,024**	**3,144,452**	**162,760**	**542,276**	**2,439,416**
	25,808,146	**99,784,934**	**7,927,671**	**16,634,472**	**75,222,791**

3 Credit risk (continued)

a) Credit risk (continued)

Table – 14. Credit Risk – provision against facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2011

		Specific allowances					
	Opening Balance	*Charges during the period*	*Write-Back during the period*	*Write-offs during the period*	*Transferred to investment risk reserve*	*Exchange difference on opening balance*	*Balance at the end of the period*
	US $	*US $*	*US $*	*US $*	*US $*	*US $*	*US $*
Corporates	**38,719,180**	**4,874,652**	**(12,989,141)**	**(1,714,592)**	**(1,339,857)**	**(105,976)**	**27,444,266**
Investment Firms	**22,556,464**	**-**	**-**	**-**	**-**	**-**	**22,556,464**
Residentials	**3,084,513**	**245,727**	**(18,717)**	**-**	**-**	**(711)**	**3,310,812**
	64,360,157	**5,120,379**	**(13,007,858)**	**(1,714,592)**	**(1,339,857)**	**(106,687)**	**53,311,542**

A collective provision of US $ 500 thousand is being maintained against financing facilities as at 30 June 2011.

Table – 15. Credit risk – non performing facilities and provisions

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

	30 June 2011	
	Non-performing Islamic financing contracts US $	*Specific provision US $*
Middle East	**53,641,040**	**31,175,375**
Other Asian	**46,143,894**	**22,136,167**
	99,784,934	**53,311,542**

A collective provision of US $ 500 thousand (31 December 2010: US $ 500 thousand) is being maintained against financing facilities as at 30 June 2011.

3 Credit risk (continued)

a) Credit risk (continued)

Table – 16. Credit risk – restructured Islamic financing contracts

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

	30 June 2011 Total US $
Restructured Islamic financing contracts	**11,957,183**

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 – 17. Counterparty credit risk exposure

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

	30 June 2011	
	Gross positive FV of contracts US $	** Collateral held US $*
Cash and balances with banks and financial institutions	**188,420,614**	**-**
Sales receivables	**593,858,171**	**593,858,171**
Mudaraba financing	**36,231,638**	**-**
Ijara Muntahia Bittamleek	**90,048,642**	**90,048,642**
Musharaka	**60,873,370**	**60,873,370**
Investments	**377,831,550**	**-**
Investment properties	**2,941,561**	**-**
Ijara income receivables	**23,805,619**	**-**
Premises and equipment	**25,881,229**	**-**
Other assets	**38,997,948**	**-**
	1,438,890,342	**744,780,183**

Table – 18. 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:

	30 June 2011	
	Gross positive FV of contracts US $	*Collateral held US $*
Ijara Muntahia Bittamleek & Ijara income receivable	**113,854,261**	**45,050,572**

b) Market risk

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

Table – 19. Market risk capital requirements

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

	30 June 2011	
	Equity position risk US $	*Foreign exchange risk US $*
RWE	**6,912,838**	**67,192,195**
Capital requirements (12%)	**829,541**	**8,063,063**
Maximum value of RWE	**6,986,290**	**67,192,195**
Minimum value of RWE	**6,912,838**	**67,004,080**

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. 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 2011:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk*	**294,937,110**	**296,701,074**	**231,923,597**	**63,013,513**	**1,989,211**
Managed funds	**11,183,522**	**11,373,685**	**11,059,579**	**123,943**	**1,342,022**
Private equity	**64,664,736**	**64,819,820**	**32,749**	**64,631,987**	**11,618,268**
Real estate related	**2,098,843**	**2,243,211**	**-**	**2,098,843**	**377,792**
Others	**1,490,920**	**1,490,920**	**-**	**1,490,920**	**59,346**
	374,375,131	**376,628,710**	**243,015,925**	**131,359,206**	**15,386,639**

* Includes equity based and debt based financing structures as of 30 June 2011.

Table – 21. 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 2011 US $
Cumulative realised (losses) gains arising from sale or liquidation	**(18,508)**
Total unrealized (losses) gains recognized in the statement of financial position but not through P&L	**(5,084,678)**
Unrealized gross losses included in Tier One Capital	**(5,390,644)**
Unrealized gains included in Tier Two Capital (45% only)	**149,063**

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Table – 22. Foreign currency translation risk

Following is the Group's exposure to different currencies in equivalent US dollars:

	30 June 2011		
	Operational equivalent Long (short) US $	***Strategic equivalent Long (short) US $***	***Total equivalent Long (short) US $***
Pakistani Rupees	**21,598,197**	**40,362,637**	**61,960,834**
Euro	**3,085,429**	**-**	**3,085,429**
Pound Sterling	**2,099,424**	**-**	**2,099,424**

The strategic currency risk represents the amount of equity of the subsidiary

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

Table – 23. Foreign currency risk sensitivity analysis

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of equity relating to the Group's investment in subsidiary. The impact of a similar increase in exchange rates will be approximately opposite to the impact disclosed below.

At 30 June 2011

Currency	**Particular**	***Exposures in US$ '000***	***Variance %***	***Change in net income and equity US$ '000***
Pakistani Rupees	Net Income	2,007,125	**(15%)**	(261,799)
	Total Equity	2,698,605	**(15%)**	(351,992)

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders

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.

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).

Penalty charges and Non Shari’a - compliant income
A financial penalty of US $ 1.5 thousand was charged by SBP to the Group's subsidiary in Pakistan during the period.

The Group charged US $ 34 thousand to customers as penalty for default which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 24. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	30 June 2011 US $
IAH - Banks	**297,932,839**
IAH - Non-banks	**766,213,570**
Profit equalisation reserve	**987,870**
Investment risk reserve	**2,686,567**
	1,067,820,846

Table – 25. Ratio of reserves to total IAH

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

	30 June 2011 US $
PER to IAH (%)	**0.09%**
IRR to IAH (%)	**0.25%**

Table – 26. 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:

	30 June 2011
Sales receivable	**74.97%**
Mudaraba investments	**3.62%**
Musharaka	**7.14%**
Ijara Muntahia Bittamleek & Ijara income receivable	**14.27%**

Table – 27. 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	*30 June 2011*
Banks	**27.90%**
Investment Firms	**0.48%**
Corporates	**35.69%**
Residentials	**11.73%**
Others	**24.19%**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. 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 period ended:

	30 June 2011
Administrative expenses charged to equity of investment accountholders holders	**1,334,071**
Share of profits earned by IAH, before transfers to/from reserves	**40,233,164**
Percentage share of profit earned by IAH before transfer to/from reserves	**3.93%**
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**32,447,472**
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**3.17%**
Share of profit paid out to Bank as mudarib	**7,573,385**
Mudarib Fee to total Investment Profits	**18.82%**

Table – 29. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the period ended:

	30 June 2011 US $
Balance at 1 January	**965,311**
Amount apportioned from income allocable to equity of Investment Accountholders	**22,559**
Amount utilised during the period	**-**
	987,870
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.06%**

Table – 30. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the period ended:

	30 June 2011 US $
Balance at 1 January	**1,156,962**
Amount apportioned from income allocable to equity of Investment Accountholders	**189,748**
Write-Back of provision against sales receivables	**1,339,857**
	2,686,567
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**0.47%**

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is upto a maximum of 70% (2010: upto 60%) as per the terms of IAH agreements.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average 2011 Rate of return %	
	Bahrain	*Pakistan*
Saving Accounts	**0.81%**	**5.50%**
One Month Term Deposits	**1.92%**	**6.50%**
Three Months Term Deposits	**1.98%**	**7.50%**
Six Months Term Deposits	**2.18%**	**8.25%**
Nine Months Term Deposits	**2.92%**	**-**
1 Year Term Deposits	**3.04%**	**10.00%**
2 Years Term Deposits	**3.69%**	**10.25%**

Table – 32. 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 period ended 30 June 2011:

	Opening Actual Allocation US$	*Movement US$*	*Closing Actual Allocation US$*
Cash and balances with banks	**143,030,910**	**(123,264,899)**	**19,766,011**
Sales receivable	**499,487,160**	**92,870,993**	**592,358,153**
Mudaraba financing	**15,775,600**	**12,851,155**	**28,626,755**
Ijara Muntahia Bittamleek	**93,046,568**	**(3,017,278)**	**90,029,290**
Musharaka	**51,111,079**	**5,282,291**	**56,393,370**
Investments	**92,493,500**	**149,209,561**	**241,703,061**
Ijara income receivables	**17,887,273**	**4,796,871**	**22,684,144**
Other assets	**45,116,232**	**(28,856,170)**	**16,260,062**
	957,948,322	**109,872,524**	**1,067,820,846**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 33. 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 (six months)	**40,233,164**	***7.85%**	**32,447,472**	***6.33%**
2010	45,896,366	6.25%	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%

* Annualised

Table - 34. 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 30 June 2011:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**22,087,520**	**6,626,256**	**795,151**
Claims on PSEs	**631,871**	**189,561**	**22,747**
Claims on Banks	**105,241,863**	**31,572,559**	**3,788,707**
Claims on Corporates	**422,840,041**	**126,852,012**	**15,222,241**
Mortgage	**35,184,296**	**10,555,289**	**1,266,635**
Past due facilities	**50,279,690**	**15,083,907**	**1,810,069**
Investment in securities	**419,977**	**125,993**	**15,119**
Holding of Real Estates	**18,182,326**	**5,454,698**	**654,564**
Other Assets	**8,593,449**	**2,578,035**	**309,364**
	663,461,033	**199,038,310**	**23,884,597**

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

Table – 35. 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 financing contracts as of:

Islamic products	*30 June 2011*
Sales receivables	**85.97%**
Mudaraba financing	**7.85%**
Investments	**6.17%**

Table – 36. 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	*30 June 2011*
Banks	**13.03%**
Corporate	**86.97%**

Table – 37. 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 period ended 30 June 2011:

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
Sales receivables	**157,477,950**	**4,080,342**	**161,558,292**
Mudaraba financing	**13,520,253**	**1,240,431**	**14,760,684**
Investments	**11,902,902**	**(306,421)**	**11,596,481**
	182,901,105	**5,014,352**	**187,915,457**

3 RISK MANAGEMENT (continued)

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

Table – 38. Off-balance sheet equity of Investment Accountholders historical returns

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

	June 2011	*Dec 2010*	*Dec 2009*	*Dec 2008*	*Dec 2007*
Gross Income	**188,762**	2,756,802	1,116,995	5,736,106	6,526,706
Mudarib Fee	**36,902**	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.

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.

Table – 39. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30 June 2011
Liquid assets to total assets	**25.6%**
Short term assets to short term liabilities	**72.1%**

Table – 40. Quantitative indicators of financial performance and position

	June 2011*	*Dec 2010**	*Dec 2009*	*Dec 2008*	*Dec 2007*
Return on average equity	**3.7%	2.8%	-15.5%	1.3%	2.2%
Return on average assets	**0.5%	0.5%	-2.7%	0.2%	0.4%
Cost to Income Ratio	86.1%	75.3%	103.5%	80.1%	75.7%

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

4 OTHERS

Table – 41. Legal Contingencies

	30 June 2011
Law suits (a) & (b)	**2,734,359**

Law Suits

a) Al Baraka Bank (Pakistan) Limited entered into agreement with Mr. Furqan A. Sheikh for the exchange of its property situated at Main Khayaban-e-Tanzeem, Phase V, DHA, Karachi with a building to be constructed in Modern Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi by 31 March 2010. Al Baraka Bank (Pakistan) Limited has also paid US $ 0.3 million as an advance against such building. The building situated at Main Khayaban-e-Tanzeem is not in the possession of the Al Baraka Bank (Pakistan) Limited and it considers that as the construction work on the Modern Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi has not been completed on the said date, the said agreement stands cancelled and hence the amount paid shall be either refunded to Al Baraka Bank (Pakistan) Limited or adjusted against future rental payments for the above referred property.

During the year ended 2010, a law suit was filed by Mr. Furqan A. Sheikh against Al Baraka Bank (Pakistan) Limited seeking appointment of arbitrator for the execution of agreement between Mr. Furqan A. Sheikh and Al Baraka Bank (Pakistan) Limited as referred above. The management, based on the opinion of its legal consultant is confident that the case will be decided in the favor of Al Baraka Bank (Pakistan) Limited and hence no provision has been considered necessary in these consolidated financial statements in respect of loss on exchange of property amounting to US $ 2.45 million that may be crystallized upon the implementation of the above referred property exchange agreement or on account of non-refund of the advance paid by Al Baraka Bank (Pakistan) Limited.

b) During the year ended 2010, a constitutional petition and certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against Al Baraka Bank (Pakistan) Limited wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of Al Baraka Bank (Pakistan) Limited at an aggregate value of US $ 3.5 million as sale consideration against the commercial property sold to the Al Baraka Bank (Pakistan) Limited. He further claimed that in addition to the said property, he has also paid US $ 0.7 million towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by him. Based on the above, Mr. Vawda has alleged that Al Baraka Bank (Pakistan) Limited is involved in illegal business and has requested the Court to direct the SBP to refrain from according approval / sanction to the merger discussed in note 1. Al Baraka Bank (Pakistan) Limited contends that the aforesaid allegations of Mr. Vawda are baseless and without any merit and that the subject property has been duly purchased and paid for by Al Baraka Bank (Pakistan) Limited. Further, in the opinion of legal advisor of Al Baraka Bank (Pakistan) Limited, the petitioner is not likely to be successful in securing the reliefs requested in the said petitions.