

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

**Basel II, Pillar III Disclosures
30 June 2010**

(Unaudited)

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

Basel II, Pillar III Disclosures

for the period ended 30 June 2010 (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 five 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 financing, 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

To assess its capital adequacy requirements in accordance to the CBB requirements, the Bank adopts the Standardized Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the bank identify and approve assets suitable for funding by URIA.

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

	30 June 2010		31 December 2009	
	Tier 1 US \$	Tier 2 US \$	Tier 1 US \$	Tier 2 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	21,111,106	-	21,111,106	-
Others Surplus	(7,368,450)	-	(7,200,995)	-
Retained profit brought forward	8,963,484	-	8,963,484	-
Less:				
Unrealised gross losses arising from fair valuing equity securities	2,021,813	-	2,251,574	-
Current interim cumulative net losses	254,863	-	-	-
Tier 1 Capital before PCD deductions	151,574,407	-	151,766,964	-
Unrealised gain arising from fair valuing equities (45% only)		671,330		663,912
Profit equalization reserve		747,636		541,448
Investment risk reserve		2,286,430		2,102,538
Tier 2 Capital before PCD deductions		3,705,396		3,307,898
Total available capital		155,279,803		155,074,862
Deductions				
Excess amount over maximum permitted large exposure limit	(29,463,840)	(29,463,840)	(30,658,599)	(30,658,599)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(25,758,444)	-	(27,350,701)	-
Total Deductions	(55,222,284)	(29,463,840)	(58,009,300)	(30,658,599)
Tier 1 and Tier 2 eligible capital	96,352,123		93,757,664	
Total Eligible Capital		96,352,123		93,757,664

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

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

Type of Islamic Financing Contracts	30 June 2010	31 December 2009
	Capital requirements	Capital requirements
	US \$	US \$
Sales receivables	13,080,596	13,767,417
Ijara Muntahia Bittamleek & Ijara income receivable	2,379,536	1,229,125
Musharaka investments	1,045,985	1,034,677
Mudaraba investments	1,103,680	1,988,892
	17,609,797	18,020,111

Market risk

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

Profit rate risk

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.

Displaced Commercial Risk

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

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.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

Table – 3. Capital requirement for market risk

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

	30 June 2010		31 December 2009	
	Self Financed US \$	PSIA US \$	Self Financed US \$	PSIA US \$
Market Risk - Standardised Approach				
Equity position risk	316,126	-	148,548	-
Foreign exchange risk	746,117	385,643	794,441	173,590
Total of Market Risk - Standardised Approach	1,062,243	385,643	942,989	173,590
Multiplier	12.5	12.5	12.5	12.5
	13,278,038	4,820,538	11,787,363	2,169,875
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	13,278,038	1,446,161	11,787,363	650,963
Total Market RWE		14,724,199		12,438,326
Minimum Capital Requirement (12%)		1,766,904		1,492,599

2 Capital Adequacy (continued)

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:

	<i>30 June 2010</i>	<i>31 December 2009</i>
	<i>US \$</i>	<i>US \$</i>
Indicators of operational risk		
Average Gross income	54,058,871	54,058,871
Multiplier	12.5	12.5
	675,735,888	675,735,888
Eligible Portion for the purpose of the calculation	15%	15%
Total Operational RWE	101,360,383	101,360,383
Minimum Capital Requirement (12%)	12,163,246	12,163,246

2 Capital Adequacy (continued)

Table – 5. Capital Adequacy Ratios

The following are Capital Adequacy Ratios for total capital and Tier 1 capital as of:

Capital Adequacy Ratio

	<i>30 June 2010</i>		<i>31 December 2009</i>	
	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>
	Tier 1 capital			
Total capital ratio		ratio	Total capital ratio	Tier 1 capital ratio
	22.65%	22.65%	22.25%	22.25%

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3 Risk Management

3.1 Credit Risk

Table – 6. 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 2010				31 December 2009			
	Own capital and current account		Profit Sharing Investment Account (PSIA)		Own capital and current account		Profit Sharing Investment Account (PSIA)	
	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 \$	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 Exposure								
Cash and balances with banks	104,221,095	93,559,667	74,297,262	87,059,545	101,944,538	95,586,137	129,322,608	112,882,682
Sales receivables	14,460,228	29,521,777	391,340,636	369,164,215	39,674,325	38,970,608	394,562,450	407,236,353
Mudaraba financing	14,386,963	15,330,727	15,289,252	8,144,626	16,274,096	16,314,868	1,000,000	1,566,250
Ijara Muntahia Bittamleek	1,086,919	1,462,173	73,721,413	62,437,314	3,197,862	3,858,072	43,579,906	44,076,140
Musharaka financing	4,480,000	4,480,000	15,779,902	15,618,179	4,480,000	4,480,000	15,951,126	16,651,699
Investments	102,764,852	103,676,904	40,952,974	38,644,992	104,705,623	107,446,947	33,854,510	34,396,478
Investment properties	1,480,206	1,480,206	-	-	1,368,226	1,778,104	-	-
Ijara income receivables	1,053,569	1,127,472	13,446,683	11,576,759	1,318,716	2,016,378	8,508,322	9,228,080
Premises and equipment	14,189,835	13,869,691	-	-	13,387,943	12,759,684	-	-
Other assets	7,699,525	7,151,511	9,747,692	9,949,812	7,088,323	7,142,099	9,675,223	9,810,429
Unfunded Exposure								
Contingencies and commitments	116,753,814	113,551,863	-	-	91,095,839	75,320,572	-	-
	382,577,006	385,211,991	634,575,814	602,595,442	384,535,491	365,673,469	636,454,145	635,848,111

*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 primary segment adopted by the Bank is geographic, since the Bank 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 Branch's operations in Pakistan.

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

	30 June 2010				31 December 2009			
	Own capital and current account		Profit Sharing Investment Account (PSIA)		Own capital and current account		Profit Sharing Investment Account (PSIA)	
	*Geographic area		*Geographic area		*Geographic area		*Geographic area	
	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries
	US \$	US \$	US \$	US \$	US \$	US \$	US \$	US \$
Cash and balances with banks	32,510,995	71,710,100	17,584,273	56,712,989	34,287,728	67,672,185	59,051,049	70,256,184
Sales receivables	14,460,228	-	209,942,167	181,398,469	39,674,325	-	258,214,204	136,348,246
Mudaraba financing	14,386,963	-	15,289,252	-	16,274,096	-	1,000,000	-
Ijara Muntahia Bittamleek	1,086,919	-	58,495,845	15,225,568	3,197,862	-	27,155,056	16,424,850
Musharaka financing	4,480,000	-	273,262	15,506,640	4,480,000	-	289,311	15,661,815
Investments	93,339,813	9,425,039	30,319,171	10,633,803	95,110,086	9,595,537	22,904,161	10,950,349
Investment properties	1,480,206	-	-	-	1,368,226	-	-	-
Ijara income receivables	1,053,569	-	10,391,090	3,055,593	1,318,716	-	5,053,492	3,454,830
Premises and equipment	12,149,323	2,040,512	-	-	11,158,756	2,229,187	-	-
Other assets	6,204,980	1,494,545	-	9,747,692	5,449,286	1,623,662	-	9,690,598
	181,152,996	84,670,196	342,295,060	292,280,754	212,319,081	81,120,571	373,667,273	262,786,872

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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 by counterparty type as of:

	30 June 2010				31 December 2009			
	Own capital and current account		Profit Sharing Investment Account (PSIA)		Own capital and current account		Profit Sharing Investment Account (PSIA)	
	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
	US \$	US \$	US \$	US \$	US \$	US \$	US \$	US \$
Cash items	10,680,677	-	-	-	9,747,395	-	-	-
Claims on Sovereigns	62,326,250	-	21,185,228	-	44,149,875	-	12,998,015	-
Claims on Public Sector Entities	9,607,416	-	74,416,382	-	11,105,942	-	34,847,152	-
Claims on banks	44,787,113	18,237,954	139,900,053	-	71,973,917	25,581,869	219,710,759	-
Claims on corporate	20,678,166	98,515,860	311,511,622	-	32,236,359	65,513,970	308,214,631	-
Mortgage	-	-	21,518,053	-	-	-	7,588,534	-
Past dues receivables	1,517,989	-	38,517,613	-	4,209,252	-	27,173,164	-
Equity investment	75,168,092	-	-	-	74,120,729	-	-	-
Equity Sukuk	16,070	-	503,536	-	166,737	-	852,868	-
Investment in Funds	15,004,328	-	599,230	-	14,774,567	-	599,230	-
Holding of Real Estate	15,235,191	-	16,676,410	-	16,715,179	-	14,794,569	-
Other assets	10,801,900	-	9,747,687	-	14,239,700	-	9,675,223	-
	265,823,192	116,753,814	634,575,814	-	293,439,652	91,095,839	636,454,145	-

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 9. Credit Risk – Related Party Transactions

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

	30 June 2010		31 December 2009	
	<i>Own capital and current account</i> <i>Funded US \$</i>	<i>Profit Sharing Investment</i> <i>Account (PSIA)</i> <i>Funded US \$</i>	<i>Own capital and current account</i> <i>Funded US \$</i>	<i>Profit Sharing Investment</i> <i>Account (PSIA)</i> <i>Funded US \$</i>
Cash and balances with banks and financial institutions	-	61,818	-	152,174
Sales receivable	2,145,764	2,597,462	2,057,150	2,644,656
Mudaraba financing	13,920,504	15,082,712	16,274,096	-
Ijara Muntahia Bittamleek	-	968,665	-	1,197,628
Investments	74,631,510	304,900	74,631,510	304,900
Ijara income receivables	-	285,337	-	300,440
Other Assets	409,338	700,813	431,884	564,687
	91,107,116	20,001,707	93,394,640	5,164,485

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

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 10. Credit Risk – Concentration of Risk

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

Following balances representing the concentration of risk to individual counterparties as of 30 June 2010:

Counterparties *	<i>Funded</i> <i>US \$</i>
Counterparty # 1	86,336,857
Counterparty # 2	49,981,561
Counterparty # 3	46,778,647
Counterparty # 4	33,238,351
Counterparty # 5	25,318,964
Counterparty # 6	20,346,928

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

Counterparty 2,3,4,5 & 6 comprise exposures that are exempt as per CBB rules.

Following balances representing the concentration of risk to individual counterparties as of 31 December 2009:

Counterparties *	<i>Funded</i> <i>US \$</i>
Counterparty # 1	88,840,514
Counterparty # 2	63,864,608
Counterparty # 3	40,174,938
Counterparty # 4	40,055,433
Counterparty # 5	37,030,328
Counterparty # 6	23,704,392

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

Counterparty 2,3,4,5 & 6 comprise 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

70.5% of Bank assets are funded by Profit sharing investment Accounts, while 29.5% 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 2010, broken down by major types of credit exposure as of:

	<i>Maturity breakdown</i>								<i>Total</i> US \$
	<i>Up to 3</i> <i>months</i> US \$	<i>3 to 6</i> <i>months</i> US \$	<i>6 months</i> <i>to 1 year</i> US \$	<i>1 to 3</i> <i>years</i> US \$	<i>3 to 5</i> <i>years</i> US \$	<i>5 to 10</i> <i>years</i> US \$	<i>Over</i> <i>10 years</i> US \$	<i>No fixed</i> <i>maturity</i> US \$	
Assets									
Cash and balances with banks	151,314,381	-	-	-	-	-	-	27,203,976	178,518,357
Sales receivables	211,079,725	68,307,922	60,951,405	36,736,702	21,405,598	7,319,512	-	-	405,800,864
Mudaraba financing	15,082,711	-	673,000	13,862,244	58,260	-	-	-	29,676,215
Ijara Muntahia Bittamleek	3,181,463	2,804,779	11,829,447	22,432,423	20,006,030	6,253,820	8,300,370	-	74,808,332
Musharaka financing	5,491,064	2,128,971	1,035,652	6,006,934	1,072,409	4,524,872	-	-	20,259,902
Investments	9,125,038	10,855,736	5,766,275	37,833,926	78,699,403	-	1,000,000	437,448	143,717,826
Investment properties	1,480,206	-	-	-	-	-	-	-	1,480,206
Ijara income receivables	13,631,920	-	523,818	344,514	-	-	-	-	14,500,252
Premises and equipment	-	-	-	-	-	-	-	14,189,835	14,189,835
Other assets	10,942,874	765,837	3,743,738	1,842,462	-	152,306	-	-	17,447,217
Total Assets	421,329,382	84,863,245	84,523,335	119,059,205	121,241,700	18,250,510	9,300,370	41,831,259	900,399,006
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to banks and financial institutions	24,568,657	-	-	-	-	-	-	-	24,568,657
Current accounts	64,363,906	-	-	-	-	-	-	-	64,363,906
Other liabilities	8,932,938	1,774,580	6,437,061	2,336,415	513,762	516,194	-	-	20,510,950
Total liabilities	97,865,501	1,774,580	6,437,061	2,336,415	513,762	516,194	-	-	109,443,513
Unrestricted investment accounts	323,674,250	70,557,871	133,773,207	20,526,522	86,043,964	-	-	-	634,575,814
Total equity	-	-	-	-	-	-	-	156,379,679	156,379,679
Total liabilities, unrestricted investment accounts and equity	421,539,751	72,332,451	140,210,268	22,862,937	86,557,726	516,194	-	156,379,679	900,399,006
Net gap	(210,369)	12,530,794	(55,686,933)	96,196,268	34,683,974	17,734,316	9,300,370	(114,548,420)	-
Cumulative net gap	(210,369)	12,320,425	(43,366,508)	52,829,760	87,513,734	105,248,050	114,548,420	-	-
Restricted Investment Accounts	137,131,588	5,042,243	-	16,703,389	105,332,500	-	-	-	264,209,720

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 11. Credit Risk – Residual Contractual Maturity Breakdown (continued)

68.5% of Bank assets are funded by Profit sharing investment Accounts, while 31.5% 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 31 December 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	204,063,169	-	-	-	-	-	-	27,203,977	231,267,146
Sales receivables	254,840,282	72,679,228	33,875,350	38,696,050	29,807,132	3,774,763	563,970	-	434,236,775
Mudaraba financing	1,000,000	-	-	16,216,325	57,771	-	-	-	17,274,096
Ijara Muntahia Bittamleek	3,364,682	2,364,372	11,613,717	20,386,163	4,554,389	3,140,900	1,353,545	-	46,777,768
Musharaka financing	1,005,996	5,217,361	5,418,193	3,164,843	1,105,564	4,519,169	-	-	20,431,126
Investments	11,747,538	-	7,259,722	41,885,191	76,667,682	-	1,000,000	-	138,560,133
Investment properties	1,368,226	-	-	-	-	-	-	-	1,368,226
Ijara income receivables	7,834,649	318,057	118,360	1,065,978	265,823	119,563	104,608	-	9,827,038
Premises and equipment	-	-	-	-	-	-	-	13,387,943	13,387,943
Other assets	9,895,016	1,205,170	1,917,599	2,195,392	187,365	-	-	1,363,004	16,763,546
Total Assets	495,119,558	81,784,188	60,202,941	123,609,942	112,645,726	11,554,395	3,022,123	41,954,924	929,893,797
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to banks and financial institutions	44,445,050	-	-	3,375,800	-	-	-	-	47,820,850
Current accounts	71,211,624	-	-	-	-	-	-	-	71,211,624
Other liabilities	7,103,902	1,242,908	6,108,552	2,238,833	1,122,920	-	-	-	17,817,115
Total liabilities	122,760,576	1,242,908	6,108,552	5,614,633	1,122,920	-	-	-	136,849,589
Unrestricted investment accounts	382,182,784	84,529,297	77,162,561	21,507,957	71,071,546	-	-	-	636,454,145
Total equity	-	-	-	-	-	-	-	156,590,063	156,590,063
Total liabilities, unrestricted investment accounts and equity	504,943,360	85,772,205	83,271,113	27,122,590	72,194,466	-	-	156,590,063	929,893,797
Net gap	(9,823,802)	(3,988,017)	(23,068,172)	96,487,352	40,451,260	11,554,395	3,022,123	(114,635,139)	-
Cumulative net gap	(9,823,802)	(13,811,819)	(36,879,991)	59,607,361	100,058,621	111,613,016	114,635,139	-	-
Restricted Investment Accounts	63,090,563	4,330,421	6,600,000	22,170,828	106,143,736				202,335,548

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3 Risk Management (continued)

3.1 Credit Risk (continued)

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

The Bank 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 recognized to the extent that it is actually received/distributed. It is the Bank's policy, except for Pakistan branches which are 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 instalments/payments.

The following table summarises the total non performing facilities and provisions disclosed by counterparty type as of 30 June 2010:

	<i>Own capital and current account</i>								
	<i>Non- performing Islamic financing contracts US \$</i>	<i>Aging of Non performing facilities</i>			<i>Specific provisions</i>				
		<i>3-6 Months Days US \$</i>	<i>6-12 Months Days US \$</i>	<i>1 Year & above Days US \$</i>	<i>Opening Balance US \$</i>	<i>Charges during the period US \$</i>	<i>Write-Back during the period US \$</i>	<i>Write-offs during the the period US \$</i>	<i>* Balance at the end of the period US \$</i>
Claims on corporates / banks	79,408,845	17,935,106	5,232,696	56,241,043	39,371,605	937,891	(640,607)	(172,462)	39,496,427
	79,408,845	17,935,106	5,232,696	56,241,043	39,371,605	937,891	(640,607)	(172,462)	39,496,427

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 12. Credit Risk – Non performing facilities and Provisions (continued)

The following table summarises the total non performing facilities and provisions disclosed by counterparty type as of 31 December 2009:

	Own capital and current account								
	Non-performing Islamic financing contracts	Aging of Non performing facilities			Specific provisions				
		3-6 Months Days	6-12 Months Days	1 Year & above Days	Opening Balance	Charges during the period	Write-Back during the period	Write-offs during the period	* Balance at the end of the period
	US \$	US \$	US \$	US \$	US \$	US \$	US \$	US \$	US \$
Claims on corporates / banks	71,313,848	2,061,646	51,576,337	17,675,865	19,809,363	28,182,381	(3,417,069)	(5,203,070)	39,371,605
	71,313,848	2,061,646	51,576,337	17,675,865	19,809,363	28,182,381	(3,417,069)	(5,203,070)	39,371,605

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 2010		31 December 2009	
	Non-performing Islamic financing contracts US \$	Specific provision US \$	Non-performing Islamic financing contracts US \$	Specific provision US \$
Middle East	63,404,880	29,490,044	56,778,856	29,902,508
Other Asian countries	16,003,965	10,006,383	14,534,992	9,469,097
	79,408,845	39,496,427	71,313,848	39,371,605

3 Risk Management (continued)

3.1 Credit Risk (continued)

Credit Risk – Highly leveraged counterparties

Highly leveraged counterparties are determined by the Bank's Credit Department on case by case basis according to industry types and credit policies and procedures of the Bank. 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 our Internal Rating / Grading of the customer.

Table – 14. Credit Risk – Restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that have been restructured during the period ended:

	<i>30 June 2010 Total US \$</i>	<i>31 December 2009 Total US \$</i>
Restructured Islamic financing contracts	-	3,161,304

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.

Credit Risk – Non-Islamic Income

The Bank is committed to avoid recognising any income generated from non-islamic sources. Accordingly, all non-islamic income of USD 44,434 (2009: USD 297,803) has been credited to a charity fund where the bank uses these funds for social welfare activities.

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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 2010		31 December 2009	
	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 institutions	178,518,357	-	231,267,146	-
Sales receivables	405,800,864	276,670,290	434,236,775	237,943,712
Mudaraba financing	29,676,215	-	17,274,096	-
Ijara Muntahia Bittamleek	74,808,332	67,079,008	46,777,768	53,281,261
Musharaka financing	20,259,902	20,027,627	20,431,126	20,183,191
Investments	143,717,826	-	138,560,133	-
Investment properties	1,480,206	-	1,368,226	-
Ijara income receivables	14,500,252	-	9,827,038	-
Premises and equipment	14,189,835	-	13,387,943	-
Other assets	17,447,217	-	16,763,546	-
	900,399,006	363,776,925	929,893,797	311,408,164

* Collateral are restricted to exposure amount of financing facilities.

Table – 16 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 2010		31 December 2009	
	Gross positive FV of contracts US \$	Collateral held US \$	Gross positive FV of contracts US \$	Collateral held US \$
Ijara Muntahia Bittamleek & Ijara income receivable	89,308,584	36,475,185	56,604,806	29,581,303

3.2 Market Risk

Table – 17. Market Risk Capital Requirements

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

	30 June 2010		31 December 2009	
	Equity position risk US \$	Foreign exchange risk US \$	Equity position risk US \$	Foreign exchange risk US \$
Risk weighted exposure (RWE)	3,951,572	10,772,631	1,856,850	10,581,470
Capital requirements (12%)	474,189	1,292,716	222,822	1,269,776
Maximum value of RWE	3,951,573	12,779,171	3,929,425	15,246,585
Minimum value of RWE	2,619,645	10,772,631	1,856,850	10,581,470

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3 Risk Management (continued)

3.3 Equity Positions in the banking book

Table – 18. 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 2010:

	<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>
Sukuk	51,646,444	50,268,479	-	51,646,444	2,241,943
Equity Investment	79,480,135	79,661,935	-	79,480,135	13,986,275
Funds	10,615,463	10,748,679	10,615,463	-	1,236,628
	141,742,042	140,679,093	10,615,463	131,126,579	17,464,846

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 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	47,375,585	48,043,898	-	47,375,585	2,717,544
Equity Investment	79,843,735	80,480,558	-	79,843,735	14,045,029
Funds	10,412,388	11,761,222	10,412,388	-	1,205,532
	137,631,708	140,285,678	10,412,388	127,219,320	17,968,105

Table – 19. 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 2010	31 December 2009
	US \$	US \$
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	2,783,459	2,571,525
Unrealized gross losses included in Tier One Capital	(2,021,812)	(2,251,574)
Unrealized gains included in Tier Two Capital (45% only)	671,330	663,912

3 Risk Management (continued)

3.4 Unrestricted Investment Accounts (“URIA”)

Table – 20. Unrestricted Investment Account

The following table summarises the breakdown of unrestricted investment accounts as of:

	30 June 2010	31 December 2009
	US \$	US \$
URIA - Banks	193,689,960	92,686,261
URIA - Non-banks	437,851,788	541,123,898
Profit equalisation reserve (PER)	747,636	541,448
Investment risk reserve (IRR)	2,286,430	2,102,538
	634,575,814	636,454,145
PER to URIA (%)	0.12%	0.09%
IRR to URIA (%)	0.36%	0.33%

Table – 21. Unrestricted Investment Account by Islamic Financing product type

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

	30 June 2010	31 December 2009
Sales receivable	76.80%	85.11%
Mudaraba investments	3.00%	0.22%
Musharaka investments	3.10%	3.44%
Ijara Muntahia Bittamleek & Ijara income receivable	17.11%	11.24%

Table – 22. Unrestricted Investment Account by Counterparty Type

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

Counterparty type

	30 June 2010	31 December 2009
Banks	13.49%	20.93%
Investment Firms	6.51%	8.88%
Corporates	60.67%	68.55%
Residentials	19.32%	1.64%

Table – 23. 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 2010	30 June 2009
Administrative expenses charged to Unrestricted Investment Account Holders	305,660	401,286
Share of profits earned by IAH, before transfers to/from reserves	22,486,561	23,009,030
Percentage share of profit earned by IAH before transfer to/from reserves	3.73%	3.51%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	15,311,968	18,684,951
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	2.54%	2.85%
Share of profit paid out to Bank as mudarib	6,784,512	4,078,431
Mudarib Fee to Total Investment Profits	30%	18%

3 Risk Management (continued)

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

Table – 24. 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 2010		31 December 2009	
	Profit Equalisation Reserve US \$	Investment Risk Reserve US \$	Profit Equalisation Reserve US \$	Investment Risk Reserve US \$
Opening Balance	541,448	2,102,538	479,489	1,680,288
Amount appropriated	236,188	183,892	61,959	422,250
Amount utilized	(30,000)	-	-	-
Closing Balance	747,636	2,286,430	541,448	2,102,538

Table – 25. 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 2010:

	3 month	6 month	12 month	36 month
Percentage of average declared rate of return to profit rate of return				
Bahrain Operations	0.35%-3.60%	0.62%-4.50%	0.66%-5.00%	0.75%-6.00%
Pakistan Operations	8.1%	8.8%	10.2%	11.1%

The following table summarises the average declared rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2009:

	3 month	6 month	12 month	36 month
Percentage of average declared rate of return to profit rate of return				
Bahrain Operations	1.3%-3.6%	1.3%-3.9%	1.4%-4.3%	4.8%
Pakistan Operations	8.2%	8.9%	10.4%	11.6%

Table – 26. 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 and the changes in the asset allocation in the six month ended 30 June 2010:

	Opening Actual Allocation US\$	Movement US\$	Closing Actual Allocation US\$
Cash and balances with banks	129,322,608	(55,025,346)	74,297,262
Sales receivable	394,562,450	(3,221,814)	391,340,636
Mudaraba financing	1,000,000	14,289,252	15,289,252
Ijara Muntahia Bittamleek	43,579,906	30,141,507	73,721,413
Musharaka financing	15,951,126	(171,224)	15,779,902
Investments	33,854,510	7,098,464	40,952,974
Ijara income receivables	8,508,322	4,938,361	13,446,683
Other assets	9,675,223	72,469	9,747,692
	636,454,145	(1,878,331)	634,575,814

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3 Risk Management (continued)

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

Table – 26. Unrestricted Investment Account 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 2009;

	<i>Opening Actual Allocation US\$</i>	<i>Movement US\$</i>	<i>Closing Actual Allocation US\$</i>
Cash and balances with banks	121,382,597	7,940,011	129,322,608
Sales receivable	371,595,801	22,966,649	394,562,450
Mudaraba financing	1,000,000	-	1,000,000
Ijarah Muntahia Bittamleek	42,952,089	627,817	43,579,906
Musharaka financing	16,446,683	(495,557)	15,951,126
Investments	31,874,673	1,979,837	33,854,510
Ijarah income receivables	11,093,935	(2,585,613)	8,508,322
Other assets	9,537,728	137,495	9,675,223
	605,883,506	30,570,639	636,454,145

Table – 27. 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>
2010 (six months)	22,486,561	* 7.08%	15,311,968	* 4.82%
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

3.5 Restricted Investment Accounts (“RIA”)

Table – 28. Restricted Investment Account by Islamic product type

The following table summarises the breakdown of restricted investment accounts as of:

Islamic Products

	<i>30 June 2010</i>	<i>31 December 2009</i>
Sales receivables	91.54%	85.51%
Mudaraba financing	4.04%	8.47%
Musharaka financing	4.41%	6.02%

Table – 29. Restricted Investment Account by Counterparty Type

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

Counterparty type	<i>30 June 2010</i>	<i>31 December 2009</i>
Banks	38.26%	28.08%
Corporate	61.74%	71.92%

3 Risk Management (continued)

3.5 Restricted Investment Accounts (“RIA”) (continued)

Table – 30. 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 and the changes in the asset allocation for the six month period ended 30 June 2010:

	<i>Opening Actual Allocation US\$</i>	<i>Movement US\$</i>	<i>Closing Actual Allocation US\$</i>
Sales receivables	173,021,185	68,847,226	241,868,411
Mudaraba financing	17,143,535	(6,457,281)	10,686,254
Investments	12,170,828	(515,773)	11,655,055
	<u>202,335,548</u>	<u>61,874,172</u>	<u>264,209,720</u>

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 2009:

	<i>Opening Actual Allocation US\$</i>	<i>Movement US\$</i>	<i>Closing Actual Allocation US\$</i>
Sales receivables	160,116,805	12,904,380	173,021,185
Mudaraba financing	12,115,273	5,028,262	17,143,535
Investments	17,000,641	(4,829,813)	12,170,828
	<u>189,232,719</u>	<u>13,102,829</u>	<u>202,335,548</u>

Table – 31. Restricted Investment Account Historical Returns

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

	<i>Jun 2010</i>	<i>Dec 2009</i>	<i>Dec 2008</i>	<i>Dec 2007</i>	<i>Dec 2006</i>
Gross Income	539,576	1,116,995	5,736,106	6,526,706	6,277,088
Mudarib Fee	140,795	195,459	403,207	361,424	526,278

The Bank’s share of profit as a Mudarib for managing unrestricted investment accounts and the RIAs' 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.

3.6 Liquidity Risk

Table – 32. Liquidity Ratios

The following table summarises the liquidity ratios as of:

	<i>30 June 2010</i>	<i>31 December 2009</i>
Liquid assets to total assets	23.6%	33.6%

3 Risk Management (continued)

3.6 Liquidity Risk (continued)

Table – 33. Quantitative Indicators of Financial Performance and Position

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

	<i>*Jun</i> <i>2010</i>	<i>Dec</i> <i>2009</i>	<i>Dec</i> <i>2008</i>	<i>Dec</i> <i>2007</i>	<i>Dec</i> <i>2006</i>
Return on average equity	-0.3%	-15.5%	1.3%	2.2%	-2.6%
Return on average assets	-0.1%	-2.7%	0.2%	0.4%	-0.4%
Cost to Income Ratio	87.9%	103.5%	80.1%	75.7%	94.4%
Liquid assets to total assets	23.6%	33.6%	26.1%	17.2%	14.8%

* Annualised.