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

Basel II, Pillar III Disclosures
30 June 2012

(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 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 ("IAH").

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 2012		31 December 2011	
	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**		21,748,828	
Others	**(6,262,341)**		(3,305,494)	
Retained profit brought forward	**14,976,863**		14,976,863	
Minority interest in consolidated subsidiaries	**20,013,227**		21,816,108	
Less:				
Goodwill	**19,562,367**		20,563,499	
Unrealised gross losses arising from fair valuing equity securities	**3,941,712**		7,542,916	
Current interim cumulative net losses	**3,168,476**			
Tier 1 Capital before PCD deductions	**154,948,965**		158,274,833	
Unrealised gain arising from fair valuing equities (45% only)		**28,277**		-
Profit equalization reserve		**533,452**		524,542
Investment risk reserve		**2,736,721**		2,737,120
Tier 2 Capital before PCD deductions		**3,298,450**		3,261,662
Total available capital		**158,247,415**		161,536,495
Deductions				
Excess amount over maximum permitted large exposure limit	**(25,433,770)**	**(25,433,770)**	(25,150,759)	(25,150,759)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(22,135,320)**	**-**	(21,889,097)	-
Total Deductions	**(47,569,090)**	**(25,433,770)**	(47,039,856)	(25,150,759)
Tier 1 and Tier 2 eligible capital	**107,379,875**	**-**	111,234,977	-
Total eligible capital		**107,379,875**		111,234,977

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 2012 Capital requirements US $*	*31 December 2011 Capital requirements US $*
Sales receivables	**22,536,541**	19,838,787
Ijara Muntahia Bittamleek & Ijara income receivable	**4,872,463**	3,124,817
Musharaka	**2,744,349**	2,269,668
Mudaraba financing	**3,914,672**	1,564,570
	34,068,025	26,797,842

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 2012		*31 December 2011*	
	Self Financed US $	*Financed by IAH US $*	*Self Financed US $*	*Financed by IAH US $*
Market risk - standardised approach				
Equity position risk	**-**	**-**	71,040	-
Foreign exchange risk	**5,877,024**	**2,315**	6,167,963	261,282
Total of market risk - standardised approach	**5,877,024**	**2,315**	6,239,003	261,282
Multiplier	**12.50**	**12.50**	12.50	12.50
	73,462,800	**28,938**	77,987,538	3,266,025
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**73,462,800**	**8,681**	77,987,538	979,808
Total market RWE		**73,471,481**		78,967,345
Minimum capital requirement (12%)		**8,816,578**		9,476,081

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 2012 US $	*31 December 2011 US $*
Indicators of operational risk		
Average gross income	**54,585,907**	54,585,907
Multiplier	**12.5**	12.5
	682,323,838	682,323,838
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**102,348,576**	102,348,576
Minimum capital requirement (12%)	**12,281,829**	12,281,829

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 2012		*31 December 2011*	
	US $	*US $*	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**17.88%**	**17.88%**	17.05%	17.05%

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:

	30 June 2012		*31 December 2011*	
	US $	*US $*	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**13.70%**	**13.62%**	15.29%	15.26%

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 2012				31 December 2011			
	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 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	154,718,403	142,374,526	44,530,101	43,336,100	227,821,125	171,538,306	25,213,075	25,904,581
Sales receivables	17,900,622	8,950,311	429,923,685	464,222,918	113,597,068	29,640,734	493,760,773	544,792,870
Mudaraba financing	7,605,012	7,557,478	25,017,257	21,484,895	7,672,998	8,221,221	17,883,626	20,937,289
Ijara Muntahia Bittamleek	-	-	107,333,549	105,281,237	-	42,963	102,557,275	93,810,585
Musharaka	4,480,000	4,480,000	59,661,630	60,351,346	4,480,000	4,480,000	58,488,432	55,265,741
Investments	147,004,996	141,911,193	269,202,848	281,565,683	122,122,322	128,943,473	299,810,645	255,932,185
Investment in real estate	3,204,488	3,204,488	-	-	2,941,826	2,576,288	-	-
Ijara income receivables	1,251,942	1,276,412	23,215,675	24,276,139	1,374,289	1,052,441	24,076,119	22,890,868
Premises and equipment	22,784,359	23,244,712	-	-	24,647,941	25,514,433	-	-
Other assets	42,294,221	36,303,497	21,331,920	18,028,326	16,182,041	19,736,744	34,591,810	24,577,598
Unfunded exposure								
Commitments and contingent liabilities	211,497,486	195,125,597	-	-	289,272,304	207,912,890	-	-
	612,741,529	564,428,214	980,216,665	1,018,546,644	810,111,914	599,659,493	1,056,381,755	1,044,111,717

*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 2012				31 December 2011			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area		*geographic area		*geographic area		*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	45,529,300	109,189,103	43,173,261	1,356,840	118,756,715	109,064,410	6,170,549	19,042,526
Sales receivables	17,900,622	-	232,920,192	197,003,493	113,597,068	-	268,980,599	224,780,174
Mudaraba financing	7,605,012	-	25,017,257	-	7,672,998	-	17,883,626	-
Ijara Muntahia Bittamleek	-	-	77,834,326	29,499,223	-	-	73,107,622	29,449,653
Musharaka	4,480,000	-	6,600,471	53,061,159	4,480,000	-	6,072,140	52,416,292
Investments	106,664,593	40,340,403	28,241,339	240,961,509	79,721,853	42,400,469	44,154,276	255,656,369
Investment in real estate	3,204,488	-	-	-	2,941,826	-	-	-
Ijara income receivables	1,251,942	-	16,322,790	6,892,885	1,374,289	-	18,239,003	5,837,116
Premises and equipment	10,572,073	12,212,286	-	-	11,186,733	13,461,208	-	-
Other assets	19,375,638	22,918,583	200,486	21,131,434	-	16,182,041	12,260,051	22,331,759
	216,583,668	184,660,375	430,310,122	549,906,543	339,731,482	181,108,128	446,867,866	609,513,889

* 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 2012				31 December 2011			
	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	12,505,619	-	1,356,840	-	10,327,229	-	6,489,020	-
Claims on Sovereigns	74,465,685	5,260,389	240,104,773	-	92,737,897	-	269,196,778	-
Claims on Public Sector Entities	8,122,900	-	69,743,314	-	8,540,639	-	66,167,280	-
Claims on banks	152,135,907	77,549,240	115,982,718	-	274,449,174	169,437,835	146,774,256	-
Claims on corporate	16,672,233	128,687,857	418,093,907	-	16,314,249	119,834,469	433,716,426	-
Mortgage	15,599,761	-	49,468,499	-	-	-	38,859,105	-
Past dues receivables	-	-	59,328,095	-	-	-	45,019,435	-
Equity investment	73,212,901	-	5,007,083	-	64,493,950	-	281,261	-
Equity Sukuk	-	-	-	-	-	-	-	-
Investment in Funds	-	-	-	-	9,928,754	-	5,000,000	-
Holding of Real Estate	32,961,024	-	-	-	21,973,116	-	10,481,302	-
Other assets	15,568,013	-	21,131,436	-	22,074,602	-	34,396,892	-
	401,244,043	211,497,486	980,216,665	-	520,839,610	289,272,304	1,056,381,755	-

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)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

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

	30 June 2012		31 December 2011	
	Self financed Funded US $	*Financed by IAH Funded US $*	*Self financed Funded US $*	*Financed by IAH Funded US $*
Cash and balances with bank	-	1,601,228	-	306,344
Sales Receivable	-	412,308	-	30,362,685
Musharaka	-	739,011	-	339,394
Mudaraba Financing	7,605,012	25,017,257	7,672,998	17,883,627
Ijara Muntahia Bittamleek	-	5,988,199	-	6,095,406
Investments	63,673,835	252,441	63,673,835	260,808
Ijara Income Receivable	-	143,094	-	29,968
Other Assets	1,328	563,722	1,328	655,560
	71,280,175	34,717,260	71,348,161	55,933,792
Contingencies and commitments	23,086,615	-	14,568,560	-

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

The Group's intra-group transactions as of 30 June 2012 is its investment in subsidiary of USD 61,961 thousand (31 December 2011: USD 61,961 thousand) and amount receivable of USD 1,012 thousand (31 December 2011: USD 1,064 thousand) by the Bank from its subsidiary in Pakistan.

3 RISK MANAGEMENT (continued)

a) Credit risk (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 30 June 2012:

Counterparties *	*Funded* *US $*
Counterparty # 1	232,508,382
Counterparty # 2	74,172,634
Counterparty # 3	45,963,401
Counterparty # 4	40,492,365
Counterparty # 5	36,607,609
Counterparty # 6	23,797,431

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 1,3,4,5 & 6 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 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.

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 – Residual Contractual Maturity Breakdown

70% of Group assets are financed by equity of IAH, while 30% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2012, 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 $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	154,996,721	-	-	-	-	-	-	-	44,251,783	199,248,504
Sales receivables	254,110,235	75,034,366	49,557,297	28,165,880	11,206,994	6,014,720	-	-	23,734,815	447,824,307
Mudaraba financing	22,124,798	5,310,624	1,858,102	3,328,745	-	-	-	-	-	32,622,269
Ijara Muntahia Bittamleek	6,348,982	4,201,101	6,770,814	25,030,341	33,804,247	16,223,089	13,047,414	1,907,561	-	107,333,549
Musharaka	16,728,959	4,120,155	2,034,730	8,937,666	9,963,585	2,372,055	5,397,488	506,955	14,080,037	64,141,630
Investments*	8,640,553	-	16,096,368	264,169,641	103,642,685	22,658,597	1,000,000	-	-	416,207,844
Investment in real estate	3,204,488	-	-	-	-	-	-	-	-	3,204,488
Ijara income receivables	8,327,075	880,059	827,333	4,555,234	2,908,525	3,981,988	1,779,285	262,102	946,016	24,467,617
Premises and equipment	-	-	-	-	-	-	-	-	22,784,359	22,784,359
Goodwill	-	-	-	-	-	-	-	-	19,562,367	19,562,367
Other assets	39,080,046	275,619	4,379,798	1,923,770	11,368,725	-	-	-	6,598,183	63,626,141
Total assets	513,561,857	89,821,924	81,524,442	336,111,277	172,894,761	51,250,449	21,224,187	2,676,618	131,957,560	1,401,023,075
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	65,999,001	10,099,712	-	-	-	-	-	-	-	76,098,713
Current accounts**	135,459,167	-	-	-	-	-	-	-	-	135,459,167
Other liabilities	23,454,942	1,414,080	3,181,554	438,530	1,248,355	4,896,435	40,464	-	-	34,674,360
Total liabilities	224,913,110	11,513,792	3,181,554	438,530	1,248,355	4,896,435	40,464	-	-	246,232,240
Equity of investment accountholders	446,558,285	170,437,118	225,849,059	59,601,035	77,771,168	-	-	-	-	980,216,665
Total owners' equity	-	-	-	-	-	-	-	-	174,574,170	174,574,170
Total liabilities, Equity of investment accountholders and owner's equity	671,471,395	181,950,910	229,030,613	60,039,565	79,019,523	4,896,435	40,464	-	174,574,170	1,401,023,075
Net gap	(157,909,538)	(92,128,986)	(147,506,171)	276,071,712	93,875,238	46,354,014	21,183,723	2,676,618	(42,616,610)	-
Cumulative net gap	(157,909,538)	(250,038,524)	(397,544,695)	(121,472,983)	(27,597,745)	18,756,269	39,939,992	42,616,610	-	-
Off-balance sheet equity of investment	17,172,719	-	3,110,412	116,705,947	823,590	-	-	-	-	137,812,668

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

3 **RISK MANAGEMENT (continued)**

a) **Credit risk (continued)**

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

66% of Group assets are financed by equity of IAH, while 34% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 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 $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	221,529,250	-	-	-	-	-	-		31,504,950	253,034,200
Sales receivables	359,210,261	108,515,518	35,265,757	46,153,886	11,665,445	13,304,440	-		33,242,534	607,357,841
Mudaraba financing	16,900,312	-	4,559,495	1,742,736	-	-	-		2,354,081	25,556,624
Ijara Muntahia Bittamleek	9,119,498	5,703,718	12,859,392	31,809,851	23,396,085	7,018,503	10,955,924	1,694,304	-	102,557,275
Musharaka	6,168,399	5,346,022	11,061,501	14,503,796	10,039,653	3,317,948	1,197,844	29,915	11,303,354	62,968,432
Investments*	2,190,472	519,956	21,265,675	283,172,170	108,863,406	3,500,000	-		2,421,288	421,932,967
Investment in real estate	-	-	2,941,826	-	-	-	-		-	2,941,826
Ijara income receivables	4,080,639	771,578	1,713,060	4,461,660	2,826,694	960,298	1,508,500	233,286	8,894,693	25,450,408
Premises and equipment	-	-	-	-	-	-	-		24,647,941	24,647,941
Goodwill	-	-	-	-	-	-	-		20,563,499	20,563,499
Other assets	25,765,750	6,953,835	4,567,550	1,920,427	11,546,797	19,492	-		-	50,773,851
Total assets	644,964,581	127,810,627	94,234,256	383,764,526	168,338,080	28,120,681	13,662,268	1,957,505	134,932,340	1,597,784,864
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	87,061,151	11,752,048	-	-	-	-	-		-	98,813,199
Current accounts**	129,264,778	-	-	-	-	-	-		-	129,264,778
Other liabilities	123,978,144	1,579,262	3,597,631	1,337,369	2,274,536	1,708,692	11,166		-	134,486,800
Total liabilities	340,304,073	13,331,310	3,597,631	1,337,369	2,274,536	1,708,692	11,166	-	-	362,564,777
Equity of investment accountholders	645,870,895	172,287,578	171,234,979	41,883,072	13,448,724	11,656,507	-	-	-	1,056,381,755
Total owners' equity	-	-	-	-	-	-	-	-	178,838,332	178,838,332
Total liabilities, Equity of investment accountholders and owner's equity	986,174,968	185,618,888	174,832,610	43,220,441	15,723,260	13,365,199	11,166	-	178,838,332	1,597,784,864
Net gap	(341,210,387)	(57,808,261)	(80,598,354)	340,544,085	152,614,820	14,755,482	13,651,102	1,957,505	(43,905,992)	-
Cumulative net gap	(341,210,387)	(399,018,648)	(479,617,002)	(139,072,917)	13,541,903	28,297,385	41,948,487	43,905,992	-	-
Off-balance sheet equity of invest	142,744,708	-	-	117,216,802	-	-	-	-	-	259,961,510

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 2012					31 December 2011				
			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	59,000	-	-	-	-	-	-	-	-	-
Corporates	2,390,859	66,590,173	31,023,443	18,740,559	16,826,171	11,936,203	60,781,018	21,214,237	23,481,556	16,085,225
Investment Firms	14,432,719	37,039,125	-	-	37,039,125	-	37,384,463	-	37,384,463	-
Residentials	5,522,933	6,296,395	2,536,184	1,777,663	1,982,548	2,568,097	5,082,513	1,201,071	3,112,015	769,427
Others	359,138	899,895	-	-	899,895	-	899,895	-	-	899,895
	22,764,649	110,825,588	33,559,627	20,518,222	56,747,739	14,504,300	104,147,889	22,415,308	63,978,034	17,754,547

3 RISK MANAGEMENT (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 2012

		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	24,725,744	4,084,917	(2,030,802)	(1,336,914)	-	(896,734)	24,546,211
Investment Firms	22,556,464	-	-	-	-	(171,640)	22,384,824
Individuals	4,617,551	261,709	(77,030)	-	-	(180,994)	4,621,236
	51,899,759	4,346,626	(2,107,832)	(1,336,914)	-	(1,249,367)	51,552,272

A collective provision of US $ 500 thousand is being maintained against financing facilities as at 30 June 2012.

The following table summarises the total provisions against non performing facilities disclosed by counterparty type as of 31 December 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	38,605,217	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

A collective provision of US $ 500 thousand is being maintained against financing facilities as at 31 December 2011.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. 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 2012			*31 December 2011*		
	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	**48,886,641**	**28,252,431**	**500,000**	52,531,660	29,896,875	500,000
Other Asian	**61,938,947**	**23,299,841**	**-**	51,616,229	22,002,884	-
	110,825,588	**51,552,272**	**500,000**	104,147,889	51,899,759	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.

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 2012 Total US $	*31 December 2011 Total US $*
Restructured Islamic financing contracts	**3,775,756**	11,957,182

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 2012		31 December 2011	
	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	**199,248,504**	**-**	253,034,200	-
Sales receivables	**447,824,307**	**447,824,307**	607,357,841	605,434,440
Mudaraba financing	**32,622,269**	**-**	25,556,624	-
Ijara Muntahia Bittamleek	**107,333,549**	**107,333,549**	102,557,275	102,557,275
Musharaka	**64,141,630**	**61,576,895**	62,968,432	62,968,432
Investments	**416,207,844**		421,932,967	-
Investment in real estate	**3,204,488**	**3,204,488**	2,941,826	-
Ijara income receivables	**24,467,617**	**-**	25,450,408	-
Premises and equipment	**22,784,359**		24,647,941	-
Other assets	**63,626,141**	**1,842,462**	50,773,851	-
	1,381,460,708	**621,781,701**	1,577,221,365	770,960,147

* Collaterals have been restricted to outstanding exposure of financing facilities.

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 2012		31 December 2011	
	Gross positive FV of contracts US $	*Collateral held US $*	*Gross positive FV of contracts US $*	*Collateral held US $*
Ijara Muntahia Bittamleek & Ijara income receivable	**131,801,166**	**42,871,124**	128,007,683	53,447,496

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 2012		31 December 2011	
	Equity position risk US $	*Foreign exchange risk US $*	*Equity position risk US $*	*Foreign exchange risk US $*
RWE	**-**	**73,471,481**	888,000	78,079,345
Capital requirements (12%)	**-**	**8,816,578**	106,560	9,369,521
Maximum value of RWE	**1,752,000**	**75,246,956**	6,986,290	91,018,980
Minimum value of RWE	**-**	**73,471,487**	888,000	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 2012:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	**334,191,089**	**341,429,904**	**-**	**334,191,089**	**12,282,294**
Managed funds	**8,489,066**	**8,208,764**	**8,489,066**	**-**	**1,018,688**
Private equity	**64,626,275**	**64,500,055**	**-**	**64,626,275**	**11,500,583**
Real estate related	**2,403,412**	**2,403,412**	**-**	**2,403,412**	**732,819**
Others	**6,498,002**	**6,496,739**	**-**	**6,498,002**	**742,671**
	416,207,844	**423,038,874**	**8,489,066**	**407,718,778**	**26,277,055**

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	11,866,014
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	25,044,278

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 2012 US $	*31 December 2011 US $*
Cumulative realised (losses) gains arising from sale or liquidation	**1,170,674**	2,239,967
Total unrealised losses recognised in the balance sheet but not through P&L	**(3,878,874)**	(7,542,916)
Unrealized gross losses included in Tier One Capital	**(3,941,712)**	(7,542,916)
Unrealized gains included in Tier Two Capital (45% only)	**28,277**	-

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 2012	
	Operational equivalent Long (short) US $	*Strategic equivalent Long (short) US $*	*Total equivalent Long (short) US $*
Pakistani rupees	**25,375,568**	**36,585,266**	**61,960,834**
Euro	**22,503**	**-**	**22,503**
Kuwaiti dinars	**11,476,358**	**-**	**11,476,358**
Pound sterling	**(23,061)**	**-**	**(23,061)**
Japanese yen	**28,463**	**-**	**28,463**
Jordanian dinar	**2,998**	**-**	**2,998**
Swiss Francs	**407**	**-**	**407**

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

		31 December 2011	
	Operational equivalent Long (short) US $	*Strategic equivalent Long (short) US $*	*Total equivalent Long (short) US $*
Pakistani rupees	18,940,815	39,881,030	58,821,845
Euro	3,556,073	-	3,556,073
Kuwaiti dinars	11,454,814	-	11,454,814
Pound sterling	137,534	-	137,534

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.

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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 2012

Currency	**Particular**	***Local Currency exposures***	***Exposures in US $***	***Variance after 20% depreciation***
Pakistani rupees	Net long Position	**5,858,322,502**	**61,960,834**	**49,568,667**
Euro	Net long Position	**18,104**	**22,503**	**18,002**
Kuwaiti dinars	Net long Position	**3,220,840**	**11,476,358**	**9,181,086**
Pound sterling	Net short Position	**(14,841)**	**(23,061)**	**(18,449)**
Japanese yen	Net long Position	**2,259,063**	**28,463**	**22,770**
Jordanian dinar	Net long Position	**2,124**	**2,998**	**2,398**
Swiss Francs	Net long Position	**421**	**407**	**326**

At 31 December 2011

Currency	Particular	*Local Currency exposures*	*Exposures in US $*	*Variance after 20% depreciation*
Euro	Net long Position	2,751,102	3,556,073	2,844,858
Pakistani Rupees	Net long Position	5,290,772,024	58,821,845	47,057,476
Kuwaiti Dinars	Net long Position	3,190,968	11,454,814	9,163,851
Pound Sterling	Net long Position	89,047	137,534	110,027

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 USD 133 (2011: Nil) was charged by the CBB during the period ended 30 June 2012.

A financial penalty of USD 506 (2011: USD 1.5 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the period.

The Group charged USD 285 thousand (2011: USD 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 2012 US $	31 December 2011 US $
IAH - Banks	**194,181,959**	237,334,854
IAH - Non-banks	**782,764,533**	815,785,239
Profit equalisation reserve	**533,452**	524,542
Investment risk reserve	**2,736,721**	2,737,120
	980,216,665	1,056,381,755

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 2012 US $	31 December 2011 US $
PER to IAH (%)	**0.05%**	0.05%
IRR to IAH (%)	**0.28%**	0.26%

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 2012	31 December 2011
Sales receivable	**66.64%**	70.86%
Mudaraba investments	**3.88%**	2.57%
Musharaka	**9.25%**	8.39%
Ijara Muntahia Bittamleek & Ijara income receivable	**20.24%**	18.17%

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 2012	31 December 2011
Banks	**19.87%**	22.54%
Investment Firms	**2.69%**	2.72%
Corporates	**29.57%**	24.40%
Residentials	**47.86%**	50.34%

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 2012	*30 June 2011*
Administrative expenses charged to equity of investment accountholders holders	**1,140,142**	1,334,071
Share of profits earned by IAH, before transfers to/from reserves	**40,328,274**	40,233,164
Percentage share of profit earned by IAH before transfer to/from reserves	**3.96%**	3.93%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**32,806,873**	32,447,472
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**3.22%**	3.17%
Share of profit paid out to Bank as mudarib	**7,505,743**	7,573,385
Mudarib Fee to total Investment Profits	**18.61%**	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 2012 US $	*30 June 2011 US $*
Balance at 1 January	**524,542**	965,311
Amount apportioned from income allocable to equity of Investment Accountholders	**15,658**	22,559
Exchange Difference	**(6,748)**	-
	533,452	987,870
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.04%**	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 2012 US $	*30 June 2011 US $*
Balance at 1 January	**2,737,120**	1,156,962
Amount apportioned from income allocable to equity of Investment Accountholders	**-**	189,748
Amount apportioned to provision	**-**	1,339,857
Exchange Difference	**(399)**	-
	2,736,721	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 up to a maximum of 70% (31 December 2011: up to 70%) 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 30 June 2012 Rate of return %		
	Bahrain		*Pakistan*
	BD	**USD**	
Saving Accounts	**0.79%**	**-**	**6.12%**
One Month Term Deposits	**1.84%**	**-**	**6.30%**
Three Months Term Deposits	**2.29%**	**0.73%**	**7.58%**
Six Months Term Deposits	**2.49%**	**0.79%**	**8.28%**
Nine Months Term Deposits	**2.74%**	**-**	**-**
1 Year Term Deposits	**2.94%**	**0.84%**	**9.50%**
2 Years Term Deposits	**-**	**0.94%**	**10.10%**
3 Year Term Deposits	**-**	**-**	**10.60%**
4 Years Term Deposits	**-**	**-**	**11.05%**
5Years Term Deposits	**-**	**-**	**11.60%**

	Average 31 Dec 2011 Rate of return %		
	Bahrain		*Pakistan*
	BD	USD	
Saving Accounts	0.80%	-	5.28%
One Month Term Deposits	2.08%	-	6.50%
Three Months Term Deposits	2.55%	0.97%	7.50%
Six Months Term Deposits	2.78%	1.04%	8.25%
Nine Months Term Deposits	3.07%	-	-
1 Year Term Deposits	3.27%	1.11%	10.00%
2 Years Term Deposits	-	1.25%	10.25%
3 Year Term Deposits	-	-	11.00%
4 Years Term Deposits	-	-	11.50%
5Years Term Deposits	-	-	12.00%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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 2012:

	Opening Actual Allocation US$	***Movement US$***	***Closing Actual Allocation US$***
Cash and balances with banks	**25,213,075**	**19,317,026**	**44,530,101**
Sales receivable	**493,760,773**	**(63,837,088)**	**429,923,685**
Mudaraba financing	**17,883,626**	**7,133,631**	**25,017,257**
Ijara Muntahia Bittamleek	**102,557,275**	**4,776,274**	**107,333,549**
Musharaka	**58,488,432**	**1,173,198**	**59,661,630**
Investments	**299,810,645**	**(30,607,797)**	**269,202,848**
Ijara income receivables	**24,076,119**	**(860,444)**	**23,215,675**
Other assets	**34,591,810**	**(13,259,890)**	**21,331,920**
	1,056,381,755	**(76,165,090)**	**980,216,665**

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	110,886,672	(91,120,661)	19,766,011
Sales receivable	531,631,398	60,726,755	592,358,153
Mudaraba financing	15,102,600	13,524,155	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	93,413,981	148,289,080	241,703,061
Ijara income receivables	17,887,273	4,796,871	22,684,144
Other assets	44,868,751	(28,608,689)	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*
2012* (six months)	**40,328,274**	***7.92%**	**32,806,873**	***6.44%**
2011	86,984,643	8.33%	68,601,248	6.57%
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 2012:

	RWA ***US$ '000***	***RWA for capital adequacy purposes - 30%*** ***US$ '000***	***Capital charges*** ***US$ '000***
Type of Claims			
Claims on Sovereign	**10,902,342**	**3,270,703**	**392,484**
Claims on PSEs	**4,427,719**	**1,328,316**	**159,398**
Claims on Banks	**86,719,551**	**26,015,865**	**3,121,904**
Claims on Corporates	**360,951,887**	**108,285,566**	**12,994,268**
Mortgage	**46,022,801**	**13,806,840**	**1,656,821**
Past due facilities	**78,575,239**	**23,572,572**	**2,828,709**
Investment in securities	**5,385,745**	**1,615,724**	**193,887**
Holding of Real Estates	**9,686,078**	**2,905,823**	**348,699**
Other Assets	**21,131,435**	**6,339,431**	**760,732**
	623,802,797	**187,140,840**	**22,456,902**

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 - 30%* *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**

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 2012	*31 December 2011*
Sales receivables	**82.15%**	90.54%
Mudaraba financing	**9.19%**	5.15%
Investments	**8.66%**	4.32%

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 2012	*31 December 2011*
Banks	**5.52%**	49.76%
Corporate	**94.48%**	50.24%

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 2012:

	Opening actual allocation US$	***Movement US$***	***Closing actual allocation US$***
Sales receivables	**235,360,992**	**(122,150,000)**	**113,210,992**
Mudaraba financing	**13,375,235**	**(703,654)**	**12,671,581**
Investments	**11,225,283**	**704,812**	**11,930,095**
	259,961,510	**(122,148,842)**	**137,812,668**

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 year / period:

	June 2012	*Dec 2011*	*Dec 2010*	*Dec 2009*	*Dec 2008*
Gross Income	**240,036**	458,674	2,756,802	1,116,995	5,736,106
Mudarib Fee	**34,893**	110,062	261,157	195,459	403,207

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 2012	*31 December 2011*
Liquid assets to total assets	**19.20%**	29.22%
Short term assets to short term liabilities	**63.3%**	64.4%

Table – 40. Quantitative indicators of financial performance and position

	*June 2012**	*Dec 2011**	*Dec 2010*	*Dec 2009*	*Dec 2008*
Return on average equity	****-4.4%**	1.4%	2.8%	-15.5%	1.3%
Return on average assets	****-0.6%**	0.2%	0.5%	-2.7%	0.2%
Cost to Income Ratio	**97.8%**	91.0%	75.3%	103.5%	80.1%

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

** Annualised

4 OTHERS

Table – 41. Legal Contingencies

	30 June 2012	*31 December 2011*
Law suits (a) & (b)	**2,538,964**	**2,668,899**

Law Suits

a) The Bank had entered into agreement with Mr. Furqan A. Sheikh for the exchange of Bank's 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. The Bank has also paid USD 0.3 (31 December 2011: USD 0.3) million as an advance against such building. The property situated at Main Khayaban-e-Tanzeem is not in the possession of the Bank. The Bank's 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 the Bank or adjusted against future rental payments for the above referred property.

During the year 2010 a law suit was filed by Mr. Furqan A. Sheikh against the Bank seeking appointment of arbitrator for the execution of agreement between Mr. Furqan A. Sheikh and the Bank as referred above. The management, based on the opinion of its legal consultant is confident that the case will be decided in the favour of the Bank and hence no provision has been considered necessary in these financial statements in respect of loss on exchange of property amounting to USD 2.34 (31 December 2011: USD 2.34) million that may be occasioned upon the implementation of the above referred property exchange agreement or on account of non-refund of the advance paid by the Bank.

b) During the year 2010, a constitutional petition and certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against the Bank wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of the Bank at an aggregate value of USD 3.5 (31 December 2011: USD 3.5) million as sale consideration against the commercial property sold to the Bank. He further claimed that in addition to the said property, he has also paid USD 0.7 (31 December 2011: USD 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 the Bank of involvement in illegal business and had requested the High Court to direct the SBP to refrain from according approval / sanction to the merger between the Bank and Al-Baraka Islamic Bank. The Bank 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 the Bank. Further, in the opinion of legal advisor of the Bank, the petitioner is not likely to be successful in securing the reliefs prayed in the said petitions.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of the Bank and Al Baraka, the Emirates Financial Holdings LLC will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Bank on account of the Mr. Faisal Vawda Litigations including any additional or ancillary litigation or proceedings filed by Faisal Vawda Group in relation to the subject matter of the Faisal Vawda Litigations.