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

Basel II, Pillar III Disclosures
31 December 2010

(Unaudited)

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1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain.

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

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

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

The public disclosures under this section have been prepared in accordance with the 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 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 Group identify and approve assets suitable for funding by URIA.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	31 December 2010		*31 December 2009*	
	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	**21,571,062**	**-**	21,111,106	-
Others	**-**	**-**	(7,200,995)	-
Retained profit brought forward	**13,376,970**	**-**	8,963,484	-
Minority interest in consolidated subsidiaries	**22,259,882**	**-**		-
Less:				
Goodwill	**21,598,197**	**-**	-	-
Unrealised gross losses arising from fair valuing equity securities	**4,644,544**	**-**	2,251,574	-
Tier 1 Capital before PCD deductions	**162,110,116**	**-**	151,766,964	-
Unrealised gain arising from fair valuing equities (45% only)		**111,067**		663,912
Profit equalization reserve		**965,311**		541,448
Investment risk reserve		**1,156,962**		2,102,538
Tier 2 Capital before PCD deductions		**2,233,340**		3,307,898
Total available capital		**164,343,456**		155,074,862
Deductions				
Excess amount over maximum permitted large exposure limit	**(27,352,142)**	**(27,352,142)**	(30,658,599)	(30,658,599)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(25,118,802)**	**-**	(27,350,701)	-
Total Deductions	**(52,470,944)**	**(27,352,142)**	(58,009,300)	(30,658,599)
Tier 1 and Tier 2 eligible capital	**109,639,172**	**-**	93,757,664	-
Total eligible capital		**109,639,172**		93,757,664

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:

	31 December 2010 Capital requirements US $	31 December 2009 Capital requirements US $
Type of islamic financing contracts		
Sales receivables	**14,659,085**	13,767,417
Ijara Muntahia Bittamleek & Ijara income receivable	**2,311,085**	1,229,125
Musharaka	**1,973,285**	1,034,677
Mudaraba financing	**1,763,558**	1,988,892
	20,707,013	18,020,111

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:

	31 December 2010		31 December 2009	
	Self Financed US $	URIA US $	Self Financed US $	URIA US $
Market risk - standardised approach				
Equity position risk	**481,816**	**-**	148,548	-
Foreign exchange risk	**5,271,237**	**119,955**	794,441	173,590
Total of market risk - standardised approach	**5,753,053**	**119,955**	942,989	173,590
Multiplier	**12.50**	**12.50**	12.5	12.5
	71,913,163	**1,499,438**	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	**71,913,163**	**449,831**	11,787,363	650,963
Total market RWE		**72,362,994**		12,438,326
Minimum capital requirement (12%)		**8,683,559**		1,492,599

Table – 4. Capital Requirements for operational risk

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

	31 December 2010 US $	31 December 2009 US $
Indicators of operational risk		
Average gross income	**52,875,036**	54,058,871
Multiplier	**12.5**	12.5
	660,937,950	675,735,888
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**99,140,693**	101,360,383
Minimum capital requirement (12%)	**11,896,883**	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:

	31 December 2010		*31 December 2009*	
	US $	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**20.54%**	**20.54%**	22.25%	22.25%

Legal restrictions on capital and income mobility

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

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

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

	31 December 2010*	
	US $	***US $***
	Total capital ratio	**Tier 1 capital ratio**
Capital adequacy ratio	**15.88%**	**15.88%**

* The subsidiary was acquired during the year, therefore comparatives are not disclosed.

3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	31 December 2010				*31 December 2009*			
	Own capital and current account		***Unrestricted investment account (URIA)***		*Own capital and current account*		*Unrestricted investment account (URIA)*	
	Total gross credit exposure US $	****Average gross exposure over the period US $***	***Total gross credit exposure US $***	****Average gross credit risk exposure over the period US $***	*Total gross credit exposure US $*	**Average gross credit exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit exposure over the period US $*
Funded exposure								
Cash and balances with banks	56,988,821	87,232,062	143,030,910	97,197,636	101,944,538	95,586,137	129,322,608	112,882,682
Sales receivables	6,769,989	18,900,822	531,631,398	440,253,742	39,674,325	38,970,608	394,562,450	407,236,353
Mudaraba financing	9,963,633	13,211,446	15,775,600	11,948,113	16,274,096	16,314,868	1,000,000	1,566,250
Ijara Muntahia Bittamleek	154,078	1,126,279	93,046,568	73,014,388	3,197,862	3,858,072	43,579,906	44,076,140
Musharaka	4,479,999	4,480,000	51,111,079	24,719,980	4,480,000	4,480,000	15,951,126	16,651,699
Investments	216,527,591	132,343,070	92,493,500	54,941,849	104,705,623	107,446,947	33,854,510	25,932,850
Investment properties	1,480,205	1,480,206	-	-	1,368,226	1,778,104	-	8,463,628
Ijara income receivables	609,070	986,570	17,887,273	14,059,609	1,318,716	2,016,378	8,508,322	9,228,080
Premises and equipment	26,918,263	17,095,275	-	-	13,387,943	12,759,684	-	-
Other assets	10,978,321	8,539,270	45,116,232	18,678,592	7,088,323	7,142,099	9,675,223	9,810,429
exposure								
Contingencies and commitments	148,378,334	123,615,157	-	-	91,095,839	75,320,572	-	-
	483,248,304	**409,010,157**	**990,092,560**	**734,813,909**	384,535,491	365,673,469	636,454,145	635,848,111

*Average balances are computed based on quarter end balances.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

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

	31 December 2010				31 December 2009			
	Own capital and current account *geographic area		Unrestricted investment account (URIA) *geographic area		Own capital and current account *geographic area		Unrestricted investment account (URIA) *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	38,028,010	18,960,811	23,433,010	119,597,900	34,287,728	67,672,185	59,051,049	70,256,184
Sales receivables	6,769,989	-	308,845,604	222,785,794	39,674,325	-	258,214,204	136,348,246
Mudaraba financing	9,963,633	-	15,775,600	-	16,274,096	-	1,000,000	-
Ijara Muntahia Bittamleek	154,078	-	58,293,363	34,753,205	3,197,862	-	27,155,056	16,424,850
Musharaka	4,479,999	-	955,008	50,156,071	4,480,000	-	289,311	15,661,815
Investments	86,321,943	130,205,648	39,930,277	52,563,223	95,110,086	9,595,537	22,904,161	10,950,349
Investment properties	1,480,205	-	-	-	1,368,226	-	-	-
Ijara income receivables	609,070	-	12,578,362	5,308,911	1,318,716	-	5,053,492	3,454,830
Premises and equipment	11,517,206	15,401,057	-	-	11,158,756	2,229,187	-	-
Other assets	2,833,699	8,144,622	2,083,811	43,032,421	5,449,286	1,623,662	-	9,690,598
	162,157,832	**172,712,138**	**461,895,035**	**528,197,525**	212,319,081	81,120,571	373,667,273	262,786,872

* 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:

	31 December 2010				*31 December 2009*			
	Own capital and current account		***Unrestricted investment account (URIA)***		*Own capital and current account*		*Unrestricted investment account (URIA)*	
	Funded	***Unfunded***	***Funded***	***Unfunded***	*Funded*	*Unfunded*	*Funded*	*Unfunded*
	US $	***US $***	***US $***	***US $***	*US $*	*US $*	*US $*	*US $*
Cash items	10,580,876	-	5,045,124	-	9,747,395	-	-	-
Claims on Sovereigns	148,307,878	-	93,407,290	-	44,149,875	-	12,998,015	-
Claims on Public Sector Entities	-	-	106,145,848	-	11,105,942	-	34,847,152	-
Claims on banks	35,276,855	36,796,567	243,008,253	-	71,973,917	25,581,869	219,710,759	-
Claims on corporate	20,109,250	111,581,767	402,210,280	-	32,236,359	65,513,970	308,214,631	-
Mortgage	-	-	35,054,642	-	-	-	7,588,534	-
Past dues receivables	-	-	43,455,944	-	4,209,252	-	27,173,164	-
Equity investment	67,335,184	-	338,947	-	74,120,729	-	-	-
Equity Sukuk	-	-	-	-	166,737	-	852,868	-
Investment in Funds	16,547,556	-	599,230	-	14,774,567	-	599,230	-
Holding of Real Estate	14,492,671	-	15,140,918	-	16,715,179	-	14,794,569	-
Other assets	22,219,700	-	45,686,084	-	14,239,700	-	9,675,223	-
	334,869,970	**148,378,334**	**990,092,560**	-	293,439,652	91,095,839	636,454,145	-

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

3 RISK MANAGEMENT (continued)

Table – 10. Credit risk – related party transactions

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

	31 December 2010		*31 December 2009*	
	Own capital and current account	***Unrestricted investment account (URIA)***	*Own capital and current account*	*Unrestricted investment account (URIA)*
	Funded US $	***Funded US $***	*Funded US $*	*Funded US $*
Cash and balances with bank	-	85,683	-	152,174
Sales Receivable	-	30,128,880	2,057,150	2,644,656
Musharaka	2,032,515	-	-	-
Mudaraba Financing	9,963,633	15,129,675	16,274,096	-
Ijara Muntahia Bittamleek	-	121,098	-	1,498,068
Non trading Investments	66,410,535	304,901	74,631,510	304,900
Ijara Income Receivable	-	19,508	-	-
Other Assets	1,176,935	631,348	431,884	564,687
	79,583,618	**46,421,093**	93,394,640	5,164,485

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

Table – 11. Credit risk – concentration of risk

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

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

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

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 2,4,5 & 6 comprise interbank exposures that are exempt as per the CBB rules.

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 2009:

Counterparties *	*Funded* *US $*
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 interbank exposures that are exempt as per the CBB rules.

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 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 Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only the overdue installments/payments.

Highly leveraged counter parties

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	31 December 2010					31 December 2009				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $	Non-performing Islamic financing contracts US $	3-6 Months US $	6-12 Months US $	1 Year & above US $	Past due but performing US $	Non-performing Islamic financing contracts US $	3-6 Months US $	6-12 Months US $	1 Year & above US $
Banks	303,603	22,158	-	-	22,158	2,004,367	-	-	-	-
Corporates	17,191,331	72,618,639	25,541,132	7,188,209	39,889,298	15,141,585	33,041,505	2,061,646	14,203,892	16,775,967
Investment Firms	-	37,372,445	-	-	37,372,445	-	37,372,445	-	37,372,445	-
Individuals	6,339,591	1,355,746	167,389	25,844	1,162,513	15,223,038	899,895	-	-	899,895
Others	-	2,860,682	1,050,445	162,184	1,648,053	360,019	-	-	-	-
	23,834,525	**114,229,670**	**26,758,966**	**7,376,237**	**80,094,467**	32,729,009	71,313,845	2,061,646	51,576,337	17,675,862

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

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

	Specific allowances							
	Opening Balance US $	Charges during the year US $	Write-Back during the year US $	Write-offs during the year US $	Acquisition of a subsidiary US $	Transferred from investment risk reserve US $	Exchange difference on opening balance US $	Balance at the end of the year US $
Banks	12,431	-	-	-	-	-	-	12,431
Corporates	18,835,448	4,983,143	(1,807,159)	(172,461)	17,098,619	1,339,857	(73,325)	40,204,122
Investment Firms	18,686,222	3,870,242	-	-	-	-	-	22,556,464
Individuals	899,896	-	-	-	-	-	-	899,896
Others	937,608	329,239	(79,603)	-	-	-	-	1,187,244
	39,371,605	**9,182,624**	**(1,886,762)**	**(172,461)**	**17,098,619**	**1,339,857**	**(73,325)**	**64,860,157**

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	Specific allowances					
	Opening Balance	*Charges during the year*	*Write-Back during the year*	*Write-offs during the year*	*Exchange difference on opening balance*	*Balance at the end of the year*
	US $	*US $*	*US $*	*US $*	*US $*	*US $*
Banks	13,451	-	(429)	-	(591)	12,431
Corporates	15,644,505	11,564,326	(3,130,417)	(5,203,070)	(39,896)	18,835,448
Investment Firms	3,728,000	14,958,222	-	-	-	18,686,222
Individual	178,562	721,334	-	-	-	899,896
Others	244,845	938,500	(63,651)	-	(182,086)	937,608
	19,809,363	28,182,382	(3,194,497)	(5,203,070)	(222,573)	39,371,605

There was no collective provision in 2009 against financing facilities.

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

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

	31 December 2010		*31 December 2009*	
	Non-performing Islamic financing contracts	***Specific provision***	*Non-performing Islamic financing contracts*	*Specific provision*
	US $	***US $***	*US $*	*US $*
Middle East	66,864,598	37,041,190	56,778,856	29,902,508
Other Asian	47,365,072	27,818,967	14,534,992	9,469,097
	114,229,670	**64,860,157**	**71,313,848**	**39,371,605**

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. Credit risk – restructured Islamic financing contracts

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

	31 December 2010 ***Total*** ***US $***	*31 December 2009* *Total* *US $*
Restructured Islamic financing contracts	6,449,139	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.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 16. Counterparty credit risk exposure

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

	31 December 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	200,019,731	-	231,267,146	-
Sales receivables	538,401,387	524,515,848	434,236,775	237,943,712
Mudaraba financing	25,739,233	-	17,274,096	-
Ijara Muntahia Bittamleek	93,200,646	93,200,646	46,777,768	46,777,768
Musharaka	55,591,078	54,676,895	20,431,126	20,183,191
Investments	309,021,091	-	138,560,133	-
Investment properties	1,480,205	-	1,368,226	-
Ijara income receivables	18,496,343	-	9,827,038	-
Premises and equipment	26,918,263	-	13,387,943	-
Other assets	56,094,553	-	16,763,546	-
	1,324,962,530	**672,393,389**	929,893,797	304,904,671

Table – 17. Counterparty credit risk exposure

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

	31 December 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	111,696,989	66,426,680	56,604,806	29,581,303

b) Market risk

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

Table – 18. Market risk capital requirements

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

	31 December 2010		*31 December 2009*	
	Equity position risk US $	***Foreign exchange risk US $***	*Equity position risk US $*	*Foreign exchange risk US $*
RWE	**6,022,696**	**66,340,295**	1,856,850	10,581,470
Capital requirements (12%)	**722,724**	**7,960,835**	222,822	1,269,776
Maximum value of RWE	**6,022,696**	**66,340,295**	3,929,425	15,246,585
Minimum value of RWE	**2,619,645**	**10,772,631**	1,856,850	10,581,470

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 19. Equity position risk in Banking Book

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

	Total gross exposure US $	***Average gross exposure over the period US $***	***Publicly held US $***	***Privately held US $***	***Capital requirement US $***
Sukuk	**222,967,944**	**95,978,499**	**7,117,857**	**215,850,087**	**2,771,290**
Managed funds	**12,191,949**	**11,758,557**	**12,191,949**	**-**	**1,421,573**
Private equity	**65,582,617**	**71,776,806**	**-**	**65,582,617**	**11,619,649**
Real estate related	**3,776,313**	**3,776,313**	**-**	**3,776,313**	**679,736**
Others	**1,490,920**	**1,860,345**	**-**	**1,490,920**	**83,159**
	306,009,743	**185,150,520**	**19,309,806**	**286,699,937**	**16,575,407**

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;

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	46,920,455	47,580,796	-	46,920,455	2,717,544
Managed funds	10,867,519	11,849,325	10,867,519	-	1,207,189
Private equity	73,841,535	74,005,266	-	73,841,535	13,217,693
Real estate related	3,776,313	3,776,320	-	3,776,313	679,736
Others	2,225,886	3,073,972	-	2,225,886	145,943
	137,631,708	140,285,679	10,867,519	126,764,189	17,968,105

Table – 20. Equity gains or losses in Banking Book

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

	31 December 2010 US $	*31 December 2009*
Cummalative realized gains (losses) arising from sale or liquidation	**84,690**	-
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	**(4,397,728)**	2,571,525
Unrealized gross losses included in Tier One Capital	**(4,644,544)**	(2,251,574)
Unrealized gains included in Tier Two Capital (45% only)	**111,067**	663,912

3 RISK MANAGEMENT (continued)

c) Unrestricted investment accounts ("URIA")

The Group's share of profit as a Mudarib for managing unrestricted investment accounts and the URIAs' 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. URIA 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, unrestricted investment accounts withdrawn before maturity and without completing three months are not entitled to any income. Unrestricted investment accounts 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 unrestricted investment accounts) times average funds of unrestricted investment accounts].

Investment risk reserve

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

Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for unrestricted investment account holders.

Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having unrestricted investment accounts (URIA) 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 URIA profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan, Bahrain offshore, Bahrain Commercial).

Complaint procedure

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

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

Penalty charges

A financial penalty of US $ 4 thousand was charged by CBB to the Bank during the year.
The Group charged US $ 81 thousand to customers as penalty for default which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)

c) Unrestricted investment accounts ("URIA") (continued)

Table – 21. Ratio of reserves to total URIA

The following table summarises the ratio of reserves to the total amount of unrestricted investment

	31 December 2010	*31 December 2009*
	US $	*US $*
PER to URIA (%)	**0.10%**	0.09%
IRR to URIA (%)	**0.12%**	0.33%

Table – 22. 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:

	31 December 2010	*31 December 2009*
Sales receivable	**74.94%**	**85.11%**
Mudaraba investments	**2.22%**	**0.22%**
Musharaka	**7.20%**	**3.44%**
Ijara Muntahia Bittamleek & Ijara income receivable	**15.64%**	**11.24%**

Table – 23. Unrestricted 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

	31 December 2010	*31 December 2009*
Banks	**33.57%**	14.62%
Investment Firms	**0.56%**	8.88%
Corporates	**41.48%**	56.54%
Residentials	**11.31%**	7.95%
Others	**13.08%**	12.01%

Table – 24. 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 Group as Mudarib for the year ended:

	31 December 2010	*31 December 2009*
Administrative expenses charged to Unrestricted investment account holders	**3,593,505**	3,335,125
Share of profits earned by IAH, before transfers to/from reserves	**45,896,366**	46,278,164
Percentage share of profit earned by IAH before transfer to/from reserves	**6.25%**	7.27%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**29,786,963**	35,740,826
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**4.05%**	5.62%
Share of profit paid out to Bank as mudarib	**15,291,259**	10,053,129
Mudarib Fee to Total Investment Profits	**33.32%**	21.72%

3 RISK MANAGEMENT (continued)

c) Unrestricted investment accounts ("URIA") (continued)

Table – 25. Unrestricted investment account by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2010:

	Opening Actual Allocation US$	***Movement US$***	***Closing Actual Allocation US$***
Cash and balances with banks	**129,322,608**	**13,708,302**	**143,030,910**
Sales receivable	**394,562,450**	**137,068,948**	**531,631,398**
Mudaraba financing	**1,000,000**	**14,775,600**	**15,775,600**
Ijara Muntahia Bittamleek	**43,579,906**	**49,466,662**	**93,046,568**
Musharaka	**15,951,126**	**35,159,953**	**51,111,079**
Investments	**33,854,510**	**58,638,990**	**92,493,500**
Ijara income receivables	**8,508,322**	**9,378,951**	**17,887,273**
Other assets	**9,675,223**	**35,441,009**	**45,116,232**
	636,454,145	**353,638,415**	**990,092,560**

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;

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
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	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

3 RISK MANAGEMENT (continued)

c) Unrestricted investment accounts ("URIA") (continued)

Table – 26. Unrestricted investment account profit earned and paid

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

	Profit earned		*Profit paid to URIA*	
	US$	*%age*	*US$*	*%age*
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%

Table - 27. Treatment of assets financed by unrestricted investment account

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

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

The following table summarises the treatment of assets financed by URIA in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2009:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	8,598,554	2,579,566	309,548
Claims on Banks	60,389,024	18,116,707	2,174,005
Claims on Corporates	279,681,978	83,904,593	10,068,551
Mortgage	6,938,199	2,081,460	249,775
Past due facilities	30,100,472	9,030,142	1,083,617
Investment in securities	2,178,146	653,444	78,413
Holding of Real Estates	29,589,138	8,876,741	1,065,209
Other Assets	9,675,223	2,902,567	348,308
	427,150,734	128,145,220	15,377,426

3 RISK MANAGEMENT (continued)

d) Restricted investment accounts ("RIA")

Restricted investment account (RIA) funds are invested and managed in accordance with Shari'a

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

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

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

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

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

Table – 28. Restricted investment account by Islamic product type

The following table summarises the breakdown of restricted investment accounts as of 31 December

Islamic products

	31 December 2010	*31 December 2009*
Sales receivables	**86.10%**	85.51%
Mudaraba financing	**7.39%**	8.47%
Investments	**6.51%**	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 31 December 2010:

Counterparty type

	31 December 2010	*31 December 2009*
Banks	**16.24%**	28.08%
Corporate	**83.76%**	71.92%

3 RISK MANAGEMENT (continued)

d) 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 year ended 31 December 2010:

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

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;

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
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**
	189,232,719	**13,102,829**	**202,335,548**

Table – 31. Restricted investment account historical returns

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

	Dec 2010	*Dec 2009*	*Dec 2008*	*Dec 2007*	*Dec 2006*
Gross Income	**2,756,802**	1,116,995	5,736,106	6,526,706	6,277,088
Mudarib Fee	**261,157**	195,459	403,207	361,424	526,278

The Group’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 RISK MANAGEMENT (continued)

e) Liquidity risk

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

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

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

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

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

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

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

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

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

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

h. Establish a framework for the composition of assets.

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

Table – 32. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2010	*31 December 2009*
Liquid assets to total assets	**26.6%**	33.6%
Short term assets to short term liabilities	**73.6%**	93.2%

3 RISK MANAGEMENT (continued)

e) Liquidity risk

Table – 33. Quantitative indicators of financial performance and position

	Dec 2010*	*Dec 2009*	*Dec 2008*	*Dec 2007*	*Dec 2006*
Return on average equity	**2.8%**	**-15.5%**	**1.3%**	**2.2%**	**-2.6%**
Return on average assets	**0.5%**	**-2.7%**	**0.2%**	**0.4%**	**-0.4%**
Cost to Income Ratio	**75.3%**	**103.5%**	**80.1%**	**75.7%**	**94.4%**

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

4 OTHER QUALITATIVE DISCLOSURES

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

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

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

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

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

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