

PRIVATE AND CONFIDENTIAL

6 August 2013

Mr Mohammed Ebrahim Mohammed
Chief Executive Officer
Bahrain Islamic Bank B.S.C.
P O Box 5240
Manama
Kingdom of Bahrain

**Bahrain Islamic Bank B.S.C.
Agreed-upon procedures relating to the review of compliance with Public
Disclosure Module issued by the Central Bank of Bahrain [the "CBB"]
for the period ended 30 June 2013**

Dear Sir

We have performed the procedures agreed with you and enumerated in the attached Appendix A relating to the disclosures required by the Public Disclosure Module [PD Module] issued by the Central Bank of Bahrain [the CBB]. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating whether the disclosures for the period ended 30 June 2013 [attached for identification purposes] comply with the requirements of PD Module.

Because the procedures do not constitute either an audit or review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures made for the period ended 30 June 2013.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with International standard on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for the information of Bahrain Islamic Bank B.S.C and its subsidiaries together known as [the "Group"] and the CBB and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the disclosures made for the period ended 30 June 2013 and does not extend to any consolidated financial statements of the Group, taken as a whole.

Yours faithfully



Manama, Kingdom of Bahrain

Attachments: Appendix A

EAJ: ask
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Bahrain Islamic Bank B.S.C.

**Basel II, Pillar III Disclosures
30 June 2013**

(Unaudited)

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures

for the period ended 30 June 2013 (Unaudited)

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1 Background

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-1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiary together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2 Capital Structure and Capital Adequacy

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issuing sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure is primarily made up of its paid-up capital and reserves. From a regulatory perspective, the significant amount of the Group's capital is in Tier 1 form as defined by the CBB, i.e., most of the capital is of permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds. To assess its capital adequacy requirements in accordance with 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. All assets funded by profit sharing investment accounts are subject to Board approval.

The Group as of 30 June 2013 is not in compliance with the regulatory minimum capital adequacy ratio requirement, and its capital adequacy ratio stood at 11.74%.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

As part of the risk management practice, the Group has already implemented Sunguard system to be Basel II compliant as prescribed by CBB.

For the purposes of guidance every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures

for the period ended 30 June 2013 (Unaudited)

2 Capital Adequacy (continued)

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 and 1.3.15)

The following table summarises the eligible capital as of 30 June 2013 after deductions for Capital Adequacy Ratio (CAR) calculation;

	<i>Tier 1</i> <i>BD'000</i>	<i>Tier 2</i> <i>BD'000</i>
Components of capital		
Issued and fully paid ordinary shares	93,404	-
General reserves	1,000	-
Legal / statutory reserves	10,267	-
Retained profit brought forward	(49,455)	-
Less:		
Unrealised gross losses arising from fair valuing equity securities	(707)	-
Tier 1 Capital before PCD deductions	54,509	-
Current interim profits (reviewed by external auditors)	-	2,401
Asset revaluation reserve - Property, plant, and equipment (45% only)	-	5,967
Unrealized gains arising from fair valuing equities (45% only)	-	909
Profit Equalization Reserve	-	295
Investment risk reserve	-	6,462
Tier 2 Capital before PCD deductions	54,509	16,034
Total available capital (Tier 1 and Tier 2)	54,509	16,034
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,845)	(2,845)
Investment in insurance entity greater than or equal to 20%	(833)	(833)
Total Deductions	(3,677)	(3,677)
Net Available Capital	50,832	12,357
TOTAL ELIGIBLE CAPITAL		63,189

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Basel II, Pillar III Disclosures

for the period ended 30 June 2013 (Unaudited)

2 Capital Adequacy (continued)

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 and 1.3.15) (continued)

	<i>Amount of exposures BD'000</i>
Total Credit Risk Weighted Assets	480,434
Total Market Risk Weighted Assets	15,553
Total Operational Risk Weighted Assets	42,133
TOTAL REGULATORY RISK WEIGHTED ASSETS	538,120
CAPITAL ADEQUACY RATIO	11.74%
Minimum requirement	12%

Table – 2. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 30 June 2013 (gross of deductions) subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

Type of Islamic Financing	<i>Risk Weighted Assets BD'000</i>	<i>Capital requirements BD'000</i>
Murabaha receivables*	85,428	10,251
Due from banks and financial institutions	13,187	1,582
Musharaka investments*	31,446	3,774
Investment in Fund	60,230	7,228
Investment in Sukuk	6,653	798
Ijarah muntahia bittamleek*	32,945	3,953
Ijarah rental receivables	5,305	637
	235,194	28,223
Other credit exposures	245,240	29,429
	480,434	57,652

*The risk weighted assets have been allocated on pro-rata basis due to system limitation.

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Basel II, Pillar III Disclosures

for the period ended 30 June 2013 (Unaudited)

2 Capital Adequacy (continued)

Table – 3. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 30 June 2013 subject to standardised approach of market risk and related capital requirements;

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	1,244
Total of Market Risk - Standardised Approach	1,244
Multiplier	12.5
RWE for CAR Calculation (BD'000)	15,553
Total Market Risk Exposures (BD'000)	15,553
Total Market Risk Exposures - Capital Requirement (BD'000)	1,866

Table – 4. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 30 June 2013 subject to basic indicator approach of operational risk and related capital requirements;

Indicators of operational risk	
Average Gross income (BD'000)	22,471
Multiplier	12.5
	280,888
Eligible Portion for the purpose of the calculation	15%
Total Operational Risk Exposure (BD'000)	42,133
Total Operational Risk Exposures - Capital Requirement (BD'000)	5,056

Table – 5. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 30 June 2013 for total capital and Tier 1 capital;

	<i>Total capital ratio</i>	<i>Tier 1 capital ratio</i>
Top consolidated level	11.74%	9.45%

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Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management

3.1 Credit Risk

Table – 6. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure as of 30 June 2013 and average gross funded and unfunded exposures over the period ended 30 June 2013 allocated to own capital and current account and profit sharing investment account (PSIA):

	Own capital and current account		Profit Sharing Investment Account	
	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded				
Cash and balances with banks and Central Bank	20,161	24,841	28,225	26,704
Due from banks and financial institutions	11,728	13,460	84,421	96,891
Murabaha receivables	29,473	28,449	212,148	204,783
Musharaka investments	10,849	10,835	78,090	77,991
Investments	97,208	97,386	22,615	22,028
Investment in associates	7,354	7,218	-	-
Ijarah muntahia bittamleek	11,366	11,747	81,814	84,555
Investment in real estate	64,185	64,401	-	-
Ijarah rental receivables	1,679	1,679	12,087	12,087
Property, Plant and equipment	17,160	16,624	-	-
Other assets	1,951	1,778	-	-
Unfunded				
Commitments and contingent liabilities	13,568	12,057	-	-
Total	286,682	290,475	519,400	525,039

*Average balances are computed based on month end balances.

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Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 30 June 2013, broken down into significant areas by major types of credit exposure;

	Own capital and current account					Profit Sharing Investment Account					Total BD'000
	* Geographic area					* Geographic area					
	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	Total BD'000	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000		
Cash and balances with banks and Central Bank	2,414	119	17,614	14	20,161	-	-	28,225	-	28,225	28,225
Due from banks and financial institutions	-	747	10,981	-	11,728	-	5,381	79,040	-	84,421	84,421
Murabaha receivables	-	913	28,560	-	29,473	-	6,573	205,575	-	212,148	212,148
Musharaka investments	-	-	10,849	-	10,849	-	-	78,090	-	78,090	78,090
Investments	850	4,313	91,183	862	97,208	-	-	22,615	-	22,615	22,615
Investment in associates	-	-	7,354	-	7,354	-	-	-	-	-	-
Ijarah muntahia bittamleek	-	-	11,366	-	11,366	-	-	81,814	-	81,814	81,814
Investment in real estate	-	-	64,185	-	64,185	-	-	-	-	-	-
Ijarah rental receivables	-	-	1,679	-	1,679	-	-	12,087	-	12,087	12,087
Property, Plant and equipment	-	-	17,160	-	17,160	-	-	-	-	-	-
Other assets	-	-	1,951	-	1,951	-	-	-	-	-	-
Total	3,264	6,092	262,882	876	273,114	-	11,954	507,446	-	519,400	519,400

* Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

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Base II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 8. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 30 June 2013 by industry, broken down into major types of credit exposure;

	Own Capital and Current Account									
	Industry Sector									
	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Aviation BD'000	Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000		
Funded										
Cash and balances with banks and Central Bank	-	12,612	-	-	-	-	7,549	20,161		
Due from banks and financial institutions	-	11,728	-	-	-	-	-	11,728		
Murabaha receivables	3,331	2,676	3,693	571	15,165	381	3,656	29,473		
Musharaka investments	819	-	2,403	-	6,537	273	817	10,849		
Investments	8,952	11,353	54,008	-	-	670	22,225	97,208		
Investment in associates	-	7,354	-	-	-	-	-	7,354		
Ijarah muntahia bittamleek	1,121	-	4,178	764	5,303	-	-	11,366		
Investment in real estate	-	-	64,185	-	-	-	-	64,185		
Ijarah rental receivables	-	-	1,679	-	-	-	-	1,679		
Property, Plant and equipment	-	-	-	-	-	-	-	17,160		
Other assets	-	-	-	-	-	-	1,951	1,951		
Unfunded										
Commitments and contingent liabilities	8,074	2,278	486	-	-	-	2,730	13,568		
Total	22,297	48,001	130,632	1,335	27,005	1,324	56,088	286,682		

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Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 8. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c)) (continued)

The following table summarises the distribution of funded and unfunded exposures as of 30 June 2013 by industry, broken down into major types of credit exposure;

	Profit Sharing Investment Account							Total BD'000
	Industry Sector							
	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Aviation BD'000	Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	
Funded								
Cash and balances with banks and Central Bank	-	28,225	-	-	-	-	-	28,225
Due from banks and financial institutions	-	84,421	-	-	-	-	-	84,421
Murabaha receivables	23,980	19,260	26,581	4,108	109,163	2,740	26,316	212,148
Musharaka investments	5,893	-	17,294	-	47,057	1,962	5,884	78,090
Investments	-	4,765	12,337	-	-	4,821	692	22,615
Ijarah muntahia bittamleek	8,069	-	30,072	5,497	38,176	-	-	81,814
Ijarah rental receivables	-	-	12,087	-	-	-	-	12,087
Total	37,942	136,671	98,371	9,605	194,396	9,523	32,892	519,400

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 9. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances representing the financing facilities to highly leveraged or other high risk counterparties as of 30 June 2013;

Counterparties	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	535	3,853	4,388
Counterparty # 2	87	622	709
	622	4,475	5,097

Table – 10. Credit Risk – Concentration of Risk (PD-1.3.23(f))

Following balances representing the concentration of risk to individual counterparties as of 30 June 2013;

Counterparties *	Own capital and current account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	1,900	13,675	15,575
Counterparty # 2	1,633	11,755	13,388
Counterparty # 3	13,700	-	13,700
Counterparty # 4	10,825	-	10,825
Counterparty # 5	10,706	-	10,706
Counterparty # 6	10,297	-	10,297
Counterparty # 7	1,190	8,569	9,759
	50,251	33,999	84,250

* The exposures are in excess of the 15% individual obligor limit.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures

for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 11. Credit Risk – Residual Contractual Maturity Breakdown (Own Capital and Current Account) (PD-1.3.23(g) PD-1.3.38)

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 30 June 2013, broken down by major types of credit exposure;

	Own capital and current account										Total BD'000
	Up to One months BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	
Assets											
Cash and balances with banks and Central Bank	20,161	-	-	-	-	-	-	-	-	-	20,161
Due from banks and financial institutions	9,308	2,349	71	-	-	-	-	-	-	-	11,728
Murabaha receivables*	189	166	1,716	2,124	3,660	5,705	7,264	30	8,619	-	29,473
Musharaka investments*	-	277	16	67	534	1,372	2,646	973	4,964	-	10,849
Investments*	17	24,369	-	463	938	34,583	672	-	729	35,437	97,208
Investment in associates	-	-	-	-	-	-	-	-	-	7,354	7,354
Ijarah muntahia bittamleek*	-	-	36	-	430	1,868	1,824	2,083	5,125	-	11,366
Investment properties	-	-	-	-	-	-	-	-	-	64,185	64,185
Ijarah rental receivables	222	172	-	6	111	456	270	321	121	-	1,679
Property, Plant and equipment	-	-	-	-	-	-	-	-	-	17,160	17,160
Other assets	-	-	-	-	-	-	-	-	-	1,951	1,951
Total Assets	29,897	27,333	1,839	2,660	5,673	43,984	12,676	3,407	19,558	126,087	273,114

* All non performing facilities have been classified as over 20 years.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (Profit Sharing Investment Account) (PD-1.3.23(g) PD-1.3.38)

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 30 June 2013, broken down by major types of credit exposure;

	Profit Sharing Investment Account										Total BD'000
	Up to One months BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	
Assets											
Cash and balances with banks and Central Bank	-	-	-	-	-	-	-	-	-	28,225	28,225
Due from banks and financial institutions	66,998	16,911	512	-	-	-	-	-	-	-	84,421
Murabaha receivables*	1,361	1,197	12,351	15,288	26,344	41,062	52,285	219	62,041	-	212,148
Musharaka investments*	-	1,994	118	481	3,845	9,879	19,044	7,004	35,725	-	78,090
Investments*	126	793	-	3,334	6,754	1,534	4,835	-	5,239	-	22,615
Ijarah muntahia bitamleek*	-	-	262	4	3,095	13,445	13,133	14,994	36,881	-	81,814
Ijarah rental receivables	1,595	1,239	-	43	800	3,286	1,943	2,314	867	-	12,087
Total Assets	70,080	22,134	13,243	19,150	40,838	69,206	91,240	24,531	140,753	28,225	519,400

* All non performing facilities have been classified as over 20 years.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 13. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (Own capital and current account by industry sector) (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the impaired facilities, past due facilities and allowances financed by own capital and current account disclosed by major industry sector as of 30 June 2013:

	Own capital and current account										
	Non-performing or past due or impaired Islamic financing contracts BD'000	Aging of non-performing or past due or impaired Islamic financing contacts				Specific allowances			* General allowances		
		Less than 3 months** BD'000	1 year to 1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the period BD'000	Charges during the period BD'000	Charge-offs during the period BD'000	Balance at the end of the period BD'000	General allowances beginning balance BD'000	General allowances movement BD'000	General allowances ending balance BD'000
Trading and Manufacturing	558	37	478	18	25	15	163	-	-	-	
Real Estate	7,492	279	1,434	2,412	3,367	229	1,788	-	-	-	
Banks and Financial	209	-	-	209	-	52	104	-	-	-	
Personal / Consumer Finance	3,921	365	1,329	1,983	244	157	1,262	-	-	-	
Others / No specific sector	370	292	51	17	10	32	64	170	431	601	
Total	12,550	973	3,292	4,639	3,646	485	3,381	170	431	601	

* General allowance represents collective impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

** This includes amounts not due and amounts past due less than 90 days relating to non-performing or past due or impaired Islamic financing contracts.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures
for the period ended 30 June 2013 (Unaudited)

3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 14. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (profit sharing investment account by industry sector) (PD-1.3.23(h))

The following table summarises the impaired facilities, past due facilities and allowances financed by profit sharing investment account disclosed by major industry sector as of 30 June 2013;

	Profit Sharing Investment Account											
	Non-performing or past due or impaired Islamic financing contracts BD'000	Aging of non-performing or past due or impaired Islamic financing contacts				Specific allowances			* General allowances			
		Less than 3 months** BD'000	1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the period BD'000	Charges during the period BD'000	Charge-offs during the period BD'000	Balance at the end of the period BD'000	General allowances beginning balance BD'000	General allowances movement BD'000	General allowances ending balance BD'000
Trading and Manufacturing	4,015	264	3,438	129	184	1,117	112	(48)	1,181	-	-	-
Real Estate	53,931	2,009	10,319	17,360	24,243	11,237	1,653	(12)	12,878	-	-	-
Institutions	1,505	-	-	1,505	-	4,251	377	(3,873)	755	-	-	-
Personal / Consumer Finance	28,227	2,625	9,563	14,280	1,759	8,587	1,134	(630)	9,091	-	-	-
Others / No specific sector	2,662	2,103	364	120	75	848	234	(615)	467	2,518	3,100	5,618
Total	90,340	7,001	23,684	33,394	26,261	26,040	3,510	(5,178)	24,372	2,518	3,100	5,618

* General allowance represents collective impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

** This includes amounts not due and amounts past due less than 90 days relating to non-performing or past due or impaired Islamic financing contracts.

Although the above table shows the portion of impairment provision related to PSIA, the Group has taken all the provision to their own capital. Hence the PSIA were not charged for any of the impairment provision.

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures
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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 15. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (own capital and current account and profit sharing investment account by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the past due facilities and allowances financed by own capital and current account and profit sharing investment account disclosed by geographical area as of 30 June 2013;

	Own capital and current account			Profit Sharing Investment Account		
	Non-performing or past due or impaired Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000	Non-performing or past due or impaired Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000
Middle East	12,550	3,381	601	90,340	24,372	5,618
Total	12,550	3,381	601	90,340	24,372	5,618

Table – 16. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured financing facilities during the period financed by own capital and current account and profit sharing investment account as of 30 June 2013;

	Own capital and current account	Profit Sharing Investment Account
	Aggregate amount BD'000	Aggregate amount BD'000
Restructured financing facilities	1,420	10,222
Total	1,420	10,222

The provision on restructured facilities is BD 276 thousand and the impact on present and future earnings is not significant.

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3 Risk Management (continued)

3.1 Credit Risk (continued)

Table – 17. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposures as of 30 June 2013 by type of Islamic financing contract covered by eligible collateral;

	<i>Total exposure covered by</i>	
	<i>Eligible collateral *</i>	<i>Guarantees</i>
	<i>BD'000</i>	<i>BD'000</i>
Murabaha receivables	2,364	13,767
Musharaka investments	30	125
Ijarah muntahia bittamleek	435	1,324
Total	2,829	15,216

* Eligible collateral consists of cash collateral only.

Table – 18. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 30 June 2013;

	<i>BD'000</i>
Gross positive fair value of contracts	
Netting Benefits	792,514
Netted current credit exposure	792,514
Collateral held:	
-Cash	2,829
-Shares	5,720
-Real Estate	117,287
Total	125,836

A haircut of 25% is applied on the Shares collateral and haircut of 30% is applied on the Real Estate collateral.

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3 Risk Management (continued)

3.2 Market Risk

Table – 19. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for foreign exchange risk as of 30 June 2013;

	<i>Foreign exchange risk BD'000</i>
Foreign exchange risk	15,553
Foreign exchange risk capital requirement	1,866
Maximum value capital requirement	1,866
Minimum value capital requirement	1,827

3.3 Operational Risk

Table - 20. Operational Risk Exposure (PD-1.3.30 (a), (b) & (c))

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

	<i>Gross income</i>		
	<i>2012 BD'000</i>	<i>2011 BD'000</i>	<i>2010 BD'000</i>
Total Gross Income	23,780	24,856	18,777

Indicators of operational risk

Average Gross income (BD'000)	22,471
Multiplier	12.5

Eligible Portion for the purpose of the calculation 15%

TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000) **42,133**

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3 Risk Management (continued)

3.4 Equity Position in the Banking Book

Table – 21. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the amount of total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 2013;

	<i>Total gross exposure BD'000</i>	<i>* Average gross exposure BD'000</i>	<i>Publicly traded BD'000</i>	<i>Privately held BD'000</i>	<i>Risk weighted assets BD'000</i>	<i>Capital requirements BD'000</i>
Equity investments	59,697	57,956	20,458	39,239	98,659	11,839
Funds	34,368	36,370	-	34,368	60,230	7,228
Total	94,065	94,326	20,458	73,607	158,889	19,067

*Average balances are computed based on month end balances.

Table – 22. Equity Gains or Losses in Banking Book (PD-1.3.31 (d) & (e))

The following table summarises the cumulative realised and unrealised gains or (losses) during the period ended 30 June 2013;

	<i>BD'000</i>
Cumulative realised gain arising from sales or liquidations in the reporting period	728
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	783
Unrealised losses included in Tier 1 Capital	707
Unrealised gains included in Tier 2 Capital*	2,022

* This unrealised gain is discounted by 55% before including it in Tier 2 Capital

3.5 Equity of Investment Accountholders ("IAH")

Table – 23. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 30 June 2013;

	<i>BD'000</i>
Customers	540,685
Financial institutions' investment accounts	56,757
Total	597,442

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the period ended 30 June 2013;

Profit Paid on Average IAH Assets *	2.33%
Mudarib Fee to Total IAH Profits	65.00%

* Average assets funded by IAH have been calculated using month end balances and annualised profit.

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3 Risk Management (continued)

3.5 Equity of Investment Accountholders ("IAH") (continued)

Table – 25. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment account for the period ended 30 June 2013;

<i>Type of Investment Account</i>	<i>Profit distributed to total IAH</i>	<i>Percentage to total IAH</i>
Saving accounts (including VEVO)	1.95%	15.84%
Defined accounts - 1 month	1.09%	1.47%
Defined accounts - 3 months	0.34%	0.45%
Defined accounts - 6 months	0.55%	0.63%
Defined accounts - 9 months	0.00%	0.00%
Defined accounts - 1 year	2.89%	2.91%
Investment certificates	0.64%	0.34%
IQRA Deposits	0.65%	0.47%
Tejoori Deposit	2.11%	16.72%
Customer's deposits	87.72%	52.40%
Bank's deposits	2.06%	8.77%
	100%	100%

The calculation and distribution of profits was based on average balances.

Table – 26. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 30 June 2013;

	<i>Percentage Financing to Total Financing</i>
Due from banks and financial institutions	17.19%
Murabaha receivables	43.19%
Musharaka investments	15.90%
Investment in Sukuk	4.60%
Ijarah muntahia bittamleek	16.66%
Ijarah rental receivables	2.46%

Percentage of Counterparty Type to Total Financing

	<i>Banks and</i>		<i>Personal &</i>				
	<i>Trading and Manufacturing</i>	<i>Financial Institutions</i>	<i>Real Estate</i>	<i>Aviation</i>	<i>Consumer Financing</i>	<i>Governmental Organisation</i>	<i>Others</i>
Due from banks and financial institutions	0.00%	17.19%	0.00%	0.00%	0.00%	0.00%	0.00%
Murabaha receivables	4.88%	3.92%	5.41%	0.84%	22.22%	0.56%	5.36%
Musharaka investments	1.20%	0.00%	3.52%	0.00%	9.58%	0.40%	1.20%
Investment in Sukuk	0.00%	0.97%	2.51%	0.00%	0.00%	0.98%	0.14%
Ijarah muntahia bittamleek	1.64%	0.00%	6.12%	1.12%	7.78%	0.00%	0.00%
Ijarah rental receivables	0.00%	0.00%	2.46%	0.00%	0.00%	0.00%	0.00%
	7.72%	22.08%	20.02%	1.96%	39.58%	1.94%	6.70%

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3 Risk Management (continued)

3.5 Equity of Investment Accountholders ("IAH") (continued)

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the period ended 30 June 2013;

Share of profit earned by IAH before transfer to/from reserves - BD '000	17,487
Percentage share of profit earned by IAH before transfer to/from reserves*	6.73%
Share of profit paid to IAH after transfer to/from reserves - BD '000	6,120
Percentage share of profit paid to IAH after transfer to/from reserves*	2.36%
Share of profit paid to Bank as mudarib - BD '000	11,367

* Annualised.

Table – 28. Profit Equalization and Investment Risk Reserves Movement (PD-1.3.33 (o) & (p))

The following table summarises the movement of Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR) and utilization and computation of PER and/or IRR during the period ended 30 June 2013;

	<i>Profit Equalization Reserve BD'000</i>	<i>Investment Risk Reserve BD'000</i>
Opening balance	-	63
Amount appropriated	295	-
Closing balance	295	63

Table – 29. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average declared rate of return or profit rate on profit sharing investment accounts for the period ended 30 June 2013;

	<i>3 month</i>	<i>6 month</i>	<i>12 month</i>	<i>36 month</i>
Percentage of average declared rate of return to profit rate of return	1.99%	2.54%	2.87%	3.67%

Table – 30. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

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 period ended 30 June 2013;

	<i>Opening Actual Allocation BD'000</i>	<i>Movement During the Period BD'000</i>	<i>Closing Actual Allocation BD'000</i>
Cash and balances with banks and Central Bank	28,255	(30)	28,225
Due from banks and financial institutions	124,005	(39,584)	84,421
Murabaha receivables	213,276	(1,128)	212,148
Musharaka investments	84,484	(6,394)	78,090
Investment in sukuk	38,438	(15,823)	22,615
Ijarah muntahia bittamleek	90,688	(8,874)	81,814
Ijarah rental receivables	12,891	(804)	12,087
Total	592,037	(72,637)	519,400

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3 Risk Management (continued)

3.5 Equity of Investment Accountholders ("IAH") (continued)

Table – 31. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and percentage of profits earned by the Group and paid out to equity of investment accountholders over the past five years;

	<i>Profit Earned (jointly financed)</i>		<i>Profit Paid after Mudarib Share to (IAH)</i>	
	<i>BD'000</i>	<i>%age</i>	<i>BD'000</i>	<i>%age</i>
2013*	34,973	5.85%	12,241	2.05%
2012	29,554	5.25%	14,294	2.28%
2011	33,029	5.53%	14,742	2.31%
2010	33,083	4.46%	17,721	2.39%
2009	35,694	5.27%	17,638	2.61%

* Annualised.

Table – 32. Treatment of assets financed by IAH (PD-1.3.33 (v))

	<i>Assets BD'000</i>	<i>RWA BD'000</i>	<i>RWA for Capital Adequacy Purposes BD'000</i>	<i>Capital Requirements BD'000</i>
Cash and balances with banks and Central Bank	28,225	-	-	-
Due from banks and financial institutions	84,421	84,421	25,326	3,039
Murabaha receivables*	212,148	194,631	58,389	7,007
Musharaka investments*	78,090	71,642	21,493	2,579
Investment in sukuk	22,615	22,615	6,785	814
Ijarah muntahia bittamleek*	81,814	75,059	22,518	2,702
Ijarah rental receivables	12,087	12,087	3,626	435
	519,400	460,455	138,137	16,576

*The amounts have been allocated on pro-rata basis due to system limitation.

3.6 Liquidity Risk

Table – 33. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years;

	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>
Commodities Murabaha / Total Assets	12.13%	11.49%	17.24%	21.73%	10.42%
Islamic Financing / Customer Deposits excluding banks	65.66%	102.19%	114.41%	115.46%	123.01%
Customer Deposits / Total Assets	81.43%	68.55%	63.08%	64.13%	57.28%
Liquid Assets / Total Assets	18.24%	18.45%	22.70%	27.02%	16.06%
Growth in Customer Deposits	(2.32%)	5.58%	(11.71%)	14.86%	21.98%

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3 Risk Management (continued)

3.7 Profit Rate Risk

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates as of 30 June 2013;

	<i>Effect on value of Asset BD'000</i>	<i>Effect on value of Liability BD'000</i>	<i>Effect on value of Economic Capital BD'000</i>
Upward rate shocks:	(1,299)	3,214	1,915
Downward rate shocks:	1,299	(3,214)	(1,915)

Table – 35. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

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

	2013	2012	2011	2010	2009
Return on average equity*	6.74%	(34.19%)	(17.23%)	(33.02%)	(12.64%)
Return on average assets*	0.59%	(3.84%)	(1.96%)	(4.30%)	(2.17%)
Cost to Income Ratio	53.82%	72.17%	74.89%	107.73%	70.66%

* Annualised where applicable.

4 Glossary of Terms

CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
FX	Foreign Exchange
Group	Bahrain Islamic Bank B.S.C. and its subsidiaries
IAH	Investment Account Holder
IRR	investment Risk Reserve
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RWE	Risk Weighted Exposures
L/C	Letter of Credit
L/G	Letter of Guarantee