

Bahrain Islamic Bank B.S.C.

**Basel II, Pillar III Disclosures
31 December 2011**

(Unaudited)

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures

for the year ended 31 December 2011 (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, including share premium 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.

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.

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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 31 December 2011 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	-
Share premium	43,936	-
Retained earnings / losses (excluding current year net income/loss)	(24,958)	-
Less:		
Net Losses for the year	(17,100)	-
Unrealised gross losses arising from fair valuing equity securities	(4,611)	-
Tier 1 Capital before PCD deductions	101,938	-
Unrealised gains arising from fair valuing equities (45% only)		315
Tier 2 Capital before PCD deductions		315
Total available capital		102,253
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,661)	(2,661)
Investment in insurance entity greater than or equal to 20%	(915)	(915)
Excess amount over materiality thresholds in case of investment in commercial entities	(5,367)	(5,367)
Excess amount over maximum permitted large exposure limit	(6,020)	(6,020)
Total Deductions	(14,963)	(14,963)
Tier 1 and Tier 2 eligible capital before additional deduction	86,975	(14,648)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(14,648)	-
Tier 1 and Tier 2 eligible capital	72,327	(14,648)
TOTAL ELIGIBLE CAPITAL	72,327	-

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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	466,661
Total Market Risk Weighted Assets	14,288
Total Operational Risk Weighted Assets	52,968
TOTAL REGULATORY RISK WEIGHTED ASSETS	533,917
CAPITAL ADEQUACY RATIO	13.55%
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 31 December 2011 (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*	64,264	7,712
Due from banks and financial institutions	15,103	1,812
Musharaka investments*	29,544	3,545
Investment in Fund	46,565	5,588
Investment in Sukuk	9,112	1,093
Ijarah muntahia bittamleek*	30,996	3,720
Ijarah rental receivables	2,897	348
	198,481	23,818
Other credit exposures	268,180	32,182
	466,661	56,000

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

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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 31 December 2011 subject to standardised approach of market risk and related capital requirements;

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	1,143
	<hr/>
Total of Market Risk - Standardised Approach	1,143
	<hr/>
Multiplier	12.5
	<hr/>
RWE for CAR Calculation (BD'000)	14,288
	<hr/>
Total Market Risk Exposures (BD'000)	14,288
	<hr/>
Total Market Risk Exposures - Capital Requirement (BD'000)	1,715
	<hr/>

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 31 December 2011 subject to basic indicator approach of operational risk and related capital requirements;

Indicators of operational risk	
Average Gross income (BD'000)	28,249
Multiplier	12.5
	<hr/>
	353,117
	<hr/>
Eligible Portion for the purpose of the calculation	15%
	<hr/>
Total Operational Risk Exposure (BD'000)	52,968
	<hr/>
Total Operational Risk Exposures - Capital Requirement (BD'000)	6,356
	<hr/>

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

The following are Capital Adequacy Ratios as of 31 December 2011 for total capital and Tier 1 capital;

	<i>Total capital ratio</i>	<i>Tier 1 capital ratio</i>
Top consolidated level	13.55%	13.55%
	<hr/>	<hr/>

3 Risk Management

3.1 Bank-wide Risk Management Objectives

The risk management philosophy of the Group is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its Risk Strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels as per the ICAAP framework. The main objective of the Group's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Group undertakes in the course of its business.

The Group has an established internal capital adequacy assessment process (ICAAP) as per the requirements under Pillar III of the Basel II. ICAAP prescribed measures are designed to ensure appropriate identification, measurement, aggregation and monitoring of the Group's risk. It also defines an appropriate level of internal capital in relation to the Group's overall risk profile and business plan.

3.2 Strategies, Processes and Internal Controls

3.2.1 Group's risk strategy

Capital Management policies and Risk Charter define the Group's risk strategy. Comprehensive Risk Management Policy Framework is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Group.

The risk charter identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Group is in the process of implementing various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Group is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarises the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

3 Risk Management (continued)

3.2 Strategies, Processes and Internal Controls (continued)

3.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it. The Group has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

3.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions although they are insignificant. The Group regularly carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits, position limits, VaR limits and maturity limits.

3.2.4 Operational risk

The Group has implemented SunGuard's Operational Risk Management system 'SWORD' for recording the potential risks, controls and events on a continuous basis. As part of implementation, the Group has carried out Risk Control Self Assessment ("RCSA") exercise on a regular basis. The system also measures the Operational risk appetite based on the predefined limits/thresholds.

The Group has established a clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Group, where possible.

3.2.5 Equity price risk

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

3.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believes that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

3.2.7 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Group manages its displaced commercial risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its displaced commercial risk as outlined in the Risk Charter of the Group. The Group may forego its fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

3 Risk Management (continued)

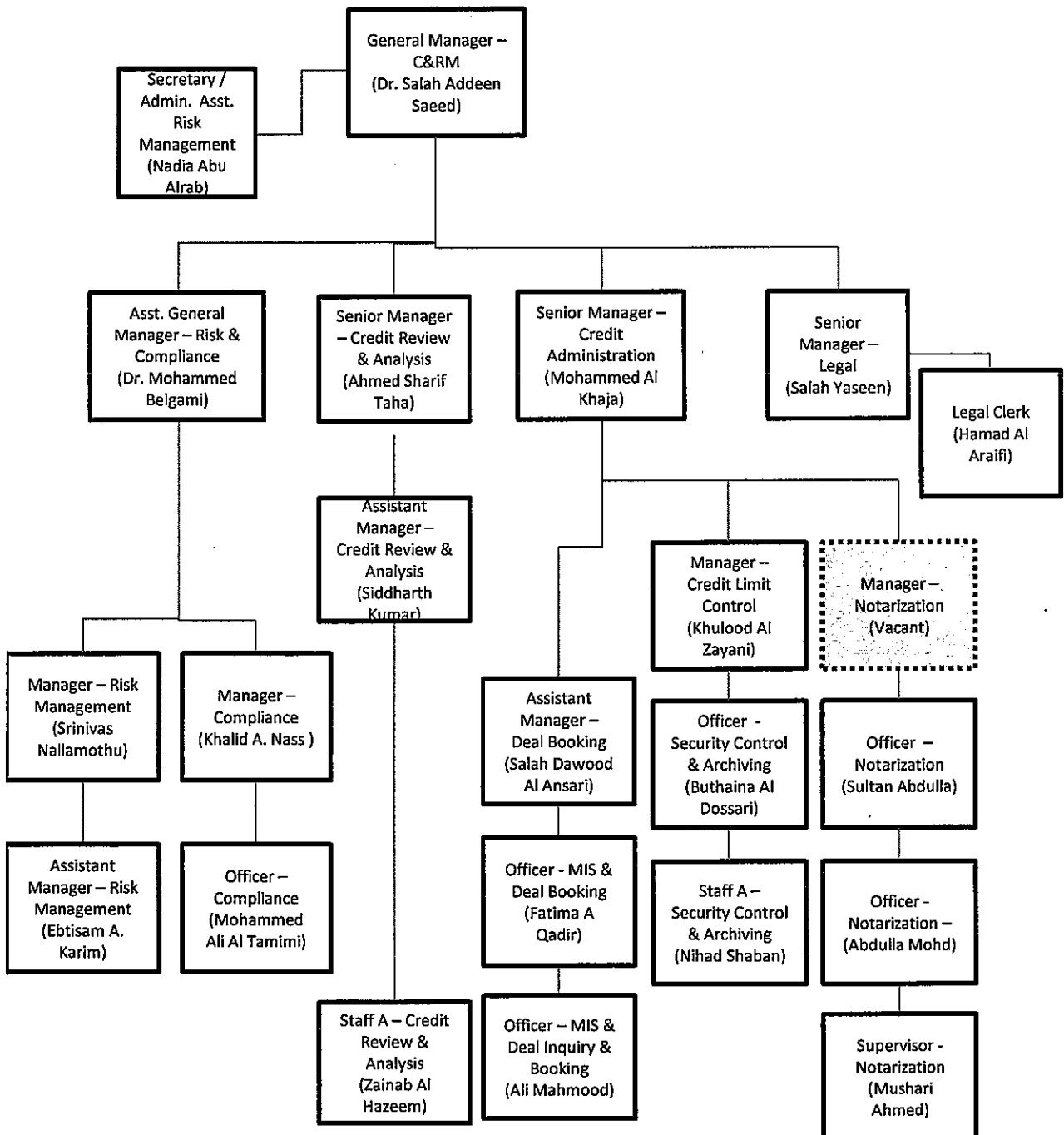
3.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk committee), organisational structure, people and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- a. Establishing overall policies and procedures, and
- b. Delegating authority to Executive Committee, Credit Committee, the Chief Executive Officer and further delegation to the management to approve and review.

CREDIT & RISK MANAGEMENT



3 Risk Management (continued)

3.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

3.5 Credit Risk

3.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage financed or other tangible securities.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CR&AD"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. In addition, the Group's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/facilities are reviewed on an annual basis by CR&AD.

3.5.2 Types of credit risk

Financing contracts mainly comprise Due from banks and financial institutions, Murabaha receivables, Musharaka investments and Ijarah muntahia bittamleek.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then resells this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration or gradual sale, provided that all Ijarah instalments are settled.

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.3 Past Due and impaired Islamic financing

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. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as non performing, not only the overdue instalments/payments.

As a policy the Group places on a non-accrual basis any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

3.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents.

3.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

3.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

3.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate. Name lending (i.e. lending without audited financial statements and tangible collateral security) is discouraged and is approved only on an exceptional basis after careful analysis of the quality of the customer, market reputation, approximate personal net worth etc.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.7 Credit risk mitigation (continued)

The market value of tangible collateral security are properly evaluated by the Group approved valuers (for properties) or based on publicly available quotations. Only the Loan-able Value of such security is taken into account while considering credit facilities.

From time to time, the Credit and Investment Committee reviews and approves the loan-able value of securities. It has also approved a list of acceptable securities.

The majority of the Group's current credit portfolio is secured through mortgage of commercial real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

3.5.7.1 General policy guidelines of collateral management

Acceptable Collaterals: The Group has developed guidelines for acceptable collaterals. Assets offered by customers must meet the following criteria to quantify as acceptable collateral:

- a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;
- b. Such assets should be easily convertible into cash, if required (liquidity);
- c. There should be a reasonable market for the assets (marketability); and
- d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

- a. **Valuation of shares and goods:** Where competent staff is available within the Group, the valuation is conducted in-house. The Group performs in-house valuation on the following types of securities:
 - Pledge of shares of local companies;
 - Pledge of international marketable shares and securities; and
 - Pledge and hypothecation of goods.

International shares are valued at the quotes available from stock exchanges, periodicals, etc.

- b. **Valuation of real estate and others:** Besides assets mentioned above the valuation of following securities are also conducted:
 - Real Estate;
 - Equipment and machinery; and
 - Precious metals and jewellers.

The Credit Administration requests the concerned department to arrange for the valuation from approved valuers.

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.7 Credit risk mitigation (continued)

3.5.7.1 General policy guidelines of collateral management (continued)

The following additional guidelines are also followed by the Group:

- a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and
- b. All documents received as security or support for credit facilities will be lodged in the safe custody through the Credit Administration and should be kept under dual control. Group must ascertain that collateral providers are authorised and acting within their capacity.

3.5.7.2 Guarantees

In cases where a letter of guarantee from parent company or a third party is accepted as credit risk mitigants, the Group ensures that all guarantees are irrevocable, legal opinion has been obtained from a legal counsellor domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, if the guarantor / prime obligor is domiciled outside Bahrain and all guarantees should be valid until full settlement of the facilities. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

3.5.7.3 Custody/ collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodian approved by the Group. The Credit Administration will obtain confirmation of the assets held with each custodian on an annual basis.

The release of collateral without full repayment of all related financial obligations requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

3.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal/external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade/deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

3.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case counterparty fails to fulfil its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

3.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.8 Counterparty credit risk (continued)

3.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over other(s).

3.5.8.4 Connected counterparties

Connected counterparties are companies or individuals connected with the Group or its subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control, family links or otherwise), members of the Shari'a Supervisory Board, management and other staff and shareholders holding more than 10% or more of the equity voting rights in the Group.

3.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

- a. If any counterparty (single/group) exposure exceeds 15% of Group's Capital Base; and
- b. If any facility (new/extended) to an employee is equal or above BD100, 000 (or equivalent).

3.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

3.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

3.5.8.8 Other matters

As a Group's strategy exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis.

The Group shall not assume any exposure to its external auditors.

3.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements as of 31 December 2011. All related party transactions have been made on arm's length basis.

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3 Risk Management

3.5 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 31 December 2011 and average gross funded and unfunded exposures over the year ended 31 December 2011 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	15,436	19,406	26,245	27,413
Due from banks and financial institutions	14,451	13,504	134,362	125,563
Murabaha receivables	19,612	22,034	182,360	204,873
Musharaka investments	9,017	8,675	83,836	80,662
Investment in associates	58,730	63,078	51,192	51,911
Investment in Ijarah assets	7,151	5,583	-	-
Ijarah muntahia bittamleek	9,496	6,981	-	-
Investment properties	9,459	9,963	87,957	92,637
Ijarah rental receivables	115,008	106,007	-	-
Other assets	765	736	7,108	6,845
Unfunded	6,958	7,705	-	-
Commitments and contingent liabilities	10,099	10,822	-	-
Total	276,182	274,494	573,060	589,904

*Average balances are computed based on month end balances.

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3 Risk Management (continued)

3.5 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 31 December 2011, broken down into significant areas by major types of credit exposure;

	Own capital and current account					Profit Sharing Investment Account				
	* 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	Total BD'000
Cash and balances with banks and Central Bank	1,344	84	13,954	54	15,436	-	-	26,245	-	26,245
Due from banks and financial institutions	-	1,793	12,658	-	14,451	-	16,674	117,688	-	134,362
Murabaha receivables	-	-	19,612	-	19,612	-	-	182,360	-	182,360
Musharaka investments	-	-	9,017	-	9,017	-	-	83,836	-	83,836
Investments	850	5,755	50,617	1,508	58,730	-	-	51,192	-	51,192
Investment in associates	-	-	7,151	-	7,151	-	-	-	-	-
Investment in Ijarah assets	-	-	9,496	-	9,496	-	-	-	-	-
Ijarah muntahia bittamleek	-	-	9,459	-	9,459	-	-	87,957	-	87,957
Investment properties	-	-	115,008	-	115,008	-	-	-	-	-
Ijarah rental receivables	-	-	765	-	765	-	-	7,108	-	7,108
Other assets	-	-	6,958	-	6,958	-	-	-	-	-
Total	2,194	7,632	254,695	1,562	266,083	-	16,674	556,386	-	573,060

* 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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3 Risk Management (continued)

3.5 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 31 December 2011 by industry, broken down into major types of credit exposure;

	Own Capital and Current Account										Total BD'000
	Industry Sector					Personal &					
	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	-	8,316	-	-	-	-	7,120	-	-	-	15,436
Due from banks and financial institutions	-	14,451	-	-	-	-	-	-	-	-	14,451
Murabaha receivables	3,645	2,088	2,569	691	9,550	834	235	-	-	-	19,612
Musharaka investments	1,131	-	2,308	-	4,762	326	490	-	-	-	9,017
Investments	2,943	13,899	15,524	109	-	2,671	23,684	-	-	-	58,730
Investment in associates	-	7,151	-	-	-	-	-	-	-	-	7,151
Investment in Ijarah assets	-	-	9,496	-	-	-	-	-	-	-	9,496
Ijarah muntahia bittamleek	758	924	2,974	1,428	3,358	-	17	-	-	-	9,459
Investment properties	-	-	115,008	-	-	-	-	-	-	-	115,008
Ijarah rental receivables	-	-	-	-	-	-	-	-	-	-	765
Other assets	-	-	-	-	-	-	-	-	-	-	6,958
Unfunded											
Commitments and contingent liabilities	6,668	2,307	578	-	-	-	546	-	-	-	10,099
Total	15,145	49,136	148,457	2,228	17,670	3,831	39,717	-	-	-	276,182

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3 Risk Management (continued)

3.5 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 31 December 2011 by industry, broken down into major types of credit exposure;

	Profit Sharing Investment Account								Total BD'000
	Industry Sector				Personal &				
	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	-	26,245	-	-	-	-	-	-	26,245
Due from banks and financial institutions	-	134,362	-	-	-	-	-	-	134,362
Murabaha receivables	33,887	19,414	23,886	6,421	88,794	7,756	2,202	182,360	
Musharaka investments	10,513	-	21,456	-	44,277	3,033	4,557	83,836	
Investments	-	5,168	12,398	1,021	-	24,832	7,773	51,192	
Investment in associates	-	-	-	-	-	-	-	-	
Investment in Ijarah assets	-	-	-	-	-	-	-	-	
Ijarah muntahia bittamleek	7,048	8,595	27,648	13,274	31,223	-	169	87,957	
Investment properties	-	-	-	-	-	-	-	-	
Ijarah rental receivables	-	-	-	-	-	-	7,108	7,108	
Other assets	-	-	-	-	-	-	-	-	
Unfunded									
Commitments and contingent liabilities	-	-	-	-	-	-	-	-	
Total	51,448	193,784	85,388	20,716	164,294	35,621	21,809	573,060	

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 9. Credit Risk – Intra-group transactions (PD-1.3.23(d))

The balances and transactions with the related parties are disclosed in the consolidated financial statements as of 31 December 2011 and all related party transactions have been made on an arms' length basis.

The balances of major transactions with the subsidiary are as follows:

	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Customers' current accounts	211	-	211
Other liabilities	5,627	-	5,627
Other assets	7	-	7
Investment in subsidiary	25,000	-	25,000

The income and expenses arising from dealing with the subsidiary which we eliminated in the consolidated statement of income are as follows:

	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Income from Ijarah assets	34	-	34

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 10. 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 31 December 2011;

Counterparties	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	560	5,205	5,765
Counterparty # 2	408	3,789	4,197
Counterparty # 3	198	1,844	2,042
Counterparty # 4	188	1,744	1,932
	1,354	12,582	13,936

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

Following balances representing the concentration of risk to individual counterparties as of 31 December 2011;

Counterparties	Own capital and current account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	1,910	17,756	19,666
Counterparty # 2	15,693	-	15,693
	17,603	17,756	35,359

* The exposures are in excess of the 15% individual obligor limit and the excess is deducted from the available capital.

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 12. 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 31 December 2011, 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	15,436	-	-	-	-	-	-	-	-	-	15,436
Due from banks and financial Murabaha receivables	11,790	2,545	116	-	-	-	-	-	-	-	14,451
Musharaka investments	88	813	749	2,231	2,032	4,013	6,193	9	3,484	-	19,612
Investment in associates	315	326	5	40	1,166	1,369	1,997	1,069	2,730	-	9,017
Investment in Ijarah assets	-	14,493	110	968	1,294	27,763	-	-	3,135	10,967	56,730
Ijarah muntahia bittamleek*	-	-	-	-	-	-	-	-	-	7,151	7,151
Investment properties	-	-	-	-	-	-	-	-	-	9,496	9,496
Ijarah rental receivables	6	-	1	-	1,087	980	2,801	1,418	3,166	-	9,459
Other assets	-	-	-	-	-	-	-	-	-	115,008	115,008
	-	-	765	-	-	-	-	-	-	-	765
	-	-	2,368	-	-	-	-	-	-	4,590	6,958
Total Assets	27,635	18,177	4,114	3,239	5,579	34,125	10,991	2,496	12,515	147,212	266,083

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

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 13. 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 31 December 2011, 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	109,628	23,664	1,070	-	-	-	-	-	-	26,245	26,245
Due from banks and financial Murabaha receivables	823	7,554	6,968	20,743	18,889	37,318	57,583	87	32,395	-	134,362
Musharaka investments	2,930	3,033	44	371	10,841	12,725	18,569	9,942	25,381	-	182,360
Investments*	-	-	1,021	8,988	12,028	-	-	-	29,145	-	83,836
Ijarah muntahia bittamleek*	60	-	3	-	10,103	9,121	26,048	13,182	29,440	-	51,192
Ijarah rental receivables	-	-	7,108	-	-	-	-	-	-	-	87,957
Total Assets	113,441	34,251	16,214	30,112	51,861	59,164	102,200	23,211	116,361	26,245	573,060

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

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 14. 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 31 December 2011;

	Own capital and current account												
	Non-performing or past due or impaired Islamic financing contacts				Specific allowances				* General allowances				
	Aging of non-performing or past due or impaired Islamic financing contacts		Balance at the beginning of the year		Charges during the year		Charge-offs during the year		Balance at the end of the year		General allowances beginning balance	General allowances movement	General allowances ending balance
Non-performing or past due Islamic financing contracts	Less than 3 months**	3 months to 1 year	1 to 3 years	Over 3 years	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Manufacturing	4,915	-	889	3,963	63	1,177	(129)	3,742	-	-	-	-	-
Real Estate	4,797	175	1,076	3,523	23	49	(203)	264	-	-	-	-	-
Banks and Personal / Consumer Finance	1,840	-	1,656	184	-	331	-	331	-	-	-	-	-
No specific sector	3,775	790	1,479	1,484	22	219	(413)	411	-	19	517	-	536
Total	15,327	965	5,100	9,154	108	1,776	(745)	4,748	19	517	517	536	536

* 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.

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 15. 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 31 December 2011;

	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	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charges during the year BD'000	Charge-offs during the year BD'000	Balance at the end of the year BD'000	General allowances beginning balance BD'000	General allowances movement BD'000
Manufacturing	-	8,271	36,845	585	25,049	10,944	(1,203)	34,790	-	-	-
Real Estate	1,631	40,001	32,759	216	3,888	455	(1,892)	2,451	-	-	-
Financial	-	15,399	1,707	-	-	3,080	-	3,080	-	-	-
Consumer	7,345	13,754	13,794	204	5,624	2,036	(3,836)	3,824	-	-	-
No specific sector	-	-	-	-	-	-	-	-	175	4,802	4,977
Total	142,511	8,976	85,105	1,005	34,561	16,515	(6,931)	44,145	175	4,802	4,977

* 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.

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 16. 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 31 December 2011;

	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	15,327	4,748	536	142,511	44,145	4,977
Total	15,327	4,748	536	142,511	44,145	4,977

Table – 17. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured financing facilities during the year financed by own capital and current account and profit sharing investment account as of 31 December 2011;

	Own capital and current account	Profit Sharing Investment Account
	Aggregate amount BD'000	Aggregate amount BD'000
Restructured financing facilities	6,996	65,044
Total	6,996	65,044

The provision on restructured facilities is BD 1,696 thousand and the impact on present and future earnings is not significant.

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3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 18. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2011 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	13,936	-
Musharaka investments	8	-
Ijarah muntahia bittamleek	5,610	-
Total	19,554	-

* Eligible collateral consists of cash collateral only.

Table – 19. 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 31 December 2011;

	<i>BD'000</i>
Gross positive fair value of contracts	839,143
Netting Benefits	-
Netted current credit exposure	839,143
Collateral held:	
-Cash	19,554
-Shares	9,140
-Real Estate	193,641
Total	222,335

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

3.6 Market Risk

3.6.1 Introduction

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on- and off-balance-sheet positions arising from movements in market prices."

3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

Commodity risk; products may have an inherent risk as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

3.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing (at least annually), the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

- 1 The Group will manage its market risk exposure by evaluating each new product/ activity with respect to the market risk introduced by it;
- 2 The Group will proactively measure and continually monitor the market risk in its portfolio;
- 3 The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;
- 4 The Group will establish a market risk appetite which will be quantified in terms of a market risk limit structure;
- 5 The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, maximum/stop loss limits, factor sensitivity limits, VaR limits and maturity limits;
- 6 The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions;
- 7 The Group will periodically carry out back testing of market risk assessment models in order to evaluate their accuracy and the inherent model risk;
- 8 The Group will match the amount of floating rate assets with floating rate liabilities; and
- 9 The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.4 Market risk measurement methodology

Market risk measurement techniques includes the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

- a. Overnight open positions;
- b. Stop loss limits;
- c. Factor sensitivity limits;
- d. VaR limits; and
- e. Profit rate risk gap analysis.

3.6.5 Market risk monitoring and limits structure

The Asset and Liability Committee (ALCO) proposes through the Executive Committee and Board the tolerance for market risk. Based on these tolerances, Risk and Compliance Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

3.6.6 Limits monitoring

The Treasury Department and Risk and Compliance Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters and report periodically to top management.

3.6.7 Breach of limits

In case a limit is breached, an approval from the CEO is required to continue with the transaction. An immediate report is provided to the ALCO after every significant limit breach. This breach is also reported to and approved by the Executive Committee (EXCOM). The limits are revised at least bi-annually or when deemed required.

3.6.8 Portfolio review process

On a monthly basis, Risk and Compliance Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk and Compliance Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk and Compliance Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the GM-C&RM/CEO and approval by the ALCO or EXCOM, as per the delegated authorities approved by the Board. Balance sheet exposure is being reviewed on a quarterly basis by the Board level Audit and Risk committees.

3.6.9 Reporting

Risk and Compliance Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

3.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk and Compliance Unit employs four stress categories: profit rates, foreign exchange rates, equity prices and commodity prices. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

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3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 20. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for foreign exchange risk as of 31 December 2011;

	<i>Foreign exchange risk BD'000</i>
Foreign exchange risk	14,288
Foreign exchange risk capital requirement	<u>1,715</u>
Maximum value capital requirement	<u>2,043</u>
Minimum value capital requirement	<u>1,715</u>

3.7 Operational Risk

3.7.1 Introduction

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

3.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories.

People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting; and

Systems (Technology) risk which arise due to integrity of information - lacking in timelines of information, omission and duplication of data; hardware failures due to power surge, obsolescence or low quality.

3.7.3 Operational risk management strategy

As a strategy the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise, to identify the operational risks it is exposed to.

3 Risk Management (continued)

3.7 Operational Risk (continued)

3.7.3 Operational risk management strategy (continued)

The Group on a continuous basis will:

- a. assess the effectiveness of controls associated with identified risks;
- b. regularly monitor operational risk profiles and material exposures to losses; and
- c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks.

3.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

3.7.5 Operational risk mitigation and control

The business units, in consultation with Risk and Compliance Unit will determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with Risk and Compliance Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group or withdraw from the associated activity completely. Risk and Compliance Unit facilitates the business units in co-developing the mitigation plans.

3.7.6 Business Continuity Plan (BCP)

The Group has also developed a comprehensive business continuity plan detailing the steps to be taken in the event of extreme conditions to resume the Group's operations with minimum delay and disturbance. The plan is in implementation stage. Elements of contingency plans and disaster recovery processes include operating systems, physical space, telecommunications and resources.

3.7 Operational Risk

Table - 21. 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>2010</i>	<i>2009</i>	<i>2008</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<i>Total Gross Income</i>	18,777	25,962	40,009
Indicators of operational risk			
Average Gross income (BD'000)			28,249
Multiplier			12.5
			353,117
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			52,968

3 Risk Management (continued)

3.7 Operational Risk (continued)

Risk and Compliance Unit ensures that the BCP is kept up to date and tested once a year in a simulated environment to ensure that it can be implemented in emergency situations and that the management and staff understand how it is to be executed. Results of this testing conducted by Risk and Compliance Unit is evaluated by the GM-C&RM and presented to the EXCOM/Board for evaluation.

3.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements as of 31 December 2011. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

Table – 22. 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 31 December 2011;

	<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>
Sukuk	56,698	57,494	-	56,698	9,112	1,093
Equity investments	25,460	26,581	14,493	10,967	32,813	3,938
Funds	27,764	30,914	-	27,764	46,565	5,588
Total	109,922	114,989	14,493	95,429	88,490	10,619

*Average balances are computed based on month end balances.

Table – 23. 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 year ended 31 December 2011;

	<i>BD'000</i>
Cumulative realised gain arising from sales or liquidations in the reporting period	1,315
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	3,343
Unrealised losses included in Tier 1 Capital	4,611
Unrealised gains included in Tier 2 Capital*	700

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

3 Risk Management (continued)

3.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase losses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by equity IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB, in addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such deposits. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

If at any point of time in a particular pool the funds of IAH exceed the assets, the excess amount shall be treated to be invested in commodity Murabaha and earn the average rate of profit on Commodity Murabaha earned during the excess period. There should be no inter-pool financing at any point of time. The Group should establish a control to avoid excess fund in any pool to be used in other pool.

Proposal for new products is initiated by the business lines within the Group, ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors and risk profile.

Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

The Group has designed special quality assurance units whom reports complaints directly to the CEO. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 month, 6 month, 9 month, 12 month and 36 month. The customer signs written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the Mudarab share of income from investment in order to provide a reasonable return to its investors.

The Group comingles its own funds and equity of investment accountholders funds which are invested together. The Group has identified two pools of assets where the equity of investment accountholders funds are invested and income from which is allocated to such is account.

3 Risk Management (continued)

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

The Group has already developed a written policies and procedures applicable to its portfolio of equity of investment accountholders. equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

- Pool A: Low risk assets or generating low yield.
- Pool B: High risk assets or generating high yield.

Profits of an investment jointly financed by the Group and the equity of investment accountholders holders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment separately for each Joint pool A and B. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the joint fund. Impairment provisions shall only be allocated to Pool B in the ratio of capital contribution by Bank and IAH of Pool B. The reversal of this provision in future year shall be allocated between Bank and IAH of Pool B in the ratio of capital contribution at the time the reversal is made. The loss can be entirely borne by the shareholders of the Group subject to the approval of the Board. Equity of investment accountholders deposits are measured at their book value.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

Table – 24. 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 31 December 2011;

	<i>BD'000</i>
Customers	529,332
Financial institutions' investment accounts	108,879
Total	638,211

Table – 25. 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 year ended 31 December 2011;

Profit Paid on Average IAH Assets *	2.00%
Mudarib Fee to Total IAH Profits	44.76%

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

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for the year ended 31 December 2011 (Unaudited)

3 Risk Management (continued)

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

Table – 26. 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 holder for the year ended 31 December 2011;

<i>Type of Investment Account Holder</i>	<i>Profit distributed to total IAH</i>	<i>Percentage to total IAH</i>
Saving accounts (including VEVO)	3.95%	13.07%
Defined accounts - 1 month	0.81%	1.60%
Defined accounts - 3 months	0.39%	0.47%
Defined accounts - 6 months	0.52%	0.58%
Defined accounts - 9 months	0.01%	0.01%
Defined accounts - 1 year	2.81%	2.75%
Investment certificates	0.65%	0.35%
IQRA Deposits	0.33%	0.29%
Saving Scheme	3.69%	13.37%
Tejoori Deposit	0.59%	0.28%
Customer's deposits	78.89%	50.17%
Bank's deposits	7.36%	17.06%
	100%	100%

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

Table – 27. 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 31 December 2011;

	<i>Percentage Financing to Total Financing</i>
Due from banks and financial institutions	24.57%
Murabaha receivables	33.35%
Musharaka investments	15.32%
Investment in Sukuk	9.37%
Ijarah muntahia bittamleek	16.09%
Ijarah rental receivables	1.30%

Percentage of Counterparty Type to Total Financing

	<i>Banks and</i>		<i>Personal &</i>		<i>Governmental</i>	<i>Others</i>
	<i>Aviation</i>	<i>Real Estate</i>	<i>Trading and Manufacturing</i>	<i>Financial Institutions</i>	<i>Consumer Financing</i>	<i>Organisation</i>
Due from banks and financial institutions	-	-	-	24.57%	-	-
Murabaha receivables	1.17%	4.37%	6.20%	3.55%	16.24%	1.42%
Musharaka investments	-	3.92%	1.92%	-	8.10%	0.55%
Investment in Sukuk	0.19%	2.27%	-	0.95%	-	4.54%
Ijarah muntahia bittamleek	2.43%	5.06%	1.29%	1.57%	5.71%	-
Ijarah rental receivables	-	-	-	-	-	-
	3.79%	15.62%	9.41%	30.64%	30.05%	6.51%
						3.98%

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3 Risk Management (continued)

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

Table – 28. 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 year ended 31 December 2011;

Share of profit earned by IAH before transfer to/from reserves - BD '000	14,742
Percentage share of profit earned by IAH before transfer to/from reserves	55.24%
Share of profit paid to IAH after transfer to/from reserves - BD '000	14,742
Percentage share of profit paid to IAH after transfer to/from reserves	55.24%
Share of profit paid to Bank as mudarib - BD '000	11,946

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 year ended 31 December 2011;

	<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	1.75%	2.00%	2.25%	4.00%

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 year ended 31 December 2011;

	<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	27,009	(764)	26,245
Due from banks and financial institutions	121,154	13,208	134,362
Murabaha receivables	205,860	(23,500)	182,360
Musharaka investments	80,273	3,563	83,836
Investment in sukuk	53,553	(2,361)	51,192
Ijarah muntahia bittamleek	95,094	(7,137)	87,957
Ijarah rental receivables	6,815	293	7,108
Total	589,758	(16,698)	573,060

3 Risk Management (continued)

3.9 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 to (IAH)</i>	
	<i>BD'000</i>	<i>%age</i>	<i>BD'000</i>	<i>%age</i>
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%
2008	36,934	5.87%	17,702	2.81%
2007	31,463	7.80%	15,609	3.87%

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	26,245	-	-	-
Murabaha receivables*	182,360	158,452	47,536	5,704
Due from banks and financial institutions	134,362	37,059	11,118	1,334
Musharaka investments*	83,836	72,845	21,854	2,622
Investment in sukuk	51,192	22,357	6,707	805
Ijarah muntahia bittamleek*	87,957	76,426	22,928	2,751
Ijarah rental receivables	7,108	7,108	2,132	256
	573,060	374,247	112,275	13,472

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

3.10 Liquidity Risk

3.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

3.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

- a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;
- b. Call risk is the risk of crystallisation of a contingent liability; and
- c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

3 Risk Management (continued)

3.10 Liquidity Risk (continued)

3.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Risk Charter and Liquidity Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

3.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, and over 3 years. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Treasury Department, in conjunction with Risk and Compliance Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the EXCOM and the Board for approval.

3.10.5 Liquidity risk measurement tools

The Group uses a combination of techniques for measurement of its liquidity risk. These include liquidity gap analysis, liquidity ratio limits and minimum liquidity guidelines.

3.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk and Compliance Unit and Treasury Department. Based on these tolerances, Risk and Compliance Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations.

3.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

- a. Liquidity Gap limits;
- b. Liquidity Ratio limits; and
- c. Minimum Liquidity Guideline ("MLG").

3.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

3.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

3 Risk Management (continued)

3.10 Liquidity Risk (continued)

Table – 33. Liquidity Ratios (PD-1.3.37)

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

	2011	2010	2009	2008	2007
Commodities Murabaha / Total Assets	17.24%	21.73%	10.42%	14.98%	27.37%
Islamic Financing / Customer					
Deposits excluding banks	114.41%	115.46%	123.01%	144.62%	171.72%
Customer Deposits / Total Assets	63.08%	64.13%	57.28%	48.71%	36.04%
Liquid Assets / Total Assets	22.70%	27.02%	16.06%	23.25%	46.29%
Growth in Customer Deposits	(11.71%)	14.86%	21.98%	79.24%	55.50%

3.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

- a. Murabaha transactions;
- b. Wakala transactions;
- c. Ijarah muntahia bittamleek;
- d. Sukuk; and
- e. Musharaka investments.

The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

3.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories.

- a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these repricing mismatches expose the Group's income and underlying economic value to unanticipated
- b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;
- c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

3 Risk Management (continued)

3.11 Profit Rate Risk (continued)

3.11.2 Profit rate risk strategy

The Group is not exposed to interest rate risk on its financial assets as no interest is charged. However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the

- a. has identified the profit rate sensitive products and activities it wishes to engage in;
- b. has established a limit structure to monitor and control the profit rate risk of the Group;
- c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and
- d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

3.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

- a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
- b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

3.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to EXCOM and the Board of Directors. The Risk and Compliance Unit monitors these limits regularly. GM-C&RM reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or EXCOM, according to authority parameters approved by the Board.

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 31 December 2011;

	<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:	(4,057)	9,576	5,519
Downward rate shocks:	4,057	(9,576)	(5,519)

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;

	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Return on average equity	(17.23%)	-33.02%	-12.64%	12.62%	19.10%
Return on average assets	(1.96%)	-4.30%	-2.17%	2.91%	4.57%
Cost to Income Ratio	74.89%	107.73%	70.66%	31.32%	32.41%

4 Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
CBB	Central Bank of Bahrain
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiary
HR Committee	Human Resource Committee
Group	Bahrain Islamic Bank B.S.C. and its subsidiary
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee