# Bahrain Islamic Bank B.S.C.

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

(Unaudited)

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## 1 Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (the "CBB") requirements outlined in its Public Disclosure Module ("PD Module"), Section PD-3: 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").

## 2 Capital Adequacy

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

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 Standardized Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk. All assets funded by unrestricted investment accounts are subject to Board approval.

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

## 2 Capital Adequacy (continued)

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

The following table summarizes the eligible capital as of 30 June 2010 after deductions for Capital Adequacy Ratio (CAR) calculation.

| | *Tier 1 BD'000* | *Tier 2 BD'000* |
|---|---|---|
| **Components of capital** | | |
| Issued and fully paid ordinary shares | 72,552 | - |
| General reserves | 1,000 | - |
| Legal / statutory reserves | 10,267 | - |
| Share premium | 43,936 | - |
| Retained profit (Accumulated Loss) brought forward | (3,750) | - |
| **Less:** | | |
| Current interim cumulative net losses | (5,345) | - |
| Unrealized gross losses arising from fair valuing equity securities | (2,433) | - |
| **Tier 1 Capital before PCD deductions** | 116,227 | - |
| Asset revaluation reserve (45% only) | | 6,084 |
| **Tier 2 Capital before PCD deductions** | | 6,084 |
| **Total available capital** | | 122,311 |
| **Deductions** | | |
| Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated | (2,976) | (2,976) |
| Excess amount over materiality thresholds in case of investment in commercial entities | (3,327) | (3,327) |
| Investment in insurance entity greater than or equal to 20% | (811) | (811) |
| Excess amount over maximum permitted large exposure limit | (18,181) | (18,181) |
| **Total Deductions** | (25,295) | (25,295) |
| **Tier 1 and Tier 2 eligible capital before additional deduction** | 90,932 | (19,211) |
| **Additional deduction from Tier 1 to absorb deficiency in Tier 2** | (19,211) | 19,211 |
| **Tier 1 and Tier 2 eligible capital** | 71,721 | - |
| TOTAL ELIGIBLE CAPITAL | | 71,721 |

## 2 Capital Adequacy (continued)

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

| | *BD'000* |
|---|---|
| Total Credit Risk Weighted Assets | **485,960** |
| Total Market Risk Weighted Assets | **15,175** |
| Total Operational Risk Weighted Assets | **58,359** |
| **TOTAL REGULATORY RISK WEIGHTED ASSETS** | **559,494** |
| **CAPITAL ADEQUACY RATIO** | **12.82%** |
| 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 2010 subject to standardized approach of credit risk and related capital requirements by type of Islamic financing contracts;

| **Type of Islamic Financing Contracts** | ***Risk Weighted Assets 2010 BD'000*** | ***Capital Requirements 2010 BD'000*** |
|---|---|---|
| Murabaha receivables* | **89,835** | **10,780** |
| Ijarah Muntahia Bittamleek* | **20,204** | **2,424** |
| Musharaka investments* | **28,211** | **3,385** |
| Mudaraba investments | **1,353** | **162** |
| Investment in Sukuk | **14,000** | **1,680** |
| Ijarah rental receivable | **1,163** | **140** |
| | **154,766** | **18,571** |

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

## 2 Capital Adequacy (continued)

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

The following table summarises the amount of exposures as of 30 June 2010 subject to standardized approach of market risk and related capital requirements;

| | *Self Financed 2010 BD'000* |
|---|---|
| Market Risk - Standardised Approach | |
| Foreign exchange risk | 1,214 |
| **Total of Market Risk - Standardised Approach** | 1,214 |
| Multiplier | 12.5 |
| | 15,175 |
| Eligible Portion for the purpose of the calculation | 100% |
| **RWE to be used in CAR Calculation** | 15,175 |
| **TOTAL MARKET RISK EXPOSURES** | 15,175 |
| **TOTAL MARKET RISK EXPOSURES - CAPITAL REQUIREMENT** | 1,821 |

**Table – 4. Capital Requirements for operational risk (PD-1.3.19, 1.3.30 (a & b))**

The following table summarises the amount of exposures as of 30 June 2010 subject to basic indicator approach of operational risk and related capital requirements;

| | *Capital Charge 2010 BD'000* |
|---|---|
| **Indicators of operational risk** | |
| Average Gross income (for the years 2009, 2008 and 2007) | 31,125 |
| Multiplier | 12.5 |
| | 389,063 |
| Eligible Portion for the purpose of the calculation | 15% |
| **TOTAL OPERATIONAL RISK EXPOSURE** | 58,359 |
| **TOTAL OPERATIONAL RISK EXPOSURES - CAPITAL REQUIREMENT** | 7,003 |

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

The following are Capital Adequacy Ratios as of 30 June 2010 for total capital and Tier 1 capital;

| | *2010* | |
|---|---|---|
| | **Total Capital Ratio** | **Tier 1 Capital Ratio** |
| Top consolidated level | 12.82% | 12.82% |

## 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 2010 and average gross funded and unfunded exposures over the period from 1 January 2010 to 30 June 2010 allocated in own capital and current account and profit sharing investment account;

| | *Own Capital and Current Account* | | *Profit Sharing Investment Account (PSIA)* | |
|---|---|---|---|---|
| | *Total gross credit exposure 2010 BD'000* | **Average gross credit exposure over the period 2010 BD'000* | *Total gross credit exposure 2010 BD'000* | **Average gross credit exposure over the period 2010 BD'000* |
| **Funded** | | | | |
| Cash and balances with Central Bank of Bahrain and other banks | 42,758 | 18,031 | 27,000 | 25,950 |
| Murabaha receivables | 12,901 | 11,804 | 381,058 | 348,662 |
| Mudaraba investments | 37,389 | 38,265 | 13,984 | 14,397 |
| Musharaka investments | 2,427 | 2,505 | 71,693 | 73,988 |
| Investments | 28,140 | 40,795 | 79,057 | 81,865 |
| Investment in associates | 7,573 | 7,489 | - | - |
| Investment in Ijarah assets | 9,703 | 9,731 | - | - |
| Ijarah Muntahia Bittamleek | 3,389 | 3,810 | 100,104 | 112,538 |
| Investment in properties | 123,183 | 123,173 | - | - |
| Ijarah rental receivables | 118 | 118 | 3,485 | 3,485 |
| Other assets | 13,707 | 18,050 | - | - |
| **Unfunded** | | | | |
| Bank's liability under L/C and L/G | 453 | 548 | 13,380 | 16,189 |
| **Total** | **281,741** | **274,319** | **689,761** | **677,074** |

*Average Balances are computed based on month end balances.

**3 Risk Management (continued)**

**3.1 Credit Risk (continued)**

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

The following table summarises the geographic distribution of exposures as of 30 June 2010, broken down into significant areas by major types of credit exposure;

| | *Own Capital and Current Account* | | | | | *Profit Sharing Investment Account (PSIA)* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ** 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 Central Bank of Bahrain and other banks | 2,203 | 233 | 40,271 | 51 | **42,758** | - | - | 27,000 | - | **27,000** |
| Murabaha receivables | - | 667 | 12,234 | - | **12,901** | - | 19,708 | 361,350 | - | **381,058** |
| Mudaraba investments | 1,273 | 8,488 | 24,612 | 3,016 | **37,389** | - | - | 13,984 | - | **13,984** |
| Musharaka investments | - | - | 2,427 | - | **2,427** | - | - | 71,693 | - | **71,693** |
| Investments | - | - | 28,140 | - | **28,140** | - | - | 79,057 | - | **79,057** |
| Investment in associates | - | - | 7,573 | - | **7,573** | - | - | - | - | **-** |
| Investment in Ijarah assets | - | - | 9,703 | - | **9,703** | - | - | - | - | **-** |
| Ijarah Muntahia Bittamleek | - | - | 3,389 | - | **3,389** | - | - | 100,104 | - | **100,104** |
| Investment in properties | - | - | 123,183 | - | **123,183** | - | - | - | - | **-** |
| Ijarah rental receivables | - | - | 118 | - | **118** | - | - | 3,485 | - | **3,485** |
| Other assets | - | - | 13,707 | - | **13,707** | - | - | - | - | **-** |
| **Total** | **3,476** | **9,388** | **265,357** | **3,067** | **281,288** | **-** | **19,708** | **656,673** | **-** | **676,381** |

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

**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 exposures as of 30 June 2010 by industry, broken down into major types of credit exposure;

| | *Own Capital and Current Account Industry Sector* | | | | | | *Profit Sharing Investment Account (PSIA) Industry Sector* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Trading and Manufacturing BD'000* | *Banks and Financial Institutions BD'000* | *Real Estate BD'000* | *Aviation BD'000* | *Others BD'000* | *Total BD'000* | *Trading and Manufacturing BD'000* | *Banks and Financial Institutions BD'000* | *Real Estate BD'000* | *Aviation BD'000* | *Others BD'000* | *Total BD'000* |
| **Funded** | | | | | | | | | | | | |
| Cash and balances with Central Bank of Bahrain and other banks | - | 33,281 | - | - | 9,477 | **42,758** | - | 27,000 | - | - | - | **27,000** |
| Murabaha receivables | 3,439 | 4,966 | - | - | 4,496 | **12,901** | 101,568 | 146,672 | - | - | 132,818 | **381,058** |
| Mudaraba investments | - | 473 | 14,782 | - | 22,134 | **37,389** | - | 13,984 | - | - | - | **13,984** |
| Musharaka investments | 480 | 84 | - | - | 1,863 | **2,427** | 14,186 | 2,485 | - | - | 55,022 | **71,693** |
| Investments | 2,603 | 15,429 | 2,636 | - | 7,472 | **28,140** | - | 8,211 | 999 | - | 69,847 | **79,057** |
| Investment in associates | - | 5,951 | - | - | 1,622 | **7,573** | - | - | - | - | - | **-** |
| Investment in Ijarah assets | - | - | - | - | 9,703 | **9,703** | - | - | - | - | - | **-** |
| Ijarah Muntahia Bittamleek | 1,153 | - | - | 841 | 1,395 | **3,389** | 34,053 | - | - | 24,836 | 41,215 | **100,104** |
| Investment in properties | - | - | 123,183 | - | - | **123,183** | - | - | - | - | - | **-** |
| Ijarah rental receivables | - | - | - | - | 118 | **118** | - | - | - | - | 3,485 | **3,485** |
| Other assets | - | - | - | - | 13,707 | **13,707** | - | - | - | - | - | **-** |
| **Unfunded** | | | | | | | | | | | | |
| Bank's liability under L/C & L/G | 271 | 161 | - | - | 21 | **453** | 7,998 | 4,768 | | | 614 | **13,380** |
| **Total** | **7,946** | **60,345** | **140,601** | **841** | **72,008** | **281,741** | **157,805** | **203,120** | **999** | **24,836** | **303,001** | **689,761** |

**3 Risk Management (continued)**

**3.1 Credit Risk (continued)**

**Table – 9. Credit Risk – Intra-Group Transactions (PD-1.3.23(d))**

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

| | *Own Capital and Current Account BD'000'* | *Profit Sharing Investment Account (PSIA) BD'000* | *Total BD'000* |
|---|---|---|---|
| Customers' current accounts | 205 | - | **205** |
| Customers' investment accounts | 3 | 97 | **100** |
| Murabaha receivables | 1,050 | - | **1,050** |
| Other liabilities | 9,724 | - | **9,724** |
| Other assets | 8 | - | **8** |
| Investment in subsidiary | 25,000 | - | **25,000** |
| **Total** | **35,990** | **97** | **36,087** |

The income and expenses arising from dealing with the subsidiary are as follows:

| | *Own Capital and Current Account BD'000'* | *Profit Sharing Investment Account (PSIA) BD'000* | *Total BD'000* |
|---|---|---|---|
| Income from Ijarah assets | 17 | - | **17** |
| Other expenses | 17 | - | **17** |
| Gross return to unrestricted investment accounts | - | 7 | **7** |
| **Total** | **34** | **7** | **41** |

**3 Risk Management (continued)**

**3.1 Credit Risk (continued)**

**Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))**

Following balances representing the financing facilities to highly leveraged or other high risk counterparties as of 30 June 2010;

| Counterparties | *Own Capital and Current Account BD'000* | *Profit Sharing Investment Account (PSIA) BD'000* | *Total BD'000* |
|---|---|---|---|
| Counterparty # 1 | 317 | 9,360 | **9,677** |
| Counterparty # 2 | 332 | 9,799 | **10,131** |
| Counterparty # 3 | 77 | 2,021 | **2,098** |
| | **726** | **21,180** | **21,906** |

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

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

| Counterparties * | *Own capital and current account BD'000* | *Profit Sharing Investment Account (PSIA) BD'000* | *Total BD'000* |
|---|---|---|---|
| Counterparty # 1 | 648 | 19,149 | **19,797** |
| Counterparty # 2 | 764 | 22,567 | **23,331** |
| Counterparty # 3 | 611 | 18,050 | **18,661** |
| Counterparty # 4 | 617 | 18,233 | **18,850** |
| | **2,640** | **77,999** | **80,639** |

* The exposure is in excess of the 15% individual obligor limit which have been deducted from the eligible capital for the Capital Adequacy Ratio calculation.

## 3 Risk Management (continued)

### 3.1 Credit Risk (continued)

**Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (Own Capital and Current Account) (PD-1.3.23(g))**

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 30 June 2010, broken down by major types of credit exposure;

| | *Own Capital and Current Account* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Up to One month 2010 BD'000* | *1-3 month 2010 BD'000* | *3-6 month 2010 BD'000* | *6-12 month 2010 BD'000* | *1-3 years 2010 BD'000* | *3-5 years 2010 BD'000* | *5-10 years 2010 BD'000* | *10-20 years 2010 BD'000* | *Over 20 years 2010 BD'000* | *No fixed maturity 2010 BD'000* | *Total 2010 BD'000* |
| **Assets** | | | | | | | | | | | |
| Cash & balance with the Central Bank of Bahrain and Other Bank | 42,758 | - | - | - | - | - | - | - | - | - | **42,758** |
| Murabaha receivables | 6,174 | 1,361 | 749 | 1,009 | 1,404 | 899 | 1,299 | 3 | 3 | - | **12,901** |
| Mudaraba investments | 448 | - | 25 | - | - | - | - | - | 36,916 | - | **37,389** |
| Musharaka Investments | 407 | 147 | 116 | 169 | 502 | 437 | 322 | 256 | 71 | - | **2,427** |
| Investments | 130 | - | 35 | 415 | 812 | 1,250 | 34 | - | - | 25,464 | **28,140** |
| Investment in associates | - | - | - | - | - | - | - | - | - | 7,573 | **7,573** |
| Investment in Ijarah assets | - | - | - | - | - | - | - | - | - | 9,703 | **9,703** |
| Ijara Muntahia Bittamleek | 835 | 6 | 21 | 9 | 507 | 975 | 414 | 373 | 249 | - | **3,389** |
| Investment in properties | - | - | - | - | - | - | - | - | - | 123,183 | **123,183** |
| Ijara rental receivables | - | - | 118 | - | - | - | - | - | - | - | **118** |
| Other assets | - | - | 9,095 | - | - | - | - | - | - | 4,612 | **13,707** |
| **Total Assets** | **50,752** | **1,514** | **10,159** | **1,602** | **3,225** | **3,561** | **2,069** | **632** | **37,239** | **170,535** | **281,288** |
| **Liabilities and equity** | | | | | | | | | | | |
| Current accounts | 91,214 | - | - | - | - | - | - | - | - | - | **91,214** |
| Other liabilities | 12,710 | - | - | - | - | - | - | - | - | - | **12,710** |
| **Total Liabilities** | **103,924** | - | - | - | - | - | - | - | - | - | **103,924** |
| **Equity** | - | - | - | - | - | - | - | - | - | **133,229** | **133,229** |
| **Total Liabilities and Equity** | **103,924** | - | - | - | - | - | - | - | - | **133,229** | **237,153** |

**3 Risk Management (continued)**

**3.1 Credit Risk (continued)**

**Table – 13. Credit Risk – Residual Contractual Maturity Breakdown (Profit Sharing Investment Account) (PD-1.3.23(g))**

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 30 June 2010, broken down by major types of credit exposure;

| | *Profit Sharing Investment Account (PSIA)* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Up to One month 2010 BD'000* | *1-3 month 2010 BD'000* | *3-6 month 2010 BD'000* | *6-12 month 2010 BD'000* | *1-3 years 2010 BD'000* | *3-5 years 2010 BD'000* | *5-10 years 2010 BD'000* | *10-20 years 2010 BD'000* | *Over 20 years 2010 BD'000* | *No fixed maturity 2010 BD'000* | *Total 2010 BD'000* |
| **Assets** | | | | | | | | | | | |
| Cash & balance with the Central Bank of Bahrain and Other Bank | - | - | - | - | - | - | - | - | - | 27,000 | **27,000** |
| Murabaha receivables | 182,346 | 40,214 | 22,132 | 29,792 | 41,469 | 26,567 | 38,366 | 83 | 89 | - | **381,058** |
| Mudaraba investments | 13,259 | - | 725 | - | - | - | - | - | - | - | **13,984** |
| Musharaka Investments | 12,029 | 4,330 | 3,424 | 4,987 | 14,867 | 12,894 | 9,519 | 7,553 | 2,090 | - | **71,693** |
| Investments | 3,849 | - | 1,047 | 12,270 | 23,972 | 36,921 | 998 | - | - | - | **79,057** |
| Ijara Muntahia Bittamleek | 24,653 | 184 | 607 | 253 | 14,976 | 28,819 | 12,238 | 11,016 | 7,358 | - | **100,104** |
| Ijara rental receivables | - | - | 3,485 | - | - | - | - | - | - | - | **3,485** |
| **Total Assets** | **236,136** | **44,728** | **31,420** | **47,302** | **95,284** | **105,201** | **61,121** | **18,652** | **9,537** | **27,000** | **676,381** |
| **Unrestricted Investment Accounts** | **252,972** | **141,507** | **87,170** | **233,856** | **3,922** | **-** | **1,089** | **-** | **-** | **-** | **720,516** |

### 3 Risk Management (continued)

### 3.1 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))**

The following table summarises the own capital and current account impaired facilities, past due facilities and allowances disclosed by major industry sector 30 June 2010;

| | *Own Capital and Current Account* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Aging of Past Due Facilities* | | | *Specific allowances* | | | | ** General allowances* | | |
| | *Non-performing or past due or impaired Islamic financing contracts 2010 BD'000* | *3 months to 1 year 2010 BD'000* | *1 to 3 years 2010 BD'000* | *Over 3 years 2010 BD'000* | *Balance at the beginning of the period 2010 BD'000* | *Charges during the period 2010 BD'000* | *Charge-offs during the period 2010 BD'000* | *Balance at the end of the period 2010 BD'000* | *General allowances beginning balance 2010 BD'000* | *General allowances movement 2010 BD'000* | *General allowances ending balance 2010 BD'000* |
| Trading and Manufacturing | 2,219 | 1,393 | 5 | 28 | 695 | 38 | 12 | 721 | - | - | - |
| Others | 1,132 | 195 | 11 | 9 | 77 | 150 | 72 | 155 | - | - | - |
| No specific sector | - | - | - | - | - | - | - | - | 163 | (118) | 45 |
| **Total** | **3,351** | **1,588** | **16** | **37** | **772** | **188** | **84** | **876** | **163** | **(118)** | **45** |

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

**3 Risk Management (continued)**

**3.1 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 profit sharing investment account impaired facilities, past due facilities and allowances disclosed by major industry sector 30 June 2010;

| | Profit Sharing Investment Account (PSIA) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Aging of Past Due Facilities | | | Specific allowances | | | | * General allowances | | |
| | Non-performing or past due or impaired Islamic financing contracts 2010 BD'000 | 3 months 1 year 2010 BD'000 | 1 to 3 years 2010 BD'000 | Over 3 years 2010 BD'000 | Balance at the beginning of the period 2010 BD'000 | Charges during the period 2010 BD'000 | Charge-offs during the period 2010 BD'000 | Balance at the end of the period 2010 BD'000 | General allowances beginning balance 2010 BD'000 | General allowances movement 2010 BD'000 | General allowances ending balance 2010 BD'000 |
| Trading and Manufacturing | 65,537 | 41,145 | 135 | 818 | 20,519 | 1,127 | 355 | 21,291 | - | - | - |
| Others | 33,426 | 5,757 | 318 | 272 | 2,289 | 4,454 | 2,113 | 4,630 | - | - | - |
| No specific sector | - | - | - | - | - | - | - | - | 4,813 | (3,499) | 1,314 |
| **Total** | **98,963** | **46,902** | **453** | **1,090** | **22,808** | **5,581** | **2,468** | **25,921** | **4,813** | **(3,499)** | **1,314** |

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

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

## 3 Risk Management (continued)

### 3.1 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))**

The following table summarises the own capital and current account and profit sharing investment account impaired facilities, past due facilities and allowances disclosed by geographical area as of 30 June 2010;

| | *Own Capital and Current Account* | | | *Profit Sharing Investment Account (PSIA)* | | |
|---|---|---|---|---|---|---|
| | *Past due Islamic financing contracts 2010 BD'000* | *Specific Impairment provision 2010 BD'000* | *Collective Impairment provision 2010 BD'000* | *Past due Islamic financing contracts 2010 BD'000* | *Specific Impairment provision 2010 BD'000* | *Collective Impairment provision 2010 BD'000* |
| Middle East | 3,351 | 876 | 45 | 98,963 | 25,921 | 1,314 |
| **Total** | **3,351** | **876** | **45** | **98,963** | **25,921** | **1,314** |

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

The following table summarises the own capital and current account and profit sharing investment account restructured financing facilities as of 30 June 2010;

| | *Own Capital and Current Account* | *Profit Sharing Investment Account* |
|---|---|---|
| | *Aggregate amount BD'000* | *Aggregate amount BD'000* |
| Restructured financing facilities | 2,656 | 78,460 |
| **Total** | **2,656** | **78,460** |

The provision on restructured facilities is nil and the impact on present and future earnings is not significant.

**3 Risk Management (continued)**

**3.1 Credit Risk (continued)**

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

The following table summarises the exposure as of 30 June 2010 by type of Islamic financing contracts covered by eligible collateral after the application of haircuts;

| | *Total Exposure Covered by* | |
|---|---|---|
| | *Eligible Collateral 2010 BD'000* | *Guarantees 2010 BD'000* |
| Murabaha receivables | 26,751 | - |
| Musharaka investments | 5,601 | - |
| Ijarah Muntahia Bittamleek | 4,656 | - |
| **Total** | **37,008** | - |

**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 30 June 2010;

| | *BD'000* |
|---|---|
| Gross positive fair value of contracts | 957,669 |
| Netting Benefits | - |
| Netted Current Credit Exposure | 957,669 |
| Collateral held: | |
| -Cash | 37,008 |
| -Others | 9,175 |
| -Real Estate | 231,079 |
| **Total** | **277,262** |

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

## 3 Risk Management (continued)

### 3.2 Market Risk

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

The following table summarises the capital requirement for foreign exchange risk as of 30 June 2010;

| | *Foreign Exchange Risk 2010 BD'000* |
|---|---|
| Foreign exchange risk | **15,175** |
| Foreign exchange risk capital requirement | **1,821** |
| Maximum value capital requirement | **2,550** |
| Minimum value capital requirement | **1,821** |

### 3.3 Equity Positions 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 2010;

| | *Total Gross Exposure 2010 BD'000* | ** Average Gross Exposure 2010 BD'000* | *Publicly Traded 2010 BD'000* | *Privately Held 2010 BD'000* | *Risk Weighted Assets 2010 BD'000* | *Capital Requirements 2010 BD'000* |
|---|---|---|---|---|---|---|
| Equity investments | 25,463 | 38,023 | 13,273 | 12,190 | 34,161 | 4,099 |
| Funds | 36,916 | 37,778 | - | 36,916 | 62,764 | 7,532 |
| **Total** | **62,379** | **75,801** | **13,273** | **49,106** | **96,925** | **11,631** |

*Average Balances are computed based on month end balances.

**Table – 22. Equity Gains or losses in Banking Book (PD-1.3.31 (d) and (e))**

The following table summarises the cumulative realised and unrealised gains or (losses) during the period ended 30 June 2010;

| | *2010 BD'000* |
|---|---|
| Cumulative realized losses arising from sales or liquidations in the reporting period | **(1,320)** |
| Total unrealized losses recognized in the balance sheet but not through P&L | **(2,145)** |
| Unrealized losses included in Tier 1 Capital | **(2,433)** |
| Unrealized gains included in Tier 2 Capital | **-** |

**3 Risk Management (continued)**

**3.4 Unrestricted Investment Accounts ("URIA")**

The Group may require to decrease or increase losses or profit on certain unrestricted investments for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by unrestricted Investment Account Holders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by unrestricted IAH.

The Group is currently in the process of developing written policies and procedures applicable to its portfolio of unrestricted investment accounts. URIA funds are invested and managed in accordance with Shari'a requirements.

**Table – 23. Unrestricted Investment Account (PD-1.3.33 (a))**

The following table summarises the breakdown of unrestricted investment accounts as of 30 June 2010;

| | *BD'000* |
|---|---|
| Customers | **547,040** |
| Banks and other financial institutions | **173,476** |
| Profit equalisation reserve | - |
| Investment risk reserve | - |
| **Total** | **720,516** |

**Table – 24. Unrestricted Investment Account 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 2010;

| | |
|---|---|
| Profit Paid on Average URIA Assets * | **2.83%** |
| Mudarib Fee to Total URIA Profits | **37.48%** |

* Average assets funded by URIA have been calculated based on the quarterly management accounts.

**Table – 25. Unrestricted Investment Account Ratios (PD-1.3.33 (e) & (g))**

The following table summarises the profit distributed to PSIA and financing to PSIA ratios to the total of PSIA by type of investment account holder for the period ended 30 June 2010;

| *Type of Investment Account Holder* | *Profit Distributed to Total IAH* | *Percentage to Total IAH* |
|---|---|---|
| Saving accounts | **2.59%** | **10.16%** |
| Defined accounts - 1 month | **1.04%** | **1.83%** |
| Defined accounts - 3 months | **0.46%** | **0.56%** |
| Defined accounts - 6 months | **0.50%** | **0.54%** |
| Defined accounts - 9 months | **0.01%** | **0.01%** |
| Defined accounts - 1 year | **2.75%** | **2.62%** |
| Investment certificates | **0.62%** | **0.35%** |
| IQRA Deposits | **0.11%** | **0.12%** |
| Saving Scheme | **0.27%** | **0.15%** |
| Tejoori Deposit | **1.68%** | **7.14%** |
| Time deposits - clients | **80.62%** | **52.33%** |
| Bank's deposits | **9.35%** | **24.18%** |
| | **100.00%** | **100.00%** |

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

## 3 Risk Management (continued)

### 3.4 Unrestricted Investment Accounts ("URIA") (continued)

**Table – 26. Unrestricted Investment Account Financing to Total Financing (PD-1.3.33 (h))**

The following table summarises the percentage of financing for each type of Shari'a-compliant contract to total financing as of 30 June 2010;

| | *Percentage of Financing to Total Financing* |
|---|---|
| Murabaha receivables | **58.68%** |
| Mudaraba investments | **2.15%** |
| Musharaka investments | **11.04%** |
| Ijarah Muntahia Bittamleek | **15.42%** |
| Investment in Sukuk | **12.17%** |
| Ijarah rental receivable | **0.54%** |

**Table – 27. Unrestricted Investment Account Counterparty Type Financing (PD-1.3.33 (i))**

| | *Percentage of Counterparty Type to Financing* | | |
|---|---|---|---|
| | *Trading and Manufacturing* | *Banks and Financial Institutions* | *Others* |
| Murabaha receivables | **15.64%** | **22.61%** | **20.45%** |
| Musharaka investments | **2.18%** | **0.38%** | **8.47%** |
| Ijarah Muntahia Bittamleek | **5.24%** | **1.00%** | **10.17%** |
| Mudaraba investments | **0.00%** | **2.15%** | **0.00%** |
| Investment in Sukuk | **0.00%** | **1.26%** | **10.91%** |
| Ijarah rental receivable | **0.00%** | **0.00%** | **0.54%** |
| | **23.06%** | **27.40%** | **50.54%** |

**Table – 28. Unrestricted Investment Account Share of Profit (PD-1.3.33 (l) (m) & (n))**

The following table summarises the share of profits earned by and paid out to unrestricted investment accounts and the Group as Mudarib for the period ended 30 June 2010;

| | |
|---|---|
| Share of profit earned by IAH before transfer to/from reserves - BD '000 | **9,446** |
| Percentage share of profit earned by IAH before transfer to/from reserves | **1.31%** |
| Share of profit paid to IAH after transfer to/from reserves - BD '000 | **9,446** |
| Percentage share of profit paid to IAH after transfer to/from reserves | **1.31%** |
| Share of profit paid to Bank as mudarib - BD '000' | **5,664** |

## 3 Risk Management (continued)

### 3.4 Unrestricted Investment Accounts ("URIA") (continued)

**Table – 29. Unrestricted Investment Account 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 2010;

| | *3 months* | *6 months* | *12 months* | *36 months* |
|---|---|---|---|---|
| Percentage of average declared rate of return to profit rate of return | 2.13% | 2.38% | 2.63% | 4.00% |

**Table – 30. Unrestricted Investment Account 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 2010;

| | *Opening Actual Allocation BD'000* | *Movement BD'000* | *Closing Actual Allocation BD'000* |
|---|---|---|---|
| Cash and balances with Central Bank of Bahrain and other banks | 23,410 | 3,590 | 27,000 |
| Murabaha receivables | 320,274 | 60,784 | 381,058 |
| Mudaraba investments | 14,736 | (752) | 13,984 |
| Musharaka investments | 77,939 | (6,246) | 71,693 |
| Investment in sukuk | 87,627 | (8,570) | 79,057 |
| Ijarah muntahia bittamleek | 114,853 | (14,749) | 100,104 |
| Ijarah rental receivable | 3,470 | 15 | 3,485 |
| **Total** | **642,309** | **34,072** | **676,381** |

## 3 Risk Management (continued)

### 3.4 Unrestricted Investment Accounts ("URIA") (continued)

**Table – 31. Unrestricted Investment Account 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 profit sharing investment accounts over the past five years

| | ***Profit Earned (Jointly Financed)*** | | ***Profit Paid to (PSIA)*** | |
|---|---|---|---|---|
| | ***BD'000*** | ***Percentage*** | ***BD'000*** | ***Percentage*** |
| **2010*** | 35,498 | 5.29% | 18,892 | 2.81% |
| 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% |
| 2006 | 24,705 | 8.12% | 12,660 | 4.16% |

* Annualised.

### 3.5 Liquidity Risk

**Table – 32 Treatment of assets financed by PSIA (PD-1.3.33 (v))**

| | ***Assets BD'000*** | ***RWA BD'000*** | ***RWA for Capital Adequacy Purposes BD'000*** | ***Capital Requirements BD'000*** |
|---|---|---|---|---|
| Cash and balances with Central Bank of Bahrain and other banks | 27,000 | - | - | - |
| Murabaha receivables* | 381,058 | 269,085 | 80,726 | 9,687 |
| Mudaraba investments | 13,984 | 4,051 | 1,215 | 146 |
| Musharaka investments* | 71,693 | 60,517 | 18,155 | 2,179 |
| Investment in sukuk | 79,057 | 41,935 | 12,581 | 1,510 |
| Ijarah muntahia bittamleek* | 100,104 | 84,500 | 25,350 | 3,042 |
| Ijarah rental receivable | 3,485 | 3,485 | 1,046 | 125 |
| | **676,381** | **463,573** | **139,073** | **16,689** |

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

**Table – 33. Liquidity Ratios (PD-1.3.37)**

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

| | ***2010*** | *2009* | *2008* | *2007* | *2006* |
|---|---|---|---|---|---|
| Commodities Murabaha / Total Assets | **14.83%** | 10.42% | 14.98% | 27.37% | 40.93% |
| Islamic Financing / Customer Deposits excluding banks | **122.73%** | 123.01% | 144.62% | 171.72% | 224.08% |
| Customer Deposits / Total Assets | **57.12%** | 57.28% | 48.71% | 36.04% | 34.99% |
| Liquid Assets / Total Assets | **22.11%** | 14.38% | 20.66% | 30.16% | 44.47% |
| Growth in Customer Deposits | **4.72%** | 21.98% | 79.24% | 55.50% | 8.39% |

## 3 Risk Management (continued)

### 3.6 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 2010;

| | *Effect on value of Asset 2010 BD'000* | *Effect on value of Liability 2010 BD'000* | *Effect on value of Economic Capital 2010 BD'000* |
|---|---|---|---|
| Upward rate shocks: | **(3,150)** | **3,879** | **729** |
| Downward rate shocks: | **3,150** | **(3,879)** | **(729)** |

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

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

| | **2010** | *2009* | *2008* | *2007* | *2006* |
|---|---|---|---|---|---|
| Return on average equity* | **-8.30%** | -12.64% | 12.62% | 19.10% | 17.80% |
| Return on average assets* | **-1.21%** | -2.17% | 2.91% | 4.57% | 3.45% |
| Cost to Income Ratio | **46.72%** | 70.66% | 31.32% | 32.41% | 38.76% |

* Annualised where applicable.

## 4 Glossary of Terms

| | |
|---|---|
| CA Module | Capital Adequacy Module |
| CAR | Capital Adequacy Ratio |
| FX | Foreign Exchange |
| 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 |
| URIA | Unrestricted Investment Accounts |
| L/C | Letter of Credit |
| L/G | Letter of Guarantee |