

**Bahrain Islamic Bank B.S.C.**

**Basel II, Pillar III Disclosures  
30 June 2012**

**(Unaudited)**

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (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

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.

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

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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 30 June 2012 after deductions for Capital Adequacy Ratio (CAR) calculation;

	<i>Tier 1</i> <i>BD'000</i>	<i>Tier 2</i> <i>BD'000</i>
<b>Components of capital</b>		
Issued and fully paid ordinary shares	93,404	-
General reserves	1,000	-
Legal / statutory reserves	10,267	-
Share premium		
<b>Less:</b>		
Current interim cumulative net losses	(15,898)	-
Unrealised gross losses arising from fair valuing equity securities	(4,894)	-
<b>Tier 1 Capital before PCD deductions</b>	<u>83,879</u>	<u>-</u>
Unrealised gains arising from fair valuing equities (45% only)		81
Investment risk reserve		63
<b>Tier 2 Capital before PCD deductions</b>		<u>144</u>
<b>Total available capital</b>		<u>84,023</u>
<b>Deductions</b>		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,648)	(2,648)
Investment in insurance entity greater than or equal to 20%	(811)	(811)
Excess amount over maximum permitted large exposure limit	(5,048)	(5,048)
<b>Total Deductions</b>	<u>(8,507)</u>	<u>(8,507)</u>
<b>Tier 1 and Tier 2 eligible capital before additional deduction</b>	75,372	(8,363)
<b>Additional deduction from Tier 1 to absorb deficiency in Tier 2</b>	(8,363)	8,363
<b>Tier 1 and Tier 2 eligible capital</b>	<u>67,009</u>	<u>67,153</u>
<b>TOTAL ELIGIBLE CAPITAL</b>	<u>67,009</u>	<u>-</u>

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

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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	460,274
Total Market Risk Weighted Assets	13,872
Total Operational Risk Weighted Assets	43,497
<b>TOTAL REGULATORY RISK WEIGHTED ASSETS</b>	<b>517,643</b>
<b>CAPITAL ADEQUACY RATIO</b>	<b>12.95%</b>
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 2012 (gross of deductions) subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts;

<b>Type of Islamic Financing</b>	<i>Risk Weighted Assets BD'000</i>	<i>Capital requirements BD'000</i>
Murabaha receivables*	72,974	8,757
Due from banks and financial institutions	11,308	1,357
Musharaka investments*	30,331	3,640
Investment in Fund	47,819	5,738
Investment in Sukuk	7,163	860
Ijarah muntahia bittamleek*	32,755	3,931
Ijarah rental receivables	2,797	336
	<b>205,147</b>	<b>24,619</b>
Other credit exposures	255,127	30,615
	<b>460,274</b>	<b>55,234</b>

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

**2 Capital Adequacy (continued)**

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

The following table summarises the amount of exposures as of 30 June 2012 subject to standardised approach of market risk and related capital requirements;

Market Risk - Standardised Approach	
Foreign exchange risk ( BD'000 )	1,110
	<hr/>
<b>Total of Market Risk - Standardised Approach</b>	<b>1,110</b>
	<hr/>
Multiplier	12.5
	<hr/>
<b>RWE for CAR Calculation ( BD'000 )</b>	<b>13,872</b>
	<hr/>
<b>Total Market Risk Exposures ( BD'000 )</b>	<b>13,872</b>
	<hr/> <hr/>
<b>Total Market Risk Exposures - Capital Requirement ( BD'000 )</b>	<b>1,665</b>
	<hr/> <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 30 June 2012 subject to basic indicator approach of operational risk and related capital requirements;

<b>Indicators of operational risk</b>	
Average Gross income ( BD'000 )	23,198
Multiplier	12.5
	<hr/>
	289,975
	<hr/>
Eligible Portion for the purpose of the calculation	15%
	<hr/>
<b>Total Operational Risk Exposure ( BD'000 )</b>	<b>43,497</b>
	<hr/>
<b>Total Operational Risk Exposures - Capital Requirement ( BD'000 )</b>	<b>5,220</b>
	<hr/> <hr/>

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

The following are Capital Adequacy Ratios as of 30 June 2012 for total capital and Tier 1 capital;

	<i><b>Total capital ratio</b></i>	<i><b>Tier 1 capital ratio</b></i>
Top consolidated level	<hr/> <b>12.95%</b> <hr/>	<hr/> <b>12.95%</b> <hr/>

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

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### 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 2012 and average gross funded and unfunded exposures over the period ended 30 June 2012 allocated to own capital and current account and profit sharing investment account (PSIA);

	<i>Own capital and current account</i>		<i>Profit Sharing Investment Account</i>	
	<i>Total gross credit exposure BD'000</i>	<i>*Average gross credit exposure over the year BD'000</i>	<i>Total gross credit exposure BD'000</i>	<i>*Average gross credit exposure over the year BD'000</i>
<b>Funded</b>				
Cash and balances with banks and Central Bank	25,441	22,599	27,265	26,904
Due from banks and financial institutions	7,479	10,226	90,244	123,388
Murabaha receivables	16,941	16,316	204,417	196,873
Musharaka investments	7,042	7,258	84,964	87,577
Investments	62,616	60,961	48,714	38,341
Investment in associates	6,919	7,072	-	-
Investment in Ijarah assets	10,664	10,481	-	-
Ijarah muntahia bittamleek	7,604	7,613	91,756	91,865
Investment properties	108,379	114,268	-	-
Ijarah rental receivables	603	603	7,270	7,270
Other assets	6,929	6,832	-	-
<b>Unfunded</b>				
Commitments and contingent liabilities	11,364	10,755	-	-
<b>Total</b>	<b>271,981</b>	<b>274,984</b>	<b>554,630</b>	<b>572,218</b>

\*Average balances are computed based on month end balances.

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## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.1 Credit Risk (continued)

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

The following table summarises the geographic distribution of exposures as of 30 June 2012, broken down into significant areas by major types of credit exposure;

	<i>Own capital and current account</i>					<i>Profit Sharing Investment Account</i>				
	<i>* Geographic area</i>					<i>* Geographic area</i>				
	<i>North America BD'000</i>	<i>Europe BD'000</i>	<i>Middle East BD'000</i>	<i>Rest of Asia BD'000</i>	<i>Total BD'000</i>	<i>North America BD'000</i>	<i>Europe BD'000</i>	<i>Middle East BD'000</i>	<i>Rest of Asia BD'000</i>	<i>Total BD'000</i>
Cash and balances with banks and Central Bank	5,857	90	19,374	120	25,441	-	-	27,265	-	27,265
Due from banks and financial institutions	-	1,218	6,261	-	7,479	-	14,695	75,549	-	90,244
Murabaha receivables	-	-	16,941	-	16,941	-	-	204,417	-	204,417
Musharaka investments	-	-	7,042	-	7,042	-	-	84,964	-	84,964
Investments	837	5,574	54,697	1,508	62,616	-	-	48,714	-	48,714
Investment in associates	-	-	6,919	-	6,919	-	-	-	-	-
Investment in Ijarah assets	-	-	10,664	-	10,664	-	-	-	-	-
Ijarah muntahia bittamleek	-	-	7,604	-	7,604	-	-	91,756	-	91,756
Investment properties	-	-	108,379	-	108,379	-	-	-	-	-
Ijarah rental receivables	-	-	603	-	603	-	-	7,270	-	7,270
Other assets	-	-	6,929	-	6,929	-	-	-	-	-
<b>Total</b>	<b>6,694</b>	<b>6,882</b>	<b>245,413</b>	<b>1,628</b>	<b>260,617</b>	<b>-</b>	<b>14,695</b>	<b>539,935</b>	<b>-</b>	<b>554,630</b>

\* 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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## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.1 Credit Risk (continued)

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

The following table summarises the distribution of funded and unfunded exposures as of 30 June 2012 by industry, broken down into major types of credit exposure;

	<i>Own Capital and Current Account</i>							<i>Total BD'000</i>
	<i>Industry Sector</i>							
	<i>Trading and Manufacturing BD'000</i>	<i>Banks and Financial Institutions BD'000</i>	<i>Real Estate BD'000</i>	<i>Aviation BD'000</i>	<i>Personal &amp; Consumer Finance BD'000</i>	<i>Governmental Organisation BD'000</i>	<i>Others BD'000</i>	
<b>Funded</b>								
Cash and balances with banks and Central Bank	-	16,497	-	-	-	-	8,944	25,441
Due from banks and financial institutions	-	7,479	-	-	-	-	-	7,479
Murabaha receivables	3,605	1,597	1,767	492	8,470	655	355	16,941
Musharaka investments	541	-	1,706	-	4,012	229	554	7,042
Investments	8,491	12,161	15,432	-	-	782	25,750	62,616
Investment in associates	-	6,919	-	-	-	-	-	6,919
Investment in Ijarah assets	-	-	10,664	-	-	-	-	10,664
Ijarah muntahia bittamleek	882	721	2,152	926	2,912	-	11	7,604
Investment properties	-	-	108,379	-	-	-	-	108,379
Ijarah rental receivables	-	-	-	-	-	-	603	603
Other assets	-	-	-	-	-	-	6,929	6,929
<b>Unfunded</b>								
Commitments and contingent liabilities	6,818	2,307	1,237	-	-	-	1,002	11,364
<b>Total</b>	<b>20,337</b>	<b>47,681</b>	<b>141,337</b>	<b>1,418</b>	<b>15,394</b>	<b>1,666</b>	<b>44,148</b>	<b>271,981</b>

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## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.1 Credit Risk (continued)

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

The following table summarises the distribution of funded and unfunded exposures as of 30 June 2012 by industry, broken down into major types of credit exposure;

	<i>Profit Sharing Investment Account</i>							<i>Total BD'000</i>
	<i>Industry Sector</i>							
	<i>Trading and Manufacturing BD'000</i>	<i>Banks and Financial Institutions BD'000</i>	<i>Real Estate BD'000</i>	<i>Aviation BD'000</i>	<i>Personal &amp; Consumer Finance BD'000</i>	<i>Governmental Organisation BD'000</i>	<i>Others BD'000</i>	
<b>Funded</b>								
Cash and balances with banks and Central Bank	-	27,265	-	-	-	-	-	27,265
Due from banks and financial institutions	-	90,244	-	-	-	-	-	90,244
Murabaha receivables	43,497	19,268	21,326	5,938	102,195	7,905	4,288	204,417
Musharaka investments	6,527	-	20,579	-	48,411	2,759	6,688	84,964
Investments	-	3,354	13,258	-	-	9,433	22,669	48,714
Investment in associates	-	-	-	-	-	-	-	-
Investment in Ijarah assets	-	-	-	-	-	-	-	-
Ijarah muntahia bittamleek	10,644	8,699	25,972	11,179	35,142	-	120	91,756
Investment properties	-	-	-	-	-	-	-	-
Ijarah rental receivables	-	-	-	-	-	-	7,270	7,270
Other assets	-	-	-	-	-	-	-	-
<b>Unfunded</b>								
Commitments and contingent liabilities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>60,668</b>	<b>148,830</b>	<b>81,135</b>	<b>17,117</b>	<b>185,748</b>	<b>20,097</b>	<b>41,035</b>	<b>554,630</b>

**3 Risk Management (continued)**

**3.1 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 interim condensed consolidated financial statements and all related party transactions have been made on an arms' length basis.

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

	<i>Own Capital and Current Account BD'000</i>	<i>Profit Sharing Investment Account BD'000</i>	<i>Total BD'000</i>
Customers' current accounts	271	-	271
Other liabilities	5,177	-	5,177
Other assets	62	-	62
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:

	<i>Own Capital and Current Account BD'000</i>	<i>Profit Sharing Investment Account BD'000</i>	<i>Total BD'000</i>
Income from Ijarah assets	82	-	82

**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))**

The following balances representing the financing facilities to highly leveraged or other high risk counterparties as of 30 June 2012;

	<i>Own Capital and Current Account BD'000</i>	<i>Profit Sharing Investment Account BD'000</i>	<i>Total BD'000</i>
Counterparties			
Counterparty # 1	156	1,886	2,042
Counterparty # 2	336	4,053	4,389
Counterparty # 3	148	1,783	1,931
Counterparty # 4	161	1,937	2,098
	<u>801</u>	<u>9,659</u>	<u>10,460</u>

**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 2012;

	<i>Own capital and current account BD'000</i>	<i>Profit Sharing Investment Account BD'000</i>	<i>Total BD'000</i>
Counterparties *			
Counterparty # 1	1,367	15,943	17,310
Counterparty # 2	1,121	13,079	14,200
Counterparty # 3	1,045	12,210	13,255
	<u>3,533</u>	<u>41,232</u>	<u>44,765</u>

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

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## Basel II, Pillar III Disclosures

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### 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) PD-1.3.38)**

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 30 June 2012, broken down by major types of credit exposure;

	<i>Own capital and current account</i>										<i>Total</i>
	<i>Up to One</i>	<i>1-3</i>	<i>3-6</i>	<i>6-12</i>	<i>1-3</i>	<i>3-5</i>	<i>5-10</i>	<i>10-20</i>	<i>Over 20</i>	<i>No fixed</i>	
	<i>months</i>	<i>months</i>	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>maturity</i>	
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>Assets</b>											
Cash and balances with banks and Central Bank	25,441	-	-	-	-	-	-	-	-	-	25,441
Due from banks and financial institutions	7,396	-	83	-	-	-	-	-	-	-	7,479
Murabaha receivables*	541	693	891	1,074	1,495	3,716	5,050	29	3,452	-	16,941
Musharaka investments*	-	229	32	518	472	1,141	1,693	987	1,970	-	7,042
Investments*	55	20,051	762	71	1,011	29,029	1,588	-	207	9,842	62,616
Investment in associates	-	-	-	-	-	-	-	-	-	6,919	6,919
Investment in Ijarah assets	-	-	-	-	-	-	-	-	-	10,664	10,664
Ijarah muntahia bittamleek*	-	-	3	3	485	507	2,071	1,291	3,244	-	7,604
Investment properties	-	-	-	-	-	-	-	-	-	108,379	108,379
Ijarah rental receivables	29	-	6	10	117	48	162	135	96	-	603
Other assets	-	-	2,164	-	-	-	-	-	-	4,765	6,929
<b>Total Assets</b>	<b>33,462</b>	<b>20,973</b>	<b>3,941</b>	<b>1,676</b>	<b>3,580</b>	<b>34,441</b>	<b>10,564</b>	<b>2,442</b>	<b>8,969</b>	<b>140,569</b>	<b>260,617</b>

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

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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) PD-1.3.38)**

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 30 June 2012, broken down by major types of credit exposure;

	<i>Profit Sharing Investment Account</i>										<i>Total BD'000</i>
	<i>Up to One months BD'000</i>	<i>1-3 months BD'000</i>	<i>3-6 months BD'000</i>	<i>6-12 months BD'000</i>	<i>1-3 years BD'000</i>	<i>3-5 years BD'000</i>	<i>5-10 years BD'000</i>	<i>10-20 years BD'000</i>	<i>Over 20 years BD'000</i>	<i>No fixed maturity BD'000</i>	
	<b>Total Assets</b>	<b>96,787</b>	<b>11,117</b>	<b>21,451</b>	<b>20,214</b>	<b>43,185</b>	<b>69,445</b>	<b>127,464</b>	<b>29,460</b>	<b>108,242</b>	
<b>Assets</b>											
Cash and balances with banks and Central Bank	-	-	-	-	-	-	-	-	-	27,265	27,265
Due from banks and financial institutions	89,242	-	1,002	-	-	-	-	-	-	-	90,244
Murabaha receivables*	6,532	8,358	10,753	12,961	18,040	44,835	60,938	350	41,650	-	204,417
Musharaka investments*	-	2,759	384	6,250	5,690	13,765	20,427	11,906	23,783	-	84,964
Investments*	657	-	9,206	852	12,189	4,154	19,154	-	2,502	-	48,714
Ijarah muntahia bittamleek*	-	-	39	35	5,850	6,118	24,988	15,575	39,151	-	91,756
Ijarah rental receivables	356	-	67	116	1,416	573	1,957	1,629	1,156	-	7,270

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

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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) PD-1.3.24(b) PD-1.3.24(d))**

The following table summarises the impaired facilities, past due facilities and allowances financed by own capital and current account disclosed by major industry sector as of 30 June 2012;

	<i>Own capital and current account</i>											
	<i>Non-performing or past due or impaired</i>	<i>Aging of non-performing or past due or impaired</i>				<i>Specific allowances</i>				<i>* General allowances</i>		
		<i>Islamic financing contacts</i>				<i>Balance at the beginning of the period</i>	<i>Charges during the period</i>	<i>Charge-offs during the period</i>	<i>Balance at the end of the period</i>	<i>General allowances beginning balance</i>	<i>General allowances movement</i>	<i>General allowances ending balance</i>
		<i>Islamic financing contracts</i>	<i>Less than 3 months**</i>	<i>to 1 year</i>	<i>1 to 3 years</i>							
<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	
Trading and Manufacturing	3,783	114	475	3,132	62	3,742	51	(76)	3,717	-	-	-
Real Estate	5,040	471	1,978	2,571	20	264	471	-	735	-	-	-
Banks and Financial	1,450	-	-	1,450	-	331	77	-	408	-	-	-
Personal / Consumer Finance	2,967	710	427	1,808	22	411	240	(75)	576	-	-	-
No specific sector	-	-	-	-	-	-	-	-	-	536	(162)	374
<b>Total</b>	<b>13,240</b>	<b>1,295</b>	<b>2,880</b>	<b>8,961</b>	<b>104</b>	<b>4,748</b>	<b>839</b>	<b>(151)</b>	<b>5,436</b>	<b>536</b>	<b>(162)</b>	<b>374</b>

\* 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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## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 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 impaired facilities, past due facilities and allowances financed by profit sharing investment account disclosed by major industry sector as of 30 June 2012;

	<i>Profit Sharing Investment Account</i>												
	<i>Non-performing or past due or impaired</i>	<i>Aging of non-performing or past due or impaired</i>					<i>Specific allowances</i>			<i>* General allowances</i>			
		<i>Islamic financing contracts</i>					<i>Balance at the beginning of the period</i>	<i>Charges during the period</i>	<i>Charge-offs during the period</i>	<i>Balance at the end of the period</i>	<i>General allowances beginning balance</i>	<i>General allowances movement</i>	<i>General allowances ending balance</i>
		<i>Islamic financing contracts</i>	<i>Less than 3 months**</i>	<i>to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>							
<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>		
Trading and Manufacturing	45,651	1,395	5,725	37,788	743	34,790	611	(908)	34,493	-	-	-	
Real Estate	60,808	5,690	23,861	31,017	240	2,451	5,682	-	8,133	-	-	-	
Institutions	17,496	-	-	17,496	-	3,080	923	-	4,003	-	-	-	
Personal / Consumer Finance	35,802	8,568	5,157	21,813	264	3,824	2,906	(911)	5,819	-	-	-	
No specific sector	-	-	-	-	-	-	-	-	-	4,977	(462)	4,515	
<b>Total</b>	<b>159,757</b>	<b>15,653</b>	<b>34,743</b>	<b>108,114</b>	<b>1,247</b>	<b>44,145</b>	<b>10,122</b>	<b>(1,819)</b>	<b>52,448</b>	<b>4,977</b>	<b>(462)</b>	<b>4,515</b>	

\* 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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for the period ended 30 June 2012 (Unaudited)

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) PD-1.3.24(c))**

The following table summarises the past due facilities and allowances financed by own capital and current account and profit sharing investment account disclosed by geographical area as of 30 June 2012;

	<i>Own capital and current account</i>			<i>Profit Sharing Investment Account</i>		
	<i>Non-performing or past due or impaired Islamic financing contracts BD'000</i>	<i>Specific Impairment provision BD'000</i>	<i>Collective Impairment provision BD'000</i>	<i>Non-performing or past due or impaired Islamic financing contracts BD'000</i>	<i>Specific Impairment provision BD'000</i>	<i>Collective Impairment provision BD'000</i>
Middle East	13,240	5,436	374	159,757	52,448	4,515
<b>Total</b>	<b>13,240</b>	<b>5,436</b>	<b>374</b>	<b>159,757</b>	<b>52,448</b>	<b>4,515</b>

**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 period financed by own capital and current account and profit sharing investment account as of 30 June 2012;

	<i>Own capital and current account</i>	<i>Profit Sharing Investment Account</i>
	<i>Aggregate amount BD'000</i>	<i>Aggregate amount BD'000</i>
Restructured financing facilities	797	9,619
<b>Total</b>	<b>797</b>	<b>9,619</b>

The provision on restructured facilities is BD 231 thousand and the impact on present and future earnings is not significant.

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.1 Credit Risk (continued)

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

The following table summarises the exposure as of 30 June 2012 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	8,879	21,613
Musharaka investments	1,009	-
Ijarah muntahia bittamleek	5,690	1,354
<b>Total</b>	<b>15,578</b>	<b>22,967</b>

\* 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 30 June 2012;

	<i>BD'000</i>
Gross positive fair value of contracts	815,247
Netting Benefits	-
Netted current credit exposure	<u>815,247</u>
Collateral held:	
-Cash	15,578
-Shares	4,301
-Real Estate	233,607
<b>Total</b>	<b><u>253,486</u></b>

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

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 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 2012;

	<i>Foreign exchange risk BD'000</i>
Foreign exchange risk	1,110
Foreign exchange risk capital requirement	<u>133</u>
Maximum value capital requirement	<u>1,215</u>
Minimum value capital requirement	<u>1,110</u>

#### 3.3 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>2011 BD'000</i>	<i>2010 BD'000</i>	<i>2009 BD'000</i>
<b>Total Gross Income</b>	<b>24,856</b>	<b>18,777</b>	<b>25,962</b>

##### Indicators of operational risk

Average Gross income ( BD'000 )

23,198

##### Multiplier

12.5

289,975

Eligible Portion for the purpose of the calculation

15%

**TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE ( BD'000 )**

43,497

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.4 Equity Position in the Banking Book

**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 30 June 2012;

	<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	52,751	41,519	-	52,751	7,129	855
Equity investments	29,894	29,617	20,051	9,843	37,124	4,455
Funds	28,685	28,167	-	28,685	47,819	5,738
<b>Total</b>	<b>111,330</b>	<b>99,303</b>	<b>20,051</b>	<b>91,279</b>	<b>92,072</b>	<b>11,048</b>

\*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 period ended 30 June 2012;

	<i>BD'000</i>
Cumulative realised gain arising from sales or liquidations in the reporting period	803
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	4,962
Unrealised losses included in Tier 1 Capital	4,894
Unrealised gains included in Tier 2 Capital*	180

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

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

**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 30 June 2012;

	<i>BD'000</i>
Customers	558,846
Financial institutions' investment accounts	66,991
<b>Total</b>	<b>625,837</b>

**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 period ended 30 June 2012;

Profit Paid on Average IAH Assets *	2.01%
Mudarib Fee to Total IAH Profits	47.71%

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

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.5 Equity of Investment Account Holders ("IAH") (continued)

**Table – 26. Equity of Investment Account Holders 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 period ended 30 June 2012;

<i>Type of Investment Account Holder</i>	<i>Profit distributed to total IAH</i>	<i>Percentage to total IAH</i>
Saving accounts (including VEVO)	3.29%	14.14%
Defined accounts - 1 month	1.64%	1.58%
Defined accounts - 3 months	0.40%	0.48%
Defined accounts - 6 months	0.53%	0.65%
Defined accounts - 9 months	0.00%	0.00%
Defined accounts - 1 year	2.62%	2.80%
Investment certificates	0.61%	0.35%
IQRA Deposits	0.39%	0.37%
Saving Scheme	0.75%	0.35%
Tejoori Deposit	3.47%	14.92%
Customer's deposits	81.94%	53.66%
Bank's deposits	4.36%	10.70%
	<b>100%</b>	<b>100%</b>

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

**Table – 27. Equity of Investment Account Holders to Total Financing (PD-1.3.33 (h) & (i))**

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 30 June 2012;

	<i>Percentage Financing to Total Financing</i>
Due from banks and financial institutions	17.11%
Murabaha receivables	38.76%
Musharaka investments	16.11%
Investment in Sukuk	9.24%
Ijarah muntahia bittamleek	17.40%
Ijarah rental receivables	1.38%

*Percentage of Counterparty Type to Total Financing*

	<i>Banks and Personal &amp;</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>Governmental Organisation</i>	
Due from banks and financial institutions	0.00%	0.00%	0.00%	17.11%	0.00%	0.00%	0.00%
Murabaha receivables	1.13%	4.04%	8.25%	3.65%	19.38%	1.50%	0.81%
Musharaka investments	0.00%	3.90%	1.24%	0.00%	9.18%	0.52%	1.27%
Investment in Sukuk	0.00%	2.51%	0.00%	0.64%	0.00%	1.79%	4.30%
Ijarah muntahia bittamleek	2.12%	4.92%	2.02%	1.65%	6.67%	0.00%	0.02%
Ijarah rental receivables	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.38%
	<b>3.25%</b>	<b>15.37%</b>	<b>11.51%</b>	<b>23.05%</b>	<b>35.23%</b>	<b>3.81%</b>	<b>7.78%</b>

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

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### 3 Risk Management (continued)

#### 3.5 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 period ended 30 June 2012;

Share of profit earned by IAH before transfer to/from reserves - BD '000	7,147
Percentage share of profit earned by IAH before transfer to/from reserves	1.28%
Share of profit paid to IAH after transfer to/from reserves - BD '000	7,210
Percentage share of profit paid to IAH after transfer to/from reserves	1.27%
Share of profit paid to Bank as mudarib - BD '000	6,523

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

The following table summarises the average declared rate of return or profit rate on profit sharing investment accounts for the period ended 30 June 2012;

	3 month	6 month	12 month	36 month
Percentage of average declared rate of return to profit rate of return	1.50%	1.75%	2.00%	3.75%

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

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the period ended 30 June 2012;

	Opening Actual Allocation BD'000	Movement During the Period BD'000	Closing Actual Allocation BD'000
Cash and balances with banks and Central Bank	26,245	1,020	27,265
Due from banks and financial institutions	134,362	(44,118)	90,244
Murabaha receivables	182,360	22,058	204,418
Musharaka investments	83,836	1,128	84,964
Investment in sukuk	51,192	(2,478)	48,714
Ijarah muntahia bittamleek	87,957	3,799	91,756
Ijarah rental receivables	7,108	162	7,270
<b>Total</b>	<b>573,060</b>	<b>(18,429)</b>	<b>554,631</b>

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

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### 3 Risk Management (continued)

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

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

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

	<i>Profit Earned (jointly financed)</i>		<i>Profit Paid to (IAH)</i>	
	<i>BD'000</i>	<i>%age</i>	<i>BD'000</i>	<i>%age</i>
<b>2012</b>	29,554	5.25%	14,294	2.28%
2011	33,029	5.53%	14,742	2.31%
2010	33,083	4.46%	17,721	2.39%
2009	35,694	5.27%	17,638	2.61%
2008	36,934	5.87%	17,702	2.81%

\* Annualised.

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

	<i>Assets BD'000</i>	<i>RWA BD'000</i>	<i>RWA for Capital Adequacy Purposes BD'000</i>	<i>Capital Requirements BD'000</i>
Cash and balances with banks and Central Bank	27,265	-	-	-
Murabaha receivables*	204,418	190,594	57,178	6,861
Due from banks and financial institutions	90,244	29,394	8,818	1,058
Musharaka investments*	84,964	79,218	23,765	2,852
Investment in sukuk	48,714	18,619	5,586	670
Ijarah muntahia bittamleek*	91,756	85,551	25,665	3,080
Ijarah rental receivables	7,270	7,270	2,181	262
	<b>554,631</b>	<b>410,646</b>	<b>123,193</b>	<b>14,783</b>

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

### 3.6 Liquidity Risk

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

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Commodities Murabaha / Total Assets	<b>11.49%</b>	17.24%	21.73%	10.42%	14.98%
Islamic Financing / Customer Deposits excluding banks	<b>102.19%</b>	114.41%	115.46%	123.01%	144.62%
Customer Deposits / Total Assets	<b>68.55%</b>	63.08%	64.13%	57.28%	48.71%
Liquid Assets / Total Assets	<b>18.45%</b>	22.70%	27.02%	16.06%	23.25%
Growth in Customer Deposits	<b>5.58%</b>	(11.71%)	14.86%	21.98%	79.24%

# Bahrain Islamic Bank B.S.C.

## Basel II, Pillar III Disclosures

for the period ended 30 June 2012 (Unaudited)

### 3 Risk Management (continued)

#### 3.7 Profit Rate Risk

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

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates as of 30 June 2012;

	<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:	(5,688)	16,380	10,692
Downward rate shocks:	5,688	(16,380)	(10,692)

**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;

	<b>2012</b>	2011	2010	2009	2008
Return on average equity*	<b>(34.19%)</b>	(17.23%)	(33.02%)	(12.64%)	12.62%
Return on average assets*	<b>(3.84%)</b>	(1.96%)	(4.30%)	(2.17%)	2.91%
Cost to Income Ratio	<b>72.17%</b>	74.89%	107.73%	70.66%	31.32%

\* Annualised where applicable.



**4 Glossary of Terms**

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