

Bahrain Islamic Bank B.S.C.

**Basel II, Pillar III Disclosures
30 June 2011**

(Unaudited)

Bahrain Islamic Bank B.S.C.

Basel II, Pillar III Disclosures

for the period ended 30 June 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 optimize the Bank's performance by enabling the various Group business units to realize 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 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 profit sharing investment accounts are subject to Board approval.

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

As part of the risk management practice, the Bank 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 para 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 summarizes the eligible capital as of 30 June 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	93,418	-
General reserves	1,000	-
Legal / statutory reserves	10,267	-
Share premium	43,936	-
Other	(1,045)	-
Retained earnings / losses (excluding current interim net income/loss)	(25,000)	-
Less:		
Unrealized gross losses arising from fair valuing equity securities	3,563	-
Tier 1 Capital before PCD deductions	<u>119,013</u>	<u>-</u>
Current interim profits (reviewed by external auditors)		3,313
Asset revaluation reserve (45% only)		(2,456)
Unrealized gains arising from fair valuating equities (45% only)		81
Tier 2 Capital before PCD deductions		<u>938</u>
Total available capital		<u>119,951</u>
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,627)	(2,627)
Investment in insurance entity greater than or equal to 20%	(892)	(892)
Excess amount over materiality thresholds in case of investment in commercial entities	(4,032)	(4,032)
Excess amount over maximum permitted large exposure limit	(7,936)	(7,936)
Total Deductions	<u>(15,487)</u>	<u>(15,487)</u>
Tier 1 and Tier 2 eligible capital before additional deduction	103,526	(14,549)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(14,549)	14,549
Tier 1 and Tier 2 eligible capital	<u>88,977</u>	<u>-</u>
TOTAL ELIGIBLE CAPITAL	<u>88,977</u>	<u>-</u>

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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	460,434
Total Market Risk Weighted Assets	15,513
Total Operational Risk Weighted Assets	52,968
TOTAL REGULATORY RISK WEIGHTED ASSETS	528,915
CAPITAL ADEQUACY RATIO	16.82%
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 2011 (gross of deductions) subject to standardized 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*	87,529	10,503
Ijarah Muntahia Bittamleek*	33,190	3,983
Musharaka investments*	28,017	3,362
Mudaraba investments	784	94
Investment in Sukuk	11,261	1,351
Ijarah rental receivable	2,799	336
Other credit exposures	338,785	40,654
	502,365	60,283

*The amounts 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 30 June 2011 subject to standardized approach of market risk and related capital requirements;

	<i>BD'000</i>
Market Risk - Standardised Approach	
Foreign exchange risk	1,241
Total of Market Risk - Standardised Approach	<u>1,241</u>
Multiplier	<u>12.5</u>
RWE to be used in CAR Calculation	<u>15,513</u>
Total Market Risk Exposures	<u>15,513</u>
Total Market Risk Exposures - Capital Requirement	<u>1,862</u>

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

	<i>Capital charge BD'000</i>
Indicators of operational risk	
Average Gross income	28,249
Multiplier	12.5
	<u>353,113</u>
Eligible Portion for the purpose of the calculation	<u>15%</u>
Total Operational Risk Exposure	<u>52,968</u>
Total Operational Risk Exposures - Capital Requirement	<u>6,356</u>

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

The following are Capital Adequacy Ratios as of 30 June 2011 for total capital and Tier 1 capital;

	<i>Total capital ratio</i>	<i>Tier 1 capital ratio</i>
Top consolidated level	<u>16.82%</u>	<u>16.82%</u>

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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 2011 and average gross funded and unfunded exposures over the period ended 30 June 2011 allocated in 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 period BD'000	Total gross credit exposure BD'000	*Average gross credit exposure over the period BD'000
Funded				
Cash and balances with Central Bank of Bahrain and other banks	22,969	21,473	27,009	28,917
Murabaha receivables	35,753	37,893	323,194	342,537
Mudaraba investments	31,735	32,437	3,820	4,549
Musharaka investments	8,880	8,538	80,273	77,178
Investments	34,579	33,853	53,553	57,159
Investment in associates	7,039	6,860	-	-
Investment in Ijarah assets	9,562	9,588	-	-
Ijarah Muntahia Bittamleek	10,520	10,589	95,094	95,719
Investment in properties	105,180	105,175	-	-
Ijarah rental receivables	754	754	6,815	6,815
Other assets	7,519	8,204	-	-
Unfunded				
Bank's liability under L/C and L/G	11,252	10,898	-	-
Total	285,742	286,262	589,758	612,874

*Average balances are computed based on month end balances.

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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 2011, broken down into significant areas by major types of credit exposure:

	Own capital and current account					Profit Sharing Investment Account					Total BD'000
	* Geographic area					* Geographic area					
	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	Total BD'000	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000		
Cash and balances with Central Bank of Bahrain and other banks	3,165	103	19,643	58	22,969	-	-	27,009	-	27,009	27,009
Murabaha receivables	-	609	35,144	-	35,753	-	5,504	317,690	-	317,690	323,194
Mudaraba investments	880	6,529	22,365	1,961	31,735	-	-	3,820	-	3,820	3,820
Musharaka investments	-	-	8,880	-	8,880	-	-	80,273	-	80,273	80,273
Investments	-	-	34,579	-	34,579	-	-	53,553	-	53,553	53,553
Investment in associates	-	-	7,039	-	7,039	-	-	-	-	-	-
Investment in Ijarah assets	-	-	9,562	-	9,562	-	-	95,094	-	95,094	95,094
Ijarah Muntahia Bittamleek	-	-	10,520	-	10,520	-	-	-	-	-	-
Investment in properties	-	-	105,180	-	105,180	-	-	-	-	-	-
Ijarah rental receivables	-	-	754	-	754	-	-	6,815	-	6,815	6,815
Other assets	-	-	7,519	-	7,519	-	-	-	-	-	-
Total	4,045	7,241	261,185	2,019	274,490	-	5,504	584,254	-	589,758	589,758

* 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)

3.1 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 2011 by industry, broken down into major types of credit exposure;

	Own Capital and Current Account Industry Sector				Profit Sharing Investment Account Industry Sector				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	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000		Real Estate BD'000	Aviation BD'000	Others BD'000
Funded												
Cash and balances with Central Bank of Bahrain and other banks	-	16,746	-	-	6,223	22,969	-	27,009	-	-	-	27,009
Murabaha receivables	4,501	15,392	4,107	1,465	10,288	35,753	40,691	139,140	13,247	92,994	-	323,194
Mudaraba investments	-	1,572	15,308	-	14,855	31,735	-	3,820	-	-	-	3,820
Musharaka investments	1,099	-	1,653	-	6,128	8,880	9,931	-	-	55,401	-	80,273
Investments	3,771	15,822	3,309	113	11,564	34,579	-	9,022	1,019	31,056	-	53,553
Investment in associates	-	7,039	-	-	-	7,039	-	-	-	-	-	-
Investment in Ijarah assets	-	1,019	9,562	-	-	9,562	-	-	-	-	-	-
Ijarah Muntahia Bittamleek	705	-	3,570	2,054	3,172	10,520	6,375	9,215	18,571	28,665	-	95,094
Investment in properties	-	-	106,180	-	-	106,180	-	-	-	-	-	-
Ijarah rental receivables	-	-	754	-	-	754	-	-	-	-	-	6,815
Other assets	-	-	-	-	7,519	7,519	-	-	-	-	-	-
Unfunded												
Bank's liability under L/C and L/G	7,698	2,307	490	-	757	11,252	-	-	-	-	-	-
Total	17,774	69,897	143,933	3,632	60,506	285,742	56,997	188,206	32,837	208,116	-	589,758

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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:

	Own Capital and Current Account BD'000'	Profit Sharing Investment Account BD'000	Total BD'000
Customers' current accounts	126	-	126
Other liabilities	5,838	-	5,838
Other assets	30	-	30
Investment in subsidiary	25,000	-	25,000

The income and expenses arising from dealing with the subsidiary eliminated in the interim condensed 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	17	-	17

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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 2011;

Counterparties	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	610	5,518	6,128
Counterparty # 2	779	7,038	7,817
Counterparty # 3	577	5,217	5,794
Counterparty # 4	418	3,779	4,197
	2,384	21,552	23,936

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

Following balances representing the concentration of risk to individual counterparties as of 30 June 2011;

Counterparties *	Own capital and current account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparty # 1	12,523	11,091	23,614
Counterparty # 2	1,959	17,707	19,666
Counterparty # 3**	25,000	-	25,000
	39,482	28,798	68,280

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

** Commercial entity exceeding 15% of capital base and the excess is deducted from the available capital.

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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))

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 30 June 2011, broken down by major types of credit exposure;

	Own capital and current account										Total BD'000
	Up to One month BD'000	1-3 month BD'000	3-6 month BD'000	6-12 month 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 Central Bank of Bahrain and other banks	22,969	-	-	-	-	-	-	-	-	-	22,969
Murabaha receivables *	12,702	1,824	1,399	2,140	1,753	-	-	17	-	7,250	36,753
Mudaraba Investments	293	-	129	-	-	-	-	-	-	-	31,735
Musharaka Investments *	519	371	49	62	820	1,317	799	308	2,471	8,860	34,579
Investments *	-	445	-	113	1,948	3,294	-	-	-	28,693	7,039
Investment in associates	-	-	-	-	-	-	-	-	-	9,562	9,562
Investment in Ijarah assets	-	-	-	-	-	-	-	-	-	3,036	10,520
Ijarah Muntahia Bi Tamleek *	28	-	1	8	1,344	1,647	1,290	1,068	-	105,180	105,180
Investment in properties	-	-	-	-	-	-	-	-	-	-	754
Ijarah rental receivables	-	-	754	-	-	-	-	-	-	-	754
Other assets	-	-	2,714	-	-	-	-	-	-	4,805	7,519
Total Assets	36,511	2,640	5,046	2,323	5,865	41,506	9,080	2,106	1,377	168,036	274,490

* All non performing facilities have been classified as no fixed maturity.

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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))

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 30 June 2011, broken down by major types of credit exposure;

Assets	Profit Sharing Investment Account										Total BD'000
	Up to One month BD'000	1-3 month BD'000	3-6 month BD'000	6-12 month 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	
Cash and balances with Central Bank of Bahrain and other banks	-	-	-	-	-	-	-	-	-	27,009	27,009
Murabaha receivables *	114,816	16,484	12,646	19,346	15,846	35,575	42,779	152	10	65,540	323,194
Mudaraba investments	2,651	-	1,169	-	-	-	-	-	-	-	3,820
Musharaka investments *	4,693	3,354	441	561	7,408	11,920	19,569	7,222	2,784	22,331	80,273
Investments *	-	4,021	-	1,019	17,613	29,776	781	-	-	343	53,553
Ijarah Muntahia Bittamleek *	256	-	11	76	12,153	14,869	18,964	11,662	9,656	27,447	95,094
Ijarah rental receivables	-	-	6,815	-	-	-	-	-	-	-	6,815
Total Assets	122,416	23,859	21,082	21,002	53,020	92,140	82,083	19,036	12,450	142,670	589,758

* All non performing facilities have been classified as no fixed maturity.

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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 30 June 2011;

	Own capital and current account										
	Non-performing or past due or impaired Islamic financing contracts BD'000	Aging of Past Due Facilities				Balance at the beginning of the period BD'000	Specific allowances			* General allowances	
		Not yet past due** BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000		Charges during the period BD'000	Charge-offs during the period BD'000	Balance at the end of the period BD'000	General allowances beginning balance BD'000	General allowances movement BD'000
Trading and Manufacturing	4,731	131	4,037	60	2,773	403	(92)	3,084	-	-	-
Others	2,678	227	149	23	659	76	(219)	516	-	-	-
Real Estate	6,609	2,342	2,814	24	381	7	(163)	225	-	-	-
Aviation	779	33	-	-	-	-	-	-	-	-	-
Banks and Financial Institutions	1,889	7	1,876	6	-	166	-	166	-	-	-
No specific sector	-	-	-	-	-	-	-	-	19	171	190
Total	16,686	4,964	7,006	107	3,813	652	(474)	3,991	19	171	190

* 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.

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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 2011;

	Profit Sharing Investment Account										
	Non-performing or past due or impaired					* General allowances					
	Aging of Past Due Facilities					Specific allowances					
	Not yet past due** 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 period BD'000	Charges during the period BD'000	Charge-offs during the period BD'000	Balance at the end of period BD'000	General allowances beginning balance BD'000	General allowances movement BD'000	General allowances ending balance BD'000
Islamic financing contracts BD'000	42,770	1,181	36,493	542	25,064	3,637	(834)	27,867	-	-	-
Trading and Manufacturing	4,554	2,052	1,346	205	5,954	689	(1,978)	4,665	-	-	-
Others	20,605	21,167	25,434	216	3,448	67	(1,473)	2,042	-	-	-
Real Estate	59,746	297	-	-	-	-	-	-	-	-	-
Aviation	7,039	16,991	53	-	-	1,501	-	1,501	-	-	-
Banks and Financial Institutions	17,074	-	-	-	-	-	-	-	175	1,547	1,722
No specific sector	-	-	-	-	-	-	-	-	-	-	-
Total	150,837	44,890	63,326	963	34,466	5,894	(4,285)	36,075	175	1,547	1,722

* 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.

Although the above table shows the portion of impairment provision related to PSIA, the Bank 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)
3.1 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 2011;

	Own capital and current account			Profit Sharing Investment Account		
	Past due Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000	Past due Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000
Middle East	16,686	3,991	190	150,837	36,075	1,722
Total	16,686	3,991	190	150,837	36,075	1,722

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 2011;

	Own capital and current account	Profit Sharing Investment Account
	Aggregate amount BD'000	Aggregate amount BD'000
Restructured financing facilities	3,244	29,321
Total	3,244	29,321

The provision on restructured facilities is 891k and the impact on present and future earnings is not significant.

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3 Risk Management (continued)

3.1 Credit Risk (continued)

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

The following table summarises the exposure as of 30 June 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	14,623	-
Musharaka investments	10	-
Ijarah Muntahia Bittamleek	4,826	-
Total	19,459	-

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 2011;

	<i>BD'000</i>
Gross positive fair value of contracts	864,248
Netting Benefits	-
Netted current credit exposure	864,248
Collateral held:	
-Cash	19,459
-Shares	6,571
-Real Estate	241,561
Total	267,591

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

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 2011;

	<i>Foreign exchange risk</i>
	<i>BD'000</i>
Foreign exchange risk	15,513
Foreign exchange risk capital requirement	1,862
Maximum value capital requirement	2,043
Minimum value capital requirement	1,862

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3 Risk Management (continued)

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>2010</i>	<i>2009</i>	<i>2008</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Total Gross Income	18,777	25,962	40,009
			<i>BD '000</i>
Indicators of operational risk			
Average Gross income			28,249
Multiplier			12.5
			353,113
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE			52,968

3.4 Equity Positions in 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 2011;

	<i>Total gross exposure</i>	<i>* Average gross exposure</i>	<i>Publicly traded</i>	<i>Privately held</i>	<i>Risk weighted assets</i>	<i>Capital Requirements</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>
Sukuk	59,477	63,483	-	59,477	11,261	1,351
Equity investments	28,655	27,529	15,618	13,037	37,105	4,453
Funds	31,312	31,934	-	31,312	52,912	6,349
Total	119,444	122,946	15,618	103,826	101,278	12,153

*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 2011;

	<i>BD'000</i>
Cumulative realized gain arising from sales or liquidations in the reporting period	900
Total unrealized losses recognized in the consolidated statement of financial position but not through consolidated statement of income	(3,832)
Unrealized losses included in Tier 1 Capital	(4,608)
Unrealized gains included in Tier 2 Capital	180*

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

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3 Risk Management (continued)

3.5 Profit Sharing Investment Accounts ("PSIA")

Table – 24. Profit Sharing Investment Account (PD-1.3.33 (a))

The following table summarises the breakdown of profit sharing investment accounts as of 30 June 2011;

	<i>BD'000</i>
Customers	525,494
Financial institutions' investment accounts	123,706
Total	649,200

Table – 25. Profit Sharing 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 2011;

Profit Paid on Average PSIA Assets *	2.59%
Mudarib Fee to Total PSIA Profits	45%

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

Table – 26. Profit Sharing Investment Account 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 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)	3.46%	12.84%
Defined accounts - 1 month	0.76%	1.65%
Defined accounts - 3 months	0.37%	0.53%
Defined accounts - 6 months	0.47%	0.62%
Defined accounts - 9 months	0.01%	0.01%
Defined accounts - 1 year	8.79%	2.79%
Investment certificates	0.57%	0.35%
IQRA Deposits	0.26%	0.24%
Saving Scheme	0.49%	0.25%
Tejoori Deposit	3.03%	11.63%
Customer's deposits	73.80%	50.03%
Bank's deposits	7.99%	19.06%
	100%	100%

3 Risk Management (continued)

3.5 Profit Sharing Investment Accounts ("PSIA") (continued)

Table – 27. Profit Sharing Investment Account Financing 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 2011;

	<i>Percentage Financing to Total Financing</i>
Murabaha receivables	57.45%
Mudaraba investments	0.68%
Musharaka investments	14.26%
Ijarah Muntahia Bittamleek	16.89%
Investment in Sukuk	9.51%
Ijarah rental receivable	1.21%

Percentage of Counterparty Type to Total Financing

	<i>Aviation</i>	<i>Real Estate</i>	<i>Trading and Manufacturing</i>	<i>Banks and Financial Institutions</i>	<i>Others</i>
Murabaha receivables	2.35%	6.60%	7.24%	24.73%	16.53%
Musharaka investments	0.00%	2.66%	1.76%	0.00%	9.84%
Ijarah Muntahia Bittamleek	3.30%	5.73%	1.13%	1.64%	5.09%
Mudaraba investments	0.00%	0.00%	0.00%	0.68%	0.00%
Investment in Sukuk	0.18%	2.21%	0.00%	1.01%	6.11%
Ijarah rental receivable	0.00%	1.21%	0.00%	0.00%	0.00%
	5.83%	18.41%	10.13%	28.06%	37.57%

Table – 28. Profit Sharing 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 profit sharing investment accounts and the Group as Mudarib for the period ended 30 June 2011;

Share of profit earned by PSIA before transfer to/from reserves - BD '000'	7,945
Percentage share of profit earned by PSIA before transfer to/from reserves*	4.87%
Share of profit paid to PSIA after transfer to/from reserves - BD '000'	7,945
Percentage share of profit paid to PSIA after transfer to/from reserves*	4.87%
Share of profit paid to Bank as mudarib - BD '000'	6,423

*Annualised profit amount.

Table – 29. Profit Sharing 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 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%

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3 Risk Management (continued)

3.5 Profit Sharing Investment Accounts ("PSIA") (continued)

Table – 30. Profit Sharing 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 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 Central Bank of Bahrain and other banks	26,870	139	27,009
Murabaha receivables	415,938	(92,744)	323,194
Mudaraba investments	4,838	(1,018)	3,820
Musharaka investments	77,317	2,956	80,273
Investment in sukuk	60,569	(7,016)	53,553
Ijarah muntahia bittamleek	101,541	(6,447)	95,094
Ijarah rental receivable	7,293	(478)	6,815
Total	694,366	(104,608)	589,758

* The movement is for the six months period ended 30 June 2011.

Table – 31. Profit Sharing 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;

	<i>Profit Earned (jointly financed)</i>		<i>Profit Paid to (PSIA)</i>	
	<i>BD'000</i>	<i>%age</i>	<i>BD'000</i>	<i>%age</i>
2011*	35,264	5.64%	15,890	2.54%
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%

* Annualised.

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3 Risk Management (continued)

3.6 Liquidity Risk

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

	<i>Assets</i> <i>BD'000</i>	<i>RWA</i> <i>BD'000</i>	<i>Capital Adequacy Purposes</i> <i>BD'000</i>	<i>Capital Requirements</i> <i>BD'000</i>
Cash and balances with Central Bank of Bahrain and other banks	27,009	-	-	-
Murabaha receivables*	323,194	213,159	63,948	7,674
Mudaraba investments	3,820	1,910	573	69
Musharaka investments*	80,273	68,230	20,469	2,456
Investment in sukuk	53,553	27,425	8,228	987
Ijarah muntahia bittamleek*	95,094	80,828	24,248	2,910
Ijarah rental receivable	6,815	6,815	2,045	245
	589,758	398,367	119,511	14,341

*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;

	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Commodities Murabaha / Total Assets	15.08%	21.73%	10.42%	14.98%	27.37%
Islamic Financing / Customer Deposits excluding banks	118.94%	115.46%	123.01%	144.62%	171.72%
Customer Deposits / Total Assets	60.80%	64.13%	57.28%	48.71%	36.04%
Liquid Assets / Total Assets	20.86%	26.63%	14.38%	20.66%	30.16%
Growth in Customer Deposits	-12.42%	14.86%	21.98%	79.24%	55.50%

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 2011;

	<i>Effect on value of Asset</i> <i>BD'000</i>	<i>Effect on value of Liability</i> <i>BD'000</i>	<i>Effect on value of Economic Capital</i> <i>BD'000</i>
Upward rate shocks:	6,254	(14,572)	(8,318)
Downward rate shocks:	(6,254)	14,572	8,318

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*	5.76%	-33.02%	-12.64%	12.62%	19.10%
Return on average assets*	0.71%	-4.30%	-2.17%	2.91%	4.57%
Cost to Income Ratio	62.57%	107.73%	70.66%	31.32%	32.41%

* 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