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PRIVATE AND CONFIDENTIAL

18 April 2010

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

Bahrain Islamic Bank B.S.C. (the "Bank") and its wholly owned subsidiary (together the "Group")
Agreed-upon procedures relating to the review of compliance with Public Disclosure Module issued by the Central Bank of Bahrain

Dear Mohammed

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures made for the year ended 31 December 2009.

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

Our report is solely for the purpose set forth in the first paragraph of this report and for information of the Bank and the CBB and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the disclosures made for the year ended 31 December 2009 and does not extend to any financial statements of the Bank, taken as a whole.

Yours faithfully

Ernst & Young

Manama, Kingdom of Bahrain

Attachment: As set out above

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Bahrain Islamic Bank B.S.C.
Basel II, Pillar III Disclosures
31 December 2009
(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 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 unrestricted investment accounts are subject to Board approval.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Group is not consolidating its Subsidiary as being a commercial entity and it is risk weighted as per the requirement of CA Module. The Group's investment in associates is deducted in accordance with the materiality thresholds specified in Prudential Consolidation and Deduction Requirements Module.

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 started the implementation of Sunguard system (BWCM) in phases to be Basel II compliant as prescribed by CBB.

2 Capital Adequacy (continued)

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

The following table summarizes the eligible capital as of 31 December 2009 after deductions for Capital Adequacy Ratio (CAR) calculation;

	Tier 1 2009 BD'000	*Tier 2 2009 BD'000*
Components of capital		
Issued and fully paid ordinary shares	72,686	-
General reserves	1,000	-
Legal / statutory reserves	9,840	-
Share premium	43,936	-
Retained profit brought forward	11,380	-
Less:		
Current interim cumulative net losses	(18,634)	-
Unrealized gross losses arising from fair valuing equity securities	(2,636)	-
Tier 1 Capital before PCD deductions	**117,572**	-
Asset revaluation reserve (45% only)		6,302
Unrealized gains arising from fair valuing equities (45% only)		156
Tier 2 Capital before PCD deductions		**6,458**
Total available capital		**124,030**
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,740)	(2,740)
Excess amount over materiality thresholds in case of investment in commercial entities	(3,726)	(3,726)
Investment in insurance entity greater than or equal to 20%	(797)	(797)
Excess amount over maximum permitted large exposure limit	(17,536)	(17,536)
Total Deductions	**(24,799)**	**(24,799)**
Tier 1 and Tier 2 eligible capital before additional deduction	**92,774**	**(18,341)**
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(18,341)**	**18,341**
Tier 1 and Tier 2 eligible capital	**74,433**	-
TOTAL ELIGIBLE CAPITAL		**74,433**

2 Capital Adequacy (continued)

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

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	463,217
Total Market Risk Weighted Assets	24,255
Total Operational Risk Weighted Assets	54,095
TOTAL REGULATORY RISK WEIGHTED ASSETS	**541,567**
CAPITAL ADEQUACY RATIO	**13.74%**
Minimum requirement	**12%**

* 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.

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

The following table summarises the amount of exposures as of 31 December 2009 subject to standardized approach of credit risk and related capital requirements by type of Islamic financing contracts;

Type of Islamic Financing	*Risk Weighted Assets 2009 BD'000*	*Capital requirements 2009 BD'000*
Murabaha receivables	82,776*	9,933
Ijarah Muntahia Bittamleek	27,337*	3,280
Musharaka investments	18,553*	2,226
Mudaraba investments	2,493	299
Investment in Sukuk	18,545	2,225
Ijarah rental receivable	1,174	141
	150,878	**18,104**

*The amounts 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 31 December 2009 subject to standardized approach of market risk and related capital requirements;

	Self Financed 2009 BD'000	*PSIA 2009 BD'000*
Market Risk - Standardised Approach		
Foreign exchange risk	**1,910**	**-**
Equities position risk	**30**	**-**
Total of Market Risk - Standardised Approach	**1,940**	**-**
Multiplier	12.5	12.5
	24,255	**-**
Eligible Portion for the purpose of the calculation	100%	30%
RWE to be used in CAR Calculation	**24,255**	**-**
TOTAL MARKET RISK EXPOSURES		**24,255**
TOTAL MARKET RISK EXPOSURES - CAPITAL REQUIREMENT		**2,911**

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

The following table summarises the amount of exposures as of 31 December 2009 subject to basic indicator approach of operational risk and related capital requirements;

	Capital charge 2009 BD'000
Indicators of operational risk	
Average Gross income	**28,851**
Multiplier	12.5
	360,633
Eligible Portion for the purpose of the calculation	15%
TOTAL OPERATIONAL RISK EXPOSURE	**54,094**
TOTAL OPERATIONAL RISK EXPOSURES - CAPITAL REQUIREMENT	**6,491**

2 Capital Adequacy (continued)

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

The following are Capital Adequacy Ratios as of 31 December 2009 for total capital and Tier 1 capital;

	2009	
	Total capital	**Tier 1 capital ratio**
Top consolidated level	**13.74%**	**13.74%**

3 Risk Management

3.1 Bank-wide Risk Management Objectives

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

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

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

3.2 Strategies, Processes and Internal Controls

3.2.1 Bank's risk strategy

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

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

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

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

3 Risk Management (continued)

3.2 Strategies, Processes and Internal Controls (continued)

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

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

The Bank has established a limit structure to monitor and control the market risk in its trading and Available for sale equity portfolio. These limits include maximum loss limits, position limits, VaR limits and maturity limits.

3.2.4 Operational risk
The Bank will establish a self assessment process necessary for identifying and measuring its operational risks. The Bank has implemented SunGard's Operational Risk Management system 'SWORD' for recording the potential risks, controls and events. As part of implementation, the Bank has carried out Risk and Control Self Assessment ("RCSA") exercise with respective departments during 2009. The system also measures the Operational risk appetite based on the predefined limits/thresholds.

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

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

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

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

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

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

The Group is currently in the process of developing detailed written policies and procedures for displaced commercial risk. The Group may forego its fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

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

3 Risk Management (continued)

3.3 Structure and Organization of Risk Management Function

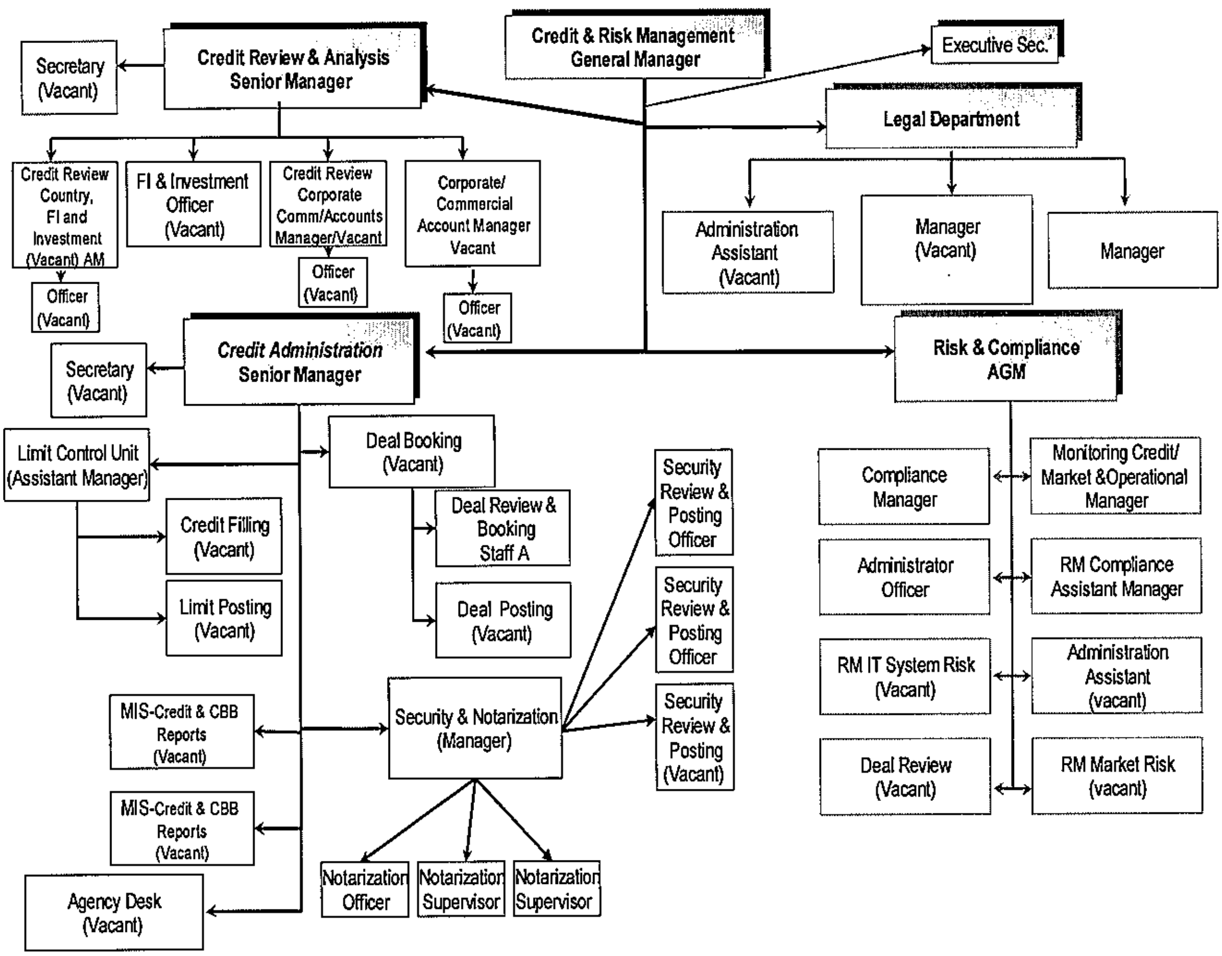
Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of risk management processes in the Bank. The responsibilities associated with each level of risk management structure and authorities include the following:

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

a Establishing overall policies and procedures, and

b. Delegating authority to Executive Committee, Credit Committee, Managing Director, the Chief Executive Officer and further delegation to the management to approve and review.

Credit & Risk Management Division



3.4 Risk Measurement and Reporting Systems

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

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

3 Risk Management (continued)

3.5 Credit Risk

3.5.1 Introduction

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

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

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

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

3.5.2 Types of credit risk

Financing contracts mainly comprise Murabaha receivables, Mudaraba investments, Musharaka investments and Ijarah Muntahia Bittamleek.

Murabaha receivables

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

Mudaraba investments

The Group enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

Musharaka investments

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

Ijarah Muntahia Bittamleek

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.3 Past Due and impaired Islamic financing

The Bank defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Bank's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as non performing, not only the overdue installments/payments.

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

3.5.4 External credit assessment institutions

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

3.5.5 Definition of geographical area

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

3.5.6 Concentration risk

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

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

3.5.7 Credit risk mitigation

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

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

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.7 Credit risk mitigation (continued)

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

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

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

3.5.7.1 General policy guidelines of collateral management

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

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

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

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

a. Valuation of shares and goods: Where competent staff is available within the Group, the valuation is conducted in-house. The Group performs in-house valuation on the following types of securities:

- Pledge of shares of local companies;
- Pledge of international marketable shares and securities; and
- Pledge and hypothecation of goods.

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

b. Valuation of real estate and others: Besides assets mentioned above the valuation of following securities are also conducted:

- Real Estate;
- Equipment and machinery; and
- Precious metals and jewelers.

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.7 Credit risk mitigation (continued)

3.5.7.1 General policy guidelines of collateral management (continued)

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities will be lodged in the safe custody through the Credit Administration and should be kept under dual control. Group must ascertain that collateral providers are authorized and acting within their capacity.

3.5.7.2 Guarantees

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

3.5.7.3 Custody/ collateral management

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

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

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

3.5.8 Counterparty credit risk

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

3.5.8.1 Exposure

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

3.5.8.2 Counterparty

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.8 Counterparty credit risk (continued)

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

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

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

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

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

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

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

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

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

3.5.9 Related party transactions
The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been made on arm's length basis.

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

The following table summarises the amount of gross funded and unfunded credit exposure as of 31 December 2009 and average gross funded and unfunded exposures over the period from 1 January 2009 to 31 December 2009 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 2009 BD'000	**Average gross credit exposure over the period 2009 BD'000*	*Total gross credit exposure 2009 BD'000*	**Average gross credit exposure over the period 2009 BD'000*
Funded				
Cash and balances with Central Bank of Bahrain and other banks	12,683	15,957	23,410	25,182
Murabaha receivables	12,245	13,459	320,274	352,042
Mudaraba investments	38,634	37,637	14,736	26,877
Musharaka investments	2,980	3,047	77,939	79,709
Investments	46,568	56,557	87,627	69,816
Investment in associates	7,448	6,958	-	-
Investment in Ijarah assets	9,771	9,832	-	-
Ijarah Muntahia Bittamleek	4,391	3,595	114,853	94,031
Investment in properties	123,030	103,601	-	-
Ijarah rental receivables	133	70	3,470	1,825
Other assets	11,758	12,722	-	-
Unfunded				
Bank's liability under L/C & L/G	675	819	17,676	21,449
Total	**270,316**	**264,254**	**659,985**	**670,931**

*Average Balances are computed based on month end balances.

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

The following table summarises the geographic distribution of exposures as of 31 December 2009, 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	1,197	223	11,100	163	**12,683**	-	-	23,410	-	**23,410**
Murabaha receivables	-	695	11,550	-	**12,245**	-	18,184	302,090	-	**320,274**
Mudaraba investments	3,013	6,642	25,963	3,016	**38,634**	-	-	14,736	-	**14,736**
Musharaka investments	-	-	2,980	-	**2,980**	-	-	77,939	-	**77,939**
Investments	-	-	46,568	-	**46,568**	-	-	87,627	-	**87,627**
Investment in associates	-	-	7,448	-	**7,448**	-	-	-	-	-
Investment in Ijarah assets	-	-	9,771	-	**9,771**	-	-	-	-	-
Ijarah Muntahia Bittamleek	-	-	4,391	-	**4,391**	-	-	114,853	-	**114,853**
Investment in properties	-	-	123,030	-	**123,030**	-	-	-	-	-
Ijarah rental receivables	-	-	133	-	**133**	-	-	3,470	-	**3,470**
Other assets	-	-	11,758	-	**11,758**	-	-	-	-	-
Total	**4,210**	**7,560**	**254,692**	**3,179**	**269,641**	**-**	**18,184**	**624,125**	**-**	**642,309**

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

The following table summarises the distribution of exposures as of 31 December 2009 by industry, broken down into major types of credit exposure;

	Own capital and current account				*Profit Sharing Investment Account (PSIA)*			
	Industry sector				*Industry sector*			
	Trading and Manufacturing BD'000	*Banks and Financial Institutions BD'000*	*Others BD'000*	*Total BD'000*	*Trading and Manufacturing BD'000*	*Banks and Financial Institutions BD'000*	*Others BD'000*	*Total BD'000*
Funded								
Cash and balances with Central Bank of Bahrain and other banks	-	10,605	2,078	**12,683**	-	19,575	3,835	**23,410**
Murabaha receivables	3,636	3,149	5,460	**12,245**	95,111	82,369	142,794	**320,274**
Mudaraba investments	-	29,115	9,519	**38,634**	-	14,736	-	**14,736**
Musharaka investments	1,004	116	1,860	**2,980**	26,257	3,025	48,657	**77,939**
Investments	3,106	28,063	15,399	**46,568**	-	45,546	42,081	**87,627**
Investment in associates	-	7,448	-	**7,448**	-	-	-	-
Investment in Ijarah assets	-	-	9,771	**9,771**	-	-	-	-
Ijarah Muntahia Bittamleek	1,479	170	2,742	**4,391**	38,692	4,456	71,705	**114,853**
Investment in properties	-	-	123,030	**123,030**	-	-	-	-
Ijarah rental receivables	-	-	133	**133**	-	-	3,470	**3,470**
Other assets	-	-	11,758	**11,758**	-	-	-	-
Unfunded								
Bank's liability under L/C & L/G	359	292	24	**675**	9,405	7,625	646	**17,676**
Total	**9,584**	**78,958**	**181,774**	**270,316**	**169,465**	**177,332**	**313,188**	**659,985**

3 Risk Management (continued)

3.5 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*
Consolidated Statement of Financial Position			
Customers' current accounts	114	-	**114**
Customers' investment accounts	-	850	**850**
Murabaha receivables	39	1,011	**1,050**
Other liabilities	12	-	**12**
Other assets	696	-	**696**
Investment in associates	25,000	-	**25,000**
Total	**25,861**	**1,861**	**27,722**

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

	Own Capital and Current Account BD'000'	*Profit Sharing Investment Account (PSIA) BD'000*	*Total BD'000*
Consolidated Statement of income			
Income from Ijarah assets	1	37	**38**
Other expenses	21	-	**21**
Gross return to unrestricted investment accounts	4	97	**101**
Total	**26**	**134**	**160**

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

Following balances representing the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2009;

Counterparties	*Own Capital and Current Account BD'000*	*Profit Sharing Investment Account (PSIA) BD'000*	*Total BD'000*
Counterparty # 1	711	18,602	**19,313**
Counterparty # 2	756	19,778	**20,534**
Counterparty # 3	77	2,021	**2,098**
	1,544	**40,401**	**41,945**

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

Following balances representing the concentration of risk to individual counterparties as of 31 December 2009;

Counterparties *	*Own capital and current account BD'000*	*Profit Sharing Investment Account (PSIA) BD'000*	*Total BD'000*
Counterparty # 1	707	18,487	**19,194**
Counterparty # 2	11,915	11,050	**22,965**
	12,622	**29,537**	**42,159**

* 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)

3.5 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 31 December 2009, broken down by major types of credit exposure;

	Own capital and current account										
	Up to One month 2009 BD'000	*1-3 month 2009 BD'000*	*3-6 month 2009 BD'000*	*6-12 month 2009 BD'000*	*1-3 years 2009 BD'000*	*3-5 years 2009 BD'000*	*5-10 years 2009 BD'000*	*10-20 years 2009 BD'000*	*Over 20 years 2009 BD'000*	*No fixed maturity 2009 BD'000*	*Total 2009 BD'000*
<u>Assets</u>											
Cash & balance with the Central Bank of Bahrain and Other Bank	12,683	-	-	-	-	-	-	-	-	-	**12,683**
Murabaha receivables	5,350	900	1,122	1,344	1,425	716	1,382	3	3	-	**12,245**
Mudaraba investments	505	-	59	-	-	-	-	-	38,070	-	**38,634**
Musharaka Investments	748	211	247	151	368	611	333	247	64	-	**2,980**
Investments	209	30,438	-	199	1,611	1,057	41	-	-	13,013	**46,568**
Investment in associates	-	-	-	-	-	-	-	-	-	7,448	**7,448**
Investment in Ijarah assets	-	-	-	-	-	-	-	-	-	9,771	**9,771**
Ijara Muntahia Bittamleek	252	48	1,329	7	235	1,299	462	401	358	-	**4,391**
Investment in properties	-	-	-	-	-	-	-	-	-	123,030	**123,030**
Ijara rental receivables	-	-	133	-	-	-	-	-	-	-	**133**
Other assets	-	-	7,224	-	-	-	-	-	-	4,534	**11,758**
Total Assets	**19,747**	**31,597**	**10,114**	**1,701**	**3,639**	**3,683**	**2,218**	**651**	**38,495**	**157,796**	**269,641**

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 31 December 2009, broken down by major types of credit exposure;

	Profit Sharing Investment Account (PSIA)										
	Up to One month 2009 BD'000	*1-3 month 2009 BD'000*	*3-6 month 2009 BD'000*	*6-12 month 2009 BD'000*	*1-3 years 2009 BD'000*	*3-5 years 2009 BD'000*	*5-10 years 2009 BD'000*	*10-20 years 2009 BD'000*	*Over 20 years 2009 BD'000*	*No fixed maturity 2009 BD'000*	*Total 2009 BD'000*
<u>Assets</u>											
Cash & balance with the Central Bank of Bahrain and Other Bank	-	-	-	-	-	-	-	-	-	23,410	**23,410**
Murabaha receivables	139,952	23,534	29,346	35,148	37,273	55,021	-	-	-	-	**320,274**
Mudaraba investments	13,185	-	1,551	-	-	-	-	-	-	-	**14,736**
Musharaka Investments	19,562	5,511	6,457	3,940	9,642	15,983	8,707	6,461	1,676	-	**77,939**
Investments	5,462	6,111	-	5,215	42,133	27,633	1,073	-	-	-	**87,627**
Ijara Muntahia Bittamleek	6,608	1,267	34,768	191	6,122	33,947	12,083	10,491	9,376	-	**114,853**
Ijara rental receivables	-	-	3,470	-	-	-	-	-	-	-	**3,470**
Total Assets	**184,769**	**36,423**	**75,592**	**44,494**	**95,170**	**132,584**	**21,863**	**16,952**	**11,052**	**23,410**	**642,309**

3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 14. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (Own capital and current account by industry sector) (PD-1.3.23(h))

The following table summarises the own capital and current account impaired facilities, past due facilities and allowances disclosed by major industry sector 31 December 2009;

	Own capital and current account										
		Aging of Past Due Facilities			Specific allowances				* General allowances		
	Non-performing or past due or impaired Islamic financing contracts 2009 BD'000	3 months to 1 year 2009 BD'000	1 to 3 years 2009 BD'000	Over 3 years 2009 BD'000	Balance at the beginning of the period 2009 BD'000	Charges during the period 2009 BD'000	Charge-offs during the period 2009 BD'000	Balance at the end of the period 2009 BD'000	General allowances beginning balance 2009 BD'000	General allowances movement 2009 BD'000	General allowances ending balance 2009 BD'000
Trading and Manufacturing	1,566	637	4	27	39	742	-	781	-	-	-
Others	245	47	12	13	93	-	6	87	-	-	-
No specific sector	-	-	-	-	-	-	-	-	197	(14)	183
Total	**1,811**	**684**	**16**	**40**	**132**	**742**	**6**	**868**	**197**	**(14)**	**183**

* 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)

3.5 Credit Risk (continued)

Table – 15. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (profit sharing investment account by industry sector) (PD-1.3.23(h))

The following table summarises the profit sharing investment account impaired facilities, past due facilities and allowances disclosed by major industry sector 31 December 2009;

Profit Sharing Investment Account (PSIA)

		Aging of Past Due Facilities			*Specific allowances*				** General allowances*		
	Non-performing or past due or impaired Islamic financing contracts 2009 BD'000	*3 months to 1 year 2009 BD'000*	*1 to 3 years 2009 BD'000*	*Over 3 years 2009 BD'000*	*Balance at the beginning of the period 2009 BD'000*	*Charges during the period 2009 BD'000*	*Charge-offs during the period 2009 BD'000*	*Balance at the end of the period 2009 BD'000*	*General allowances beginning balance 2009 BD'000*	*General allowances movement 2009 BD'000*	*General allowances ending balance 2009 BD'000*
Manufacturing	40,941	16,658	103	695	1,016	19,417	-	20,433	-	-	-
Others	6,431	1,235	325	330	2,426	-	147	2,279	-	-	-
No specific sector	-	-	-	-	-	-	-	-	5,146	(353)	4,793
Total	**47,372**	**17,893**	**428**	**1,025**	**3,442**	**19,417**	**147**	**22,712**	**5,146**	**(353)**	**4,793**

* 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)

3.5 Credit Risk (continued)

Table – 16. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (own capital and current account and profit sharing investment account by geographic area) (PD-1.3.23(i))

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 31 December 2009;

	Own capital and current account			*Profit Sharing Investment Account (PSIA)*		
	Past due Islamic financing contracts 2009 BD'000	*Specific Impairment provision 2009 BD'000*	*Collective Impairment provision 2009 BD'000*	*Past due Islamic financing contracts 2009 BD'000*	*Specific Impairment provision 2009 BD'000*	*Collective Impairment provision 2009 BD'000*
Middle East	1,811	868	183	47,372	22,712	4,793
Total	**1,811**	**868**	**183**	**47,372**	**22,712**	**4,793**

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 31 December 2009;

	Own capital and current account	*Profit Sharing Investment Account (PSIA)*
	Aggregate amount BD'000	*Aggregate amount BD'000*
Restructured financing facilities	3,268	85,474
Total	**3,268**	**85,474**

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

3 Risk Management (continued)

3.5 Credit Risk (continued)

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

The following table summarises the exposure as of 31 December 2009 by type of Islamic financing contract covered by eligible collateral after the application of haircuts;

	Total exposure covered by	
	Eligible collateral	*Guarantees*
	2009	*2009*
	BD'000	*BD'000*
Murabaha receivables	10,468	-
Musharaka investments	242	-
Ijarah Muntahia Bittamleek	22,340	-
Total	**33,050**	-

Table – 19. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2009;

	BD'000
Gross positive fair value of contracts	911,950
Netting Benefits	-
Netted Current Credit Exposure	911,950
Collateral held:	
-Cash	33,050
-Shares	5,682
-Real Estate	261,627
Total	**300,359**

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

3.6 Market Risk

3.6.1 Introduction

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

3.6.2 Sources of market risk

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

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

3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.2 Sources of market risk (continued)

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

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

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

3.6.3 Market risk strategy

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

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

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

3.6.4 Market risk measurement methodology

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

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

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

3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.5 Market risk monitoring and limits structure

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

3.6.6 Limits monitoring

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

3.6.7 Breach of limits

In case a limit is breached, an approval from the GM of Credit and Risk Management ("GM-C&RM") is required to continue with the transaction. An immediate report is provided to the ALCO after every significant limit breach. This breach is also reported to the Executive Committee (EXCOM). The limits are revised at least bi-annually or when deemed required.

3.6.8 Portfolio review process

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

3.6.9 Reporting

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

3.6.10 Stress testing

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

3.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

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

The following table summarises the capital requirement for foreign exchange risk as of 31 December 2009;

	Foreign exchange risk 2009 BD'000
Foreign exchange risk	**23,875**
Foreign exchange risk capital requirement	**2,865**
Maximum value capital requirement	**2,865**
Minimum value capital requirement	**1,618**

3 Risk Management (continued)

3.6 Market Risk (continued)

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

The following table summarises the capital requirement for equity position risk as of 31 December 2009;

	Equity position risk 2009 BD'000
Equity position risk	375
Equity position risk capital requirement	45
Maximum value capital requirement	234
Minimum value capital requirement	45

3.7 Operational Risk

3.7.1 Introduction

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

3.7.2 Sources of operational risk

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

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

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

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

3.7.3 Operational risk management strategy

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

The Group on a continuous basis will:

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

3 Risk Management (continued)

3.7 Operational Risk (continued)

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

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

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

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

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

The plan is reviewed periodically to assess and incorporate changes in the business and market conditions.

3.8 Equity Position in the banking book

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

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements. Available for sale investments and investments in properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

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 31 December 2009;

	Total gross exposure 2009 BD'000	** Average gross exposure 2009 BD'000*	*Publicly traded 2009 BD'000*	*Privately held 2009 BD'000*	*Risk weighted assets 2009 BD'000*	*Capital Requirements 2009 BD'000*
Equity investments	**50,370**	**60,821**	**29,908**	**20,462**	**51,957**	**6,235**
Funds	**38,071**	**36,609**	**-**	**38,071**	**64,846**	**7,782**
Total	**88,441**	**97,430**	**29,908**	**58,533**	**116,803**	**14,017**

*Average Balances are computed based on month end balances.

3 Risk Management (continued)

3.8 Equity Position in the Banking Book (continued)

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 year ended 31 December 2009;

	2009
	BD'000
Cumulative realized losses arising from sales or liquidations in the reporting period	**(2,005)**
Total unrealized losses recognized in the balance sheet but not through P&L	**(1,431)**
Unrealized losses included in Tier 1 Capital	**(2,636)**
Unrealized gains included in Tier 2 Capital	**346**

3.9 Unrestricted Investment Accounts ("URIA")

The Group may require to decrease or increase loses 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 on a pro-rata basis.

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 31 December 2009;

	BD'000
Customers	**522,379**
Banks and other financial institutions	**157,914**
Profit equalisation reserve	**-**
Investment risk reserve	**-**
Total	**680,293**

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 year ended 31 December 2009;

Profit Paid on Average URIA Assets *	**10.98%**
Mudarib Fee to Total URIA Profits	**40%**

* Average assets funded by URIA have been calculated using quarterly amounts.

3 Risk Management (continued)

3.9 Unrestricted Investment Accounts ("URIA") (continued)

Table – 25. Unrestricted Investment Account Ratios (PD-1.3.33 (c), (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 year ended 31 December 2009;

Type of Investment Account Holder	*Profit distributed to total IAH*	*Percentage to total IAH*
Saving accounts (including VEVO)	2.38%	9.81%
Defined accounts - 1 month	1.22%	2.31%
Defined accounts - 3 months	0.55%	0.65%
Defined accounts - 6 months	0.54%	0.59%
Defined accounts - 9 months	0.02%	0.02%
Defined accounts - 1 year	3.24%	3.25%
Investment certificates	0.66%	0.50%
IQRA Deposits	0.06%	0.06%
Tejoori Deposit	1.06%	4.45%
Time deposits - clients	78.62%	51.03%
Bank's deposits	11.65%	27.33%
	100.00%	100.00%

As of 31 December 2009, the Bank did not have any balance in the investment risk reserve.
The calculation and distribution of profits was based on average balances.

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 31 December 2009;

	Percentage Financing to Total Financing
Murabaha receivables	51.75%
Mudaraba investments	2.38%
Musharaka investments	12.59%
Ijarah Muntahia Bittamleek	18.56%
Investment in Sukuk	14.16%
Ijarah rental receivable	0.56%

3 Risk Management (continued)

3.9 Unrestricted Investment Accounts ("URIA") (continued)

Table – 27. 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 year ended 31 December 2009;

Share of profit earned by IAH before transfer to/from reserves - BD '000'	**17,638**
Percentage share of profit earned by IAH before transfer to/from reserves	**2.59%**
Share of profit paid to IAH after transfer to/from reserves - BD '000'	**17,638**
Percentage share of profit paid to IAH after transfer to/from reserves	**2.59%**
Share of profit paid to Bank as mudarib - BD '000'	**11,517**

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

The following table summarises the movement on Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) and utilization and computation of PER and/or IRR during the year ended 31 December 2009;

	Profit Equalisation Reserve 2009 BD'000	*Investment Risk Reserve 2009 BD'000*
Opening Balance	2,368	167
Amount appropriated	-	-
Amount utilized	(2,368)	(167)
Closing Balance	-	-

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 year ended 31 December 2009;

	3 month	*6 month*	*12 month*	*36 month*
Percentage of average declared rate of return to profit rate of return	2.68%	2.94%	3.14%	4.00%

3 Risk Management (continued)

3.9 Unrestricted Investment Accounts ("URIA") (continued)

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 year ended 31 December 2009;

	Opening Actual Allocation BD'000	*Movement BD'000*	*Closing Actual Allocation BD'000*
Cash and balances with Central Bank of Bahrain and other banks	**24,150**	**(740)**	**23,410**
Murabaha receivables	**378,586**	**(58,312)**	**320,274**
Mudaraba investments	**19,541**	**(4,805)**	**14,736**
Musharaka investments	**79,231**	**(1,292)**	**77,939**
Investment in sukuk	**72,738**	**14,889**	**87,627**
Ijarah muntahia bittamleek	**90,715**	**24,138**	**114,853**
Ijarah rental receivable	**1,445**	**2,025**	**3,470**
Total	**666,406**	**(24,097)**	**642,309**

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	*%age*	*BD'000*	*%age*
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%
2005	12,348	6.24%	5,056	2.56%

3.10 Liquidity Risk

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

3.10.2 Sources of liquidity risk
The sources of liquidity risk can broadly be categorized in the following:

a. **Funding risk** is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. **Call risk** is the risk of crystallization of a contingent liability; and

c. **Event risk** is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

3 Risk Management (continued)

3.10 Liquidity Risk (continued)

3.10.3 Bank's funding strategy

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

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the balance sheet. The Bank is in the process of developing a liquidity contingency plan to deals with stressed scenarios and outlines an action plan that can be taken in the event of a loss of market liquidity.

3.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities in different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, over 3 years and no fixed maturity. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Group's is in the process of implementing contingency liquidity plan to meet urgent liquidity requirements in stressed conditions that addresses how funding liquidity would be managed if either their specific financial conditions were to decline or broader conditions created a liquidity problem.

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

3.10.5 Liquidity risk measurement tools

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

3.10.6 Liquidity risk monitoring

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

3.10.7 Liquidity limits structure

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

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

3.10.8 Liquidity risk stress testing

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

3.10.9 Contingency funding plan

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

3 Risk Management (continued)

3.10 Liquidity Risk (continued)

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

	Assets	*RWA*	*RWA for Capital Adequacy Purposes*	*Capital Requirements*
	BD'000	*BD'000*	*BD'000*	*BD'000*
Cash and balances with Central Bank of Bahrain and other banks	23,410	-	-	-
Murabaha receivables	320,274	196,884	59,065	7,088
Mudaraba investments	14,736	7,372	2,212	265
Musharaka investments	77,939	60,566	18,170	2,180
Investment in sukuk	87,627	48,239	14,472	1,737
Ijarah muntahia bittamleek	114,853	89,243	26,773	3,213
Ijarah rental receivable	3,470	3,470	1,041	125
	642,309	**405,774**	**121,733**	**14,608**

Table – 33. Liquidity Ratios (PD-1.3.37)

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

	2009	*2008*	*2007*	*2006*	*2005*
Commodities Murabaha / Total Assets	10.42%	14.98%	27.37%	40.93%	32.71%
Islamic Financing / Customer Deposits excluding banks	123.01%	144.62%	171.72%	224.08%	175.15%
Customer Deposits / Total Assets	57.28%	48.71%	36.04%	34.99%	43.94%
Liquid Assets / Total Assets	14.38%	20.66%	30.16%	44.47%	35.96%
Growth in Customer Deposits	21.98%	79.24%	55.50%	8.39%	9.61%

3.11 Profit Rate Risk

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

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

a. Murabaha transactions;
b. Mudaraba transactions;
c. Ijarah Muntahia Bittamleek; and
d. Sukuk.

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

3.11.1 Profit rate risk monitoring and reporting

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

3 Risk Management (continued)

3.11 Profit Rate Risk (continued)

3.11.1 Profit rate risk monitoring and reporting (continued)

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

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates as of 31 December 2009;

	Effect on value of Asset 2009 BD'000	*Effect on value of Liability 2009 BD'000*	*Effect on value of Economic Capital 2009 BD'000*
Upward rate shocks:	**(6,095)**	**9,980**	**3,885**
Downward rate shocks:	**6,095**	**(9,980)**	**(3,885)**

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;

	2009	*2008*	*2007*	*2006*	*2005*
Return on average equity	-12.64%	12.62%	19.10%	17.80%	11.56%
Return on average assets	-2.17%	2.91%	4.57%	3.45%	2.57%
Cost to Income Ratio	70.66%	31.32%	32.41%	38.76%	41.35%

The worldwide credit crisis has also impacted the markets in the GCC. Like every other financial institution, the current market environment has both a direct and indirect impact on the Group. Nevertheless, we have been proactive in ensuring that the Group maintains a strong liquidity and capital position with minimal long term funding or refinancing pressure.

3 Risk Management (continued)

3.12 Corporate governance and transparency

Table – 36. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Board member;

Name of Board Member	*Profession*	*Business Title*	*Experience in years*	*Qualification*
Khalid Abdulla Al Bassam	Businessman	Chairman	26 Years	Bachelor Degree in Business Administration from Eastern New Mexico University, USA. May 1988
Sh.Hisham Bin A.Rahman Al Khalifa	Businessman	Vice Chairman & Head of Audit Committee	20 Years	MBA Finance - Suffolk University Bachelor of Science in Business & Management from University of Bahrain
Khalid Mohamed Najibi	Businessman	Board Member & Head of the Executive Committee	18 Years	CPA from American Institute of Certified Public Accountant Bachelor's Degree in Financial Management from Schiller International University - London , UK
Yousif Mohammed Al Awadhi	Businessman	Board Member & Member of the Executive Committee	40 Years	Bachelor's Degree in Management from University of Cairo
Nabil Ahmed Mohammed Amin	Businessman	Board Member & Member of the Executive Committee	26 Years	Bachelor's Degree in Business Administration from American University – Switzerland
Mohammed Al Zarooq Rajab	Businessman	Board Member & Member of the Audit Committee	42 years	Bachelor's Degree in Accounting from Libyan University
Ali Mohammed Al Olimi	Businessman	Board Member & Member of the Audit Committee	30 Years	Bachelor's Degree in Accounting from University of Kuwait

No Board member has more than one Directorship of a Retail Bank and a Wholesale Bank.

Remuneration of Board Members and Shari'a Board Members is approved in the AGM after being discussed at the Board level. Remuneration of CEO is approved in the Board meeting. For all Group staff there is a fixed bonus plus a performance bonus scheme. Performance bonus is based on staff performance and recommendation of respective departmental heads. The Board approves all fixed and performance bonus schemes for staff.

3 Risk Management (continued)

3.12 Corporate governance and transparency (continued)

Table – 37. Corporate Governance and Transparency – Executive Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	*Designation*	*Profession*	*Business Title*	*Experience in year*	*Qualification*
Mohammed Ebrahim Mohammed	CEO	Banker	CEO & Member of the Executive Committee	32 Years	Master degree in Business Administration from University of Glamorgan- Wales 1998
Abdulrahman Mohammed Turki	General Manager-Retail Banking	Banker	General Manager	37 Years	Master Degree in Business Administration from University of Strathclyde Scotland 2002
Dr. Salah El Din Saeed	General Manager-Credit & Risk	Banker	General Manager	32 Years	MBA from University of Hull 1998
Ali Abdulkarim	Assistant General Manager- Treasury & Investment	Banker	Assistant General Manager	15 Years	Associate accounting diploma from university of Bahrain & Banking and Finance diploma (BIBF)
Nader Ebrahim	General Manager-Corporate Banking	Banker	General Manager	27 Years	Executive Management & Leadership from University of Virginia, USA
Mohammed Ahmed Hassan	General Manager-Support Services	Banker	General Manager	41 Years	High School Diploma
Khalid Mohammed Al Dossari	Chief Financial Officer	Accountant	Assistant General Manager	26 Years	CPA from American Institute of Certified Public Accountants
Khalid Mahmood Abdulla	Assistant General Manager - Internal Audit & Sharia	Accountant	Assistant General Manager	16 Years	CPA from American Institute of Certified Public Accountant

3 Risk Management (continued)

3.12 Corporate governance and transparency (continued)

Table – 38. Corporate Governance and Transparency – Management Committees Profile (PD-1.3.10(b))

The following table summarises the information about Management Committees, their members and objectives;

Management Committee	Members	Objective
Asset & Liability Committee (ALCO)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • A. Rahman Turki • Khalid Al Dosari • Ali A. Karim • Salah Adden A. Qader • Mohammed Belgami	The main objective of ALCO is to mange and monitors the liquidity risk of the Bank on coordinated and consistent basis.
Credit & Investment Committee (C&IC)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • A. Rahman Turki • Khalid Al Dosari • Ali A.Karim • Salah Adden A. Qader Secretary Badriya A. Ghani	The main objectives of C&IC is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.
Information Technology Steering Committee	Chairman Mohammed Ebrahim Members • Nader Ebrahim • Salah Adden A. Qader • Khalid AL Dossari • AbdulRazaq Abdulkhaliq • Khalid Mahmood	The main objective of the IT Committee is to plan, prepare, coordinate, implement, support and follow-up on all issues related to the IT and new projects implementation issue.

3 Risk Management (continued)

3.12 Corporate governance and transparency (continued)

Table – 38. Corporate Governance and Transparency – Management Committees Profile (PD-1.3.10(b)) (continued)

Management Committee	Members	Objective
Human Resource Committee (HR)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • Mohammed Hassan • A.Rahman Turki • Khalid Al Doosari • Ali A. Karim • Salah Adden A. Qader • Khalid Mahmood • Aziz Ashor • Mohammed Khalifa Al Mulla	The main objectives of HR Committee is to monitor and assess the employer workforce regarding human resources issues and monitor, review and analyze legislative and/or administrative changes related to human resources.
Qarth Al Hassan, Donation & Zakah Committee	Chairman Mohammed Hassan Members • Isa Ahmed • Mustafa Al Khohaji • Ramadhan Ali Ramadhan	The main objective of Qard Al Hassan and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.

New product information, Banks new announcement and information related to stakeholders are made available in timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media.

In addition, the Consolidated Financial Statement of at least past 3 years are available in the Bank's website.

The Group has a Quality Assurance Department which is responsible for managing customer complaints. After receiving a complaint, the department routes the complaint to the concerned department for their response. After analyzing the responses of the concerned department the customer is contacted accordingly. The customers may use the Group's website or the call centre for lodging a complaint.

The following is the Shari's Committee members and their objective:

Members	Objective
Chairman Abdullatif Al Mahmood Members • Mohammed Jufari • Adnan Al Qattan • Netham Yacoobi • Essam Anzi	The main objective of Sharia'a Committee is to advise the business units on any shari'a matter and to ensure compliance with the shari'a tenets and requirements in their operations. The Shari'a Committee is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and AAOIFI.

4 OTHERS

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares;

At 31 December 2009

Names	***Nationality***	***No. of shares***	***% holding***
Investment Dar	Kuwait	**290,591,510**	**39.89%**
Islamic Development Bank	Saudi	**94,745,420**	**13.00%**
General Council of Kuwaiti Awaqaf	Kuwait	**67,946,033**	**9.33%**
Kuwait Investment Company S.A.K	Kuwait	**63,407,126**	**8.70%**

At 31 December 2008

Names	*Nationality*	*No. of shares*	*% holding*
Investment Dar	Kuwait	264,611,600	39.95%
Islamic Development Bank	Saudi	86,132,200	13.00%
General Council of Kuwaiti Awaqaf	Kuwait	61,769,121	9.33%
Kuwait Investment Company S.A.K	Kuwait	57,642,842	8.70%

ii) The Bank has only one class of shares and the holders of these shares have equal voting rights.

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

At 31 December 2009

	Number of shares	***Number of shareholders***	***% of total outstanding shares***
Less than 1%	**126,577,716**	**3,423**	**17.37%**
1% up to less than 5%	**85,296,595**	**5**	**11.71%**
5% up to less than 10%	**131,353,159**	**2**	**18.03%**
10% up to less than 50%	**385,336,930**	**2**	**52.89%**
	728,564,400	**3,432**	**100.00%**

At 31 December 2008

	Number of shares	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	114,762,558	3,414	17.33%
1% up to less than 5%	77,435,679	5	11.69%
5% up to less than 10%	119,411,963	2	18.03%
10% up to less than 50%	350,743,800	2	52.95%
	662,354,000	3,423	100.00%

4 OTHERS (continued)

Details of Directors' interests in the Bank's shares as at the end of the year were:

Categories:

	2009	
	No. of shares	***No. of directors***
Less than 1%	**2,759,217**	**7**

	2008	
	No. of shares	*No. of directors*
Less than 1%	2,415,965	9

The following is the number of shares, and percentage of shareholding of Directors and Senior management (Assistant General Managers and above);

	2009	
	No. of shares	***Percentage of Shareholding***
Directors	**2,759,217**	**0.38%**
Senior management	**1,676**	**0.0002%**
	2,760,893	**0.38%**

	2008	
Name:	*No. of shares*	*Percentage of Shareholding*
Directors	2,415,965	0.36%
Senior management	1,524	0.0002%
	2,417,489	0.36%

5 Glossary of Terms

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