بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

H. H. Shaikh Khalifa Bin Salman Al Khalifa

The Prime Minister

His Majesty King Hamad Bin Isa Al Khalifa

The King of Bahrain

H. H. Shaikh Salman Bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander

بسم اللّه الرحمن الرحيم

يأيها الذين آمنوا لا تأكلوا الربا أضعافاً مضاعفة واتقوا اللّه لعلكم تفلحون

In the name of Allah, the Most Gracious, the Most Merciful

O ye who believe! devour not usury, doubled and multiplied; but fear Allah; that ye may (really) prosper.

(Chapter 3 Aal-e-Imran – Verse 130)

Profile

Bahrain Islamic Bank (BisB) was established in 1979 as the first Islamic commercial bank in the Kingdom of Bahrain. The authorized capital is BD 100 million and the paid up capital is BD 66 million. The Bank is listed on the Bahrain Stock Exchange. The Bank operates under supervision and the regulatory framework of the Central Bank of Bahrain.

Since its inception, BisB has recorded steady growth. At the end of 2008, the shareholders' funds reached BD 166 million, with assets in excess of BD 870 million.

The Bank has been maintaining its leading position in the Islamic banking sector through adopting innovative Islamic investment and financing products, supported by superior retail and corporate banking services.

With 12 local branches, BisB has established the largest network of branches among Islamic banks in the Kingdom. These branches offer quality banking services, financing alternatives and investment opportunities compliant with Sharia'a principles for individual and corporate customers.

Vision

To be the best Sharia'a compliant financial solutions provider.

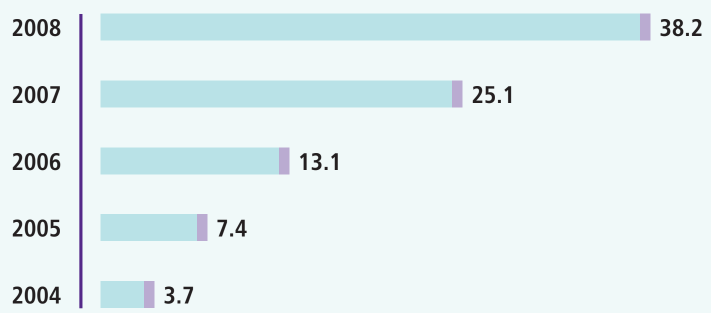
Mission

To leverage our core competencies of customer intimacy, service, leadership and product innovation, in order to achieve the expectations of our stakeholders.

Financial Highlights

Summary (BD Millions)	2008	2007	2006	2005	2004
Net Income					
Total operating income	73.3	52.8	34.3	17.7	10.8
Investors' share in income	17.7	15.7	12.7	5.1	2.1
Bank's share in income	55.6	37.1	21.6	12.6	8.7
Expenses and other charges	17.4	12	8.5	5.2	5
Net income for the year*	38.2	25.1	13.1	7.4	3.7
Balance Sheet					
Short term Murabaha	162	180	179	105	111
Murabaha receivables	353	210	101	75	52
Invesstments	180	154	77	85	43
Sukuk and other assets	179	115	79	57	48
Total Assets	874	659	436	321	255
Current accounts	69	61	51	47	30
Investment by non-banks	425	237	153	142	129
Banks and other liabilities	213	174	157	60	43
Total liabilities	708	472	361	249	202
Shareholders' equity	166	187	75	72	53
Total liabilities and equity	874	659	436	321	255

* Before impairment provision



Net Income (BD Millions)

Engraved in the Past,
Projected into the Future.

Having distinguished itself since olden times with a highly skilled craftsmanship whether in pottery, glassware, gold or pearls, Bahrain's beautiful legacy is its national birthright. This deeply etched pride is integrated into its social psyche and stands truly reflected in BisB, the first Islamic commercial bank in the Kingdom. With nearly 30 years of an enduring heritage, BisB continues to proliferate the essence of this legacy and takes this tradition of customer care a step further with innovation and a special emphasis on retail banking.

BisB has raised its own aspirations of being the most innovative commercial bank in the region, by increasing both product range and providing superior customer service. As it marches ahead, conquering newer territories and extending its reach, it aims to help realize the many aspirations of an ever growing customer base. BisB, a timeless entity itself, is all set to leveraging on its core competencies of customer care, service, leadership and innovation, encouraging a nation and its people to – Dream a Bigger Dream.

In 2008 BisB has been seen as a safe haven for secure liquidity and sound financial position. To some extent, this is reflected in a big increase in the number of our customers and consequently the size of deposits which increased by 78% compared to 2007.

Chairman's Statement

In the Name of Allah, the Most Beneficent, the Most Merciful

Dear Distinguished Shareholders,

It gives me a great pleasure to present Bahrain Islamic Bank annual report and financial statements for the year ended 31 December 2008. We are delighted to report that 2008 was another successful year for the Bank. Our success is highlighted by the strong financial results particularly in light of the global and regional financial and economic changing conditions.

As we all know, the last quarter of 2008 saw an unprecedented level of turmoil in the international financial markets that was triggered by the sub-prime mortgage crisis in the US quickly followed by the liquidity crunch. This has inevitably resulted in a truly global economic slowdown and the full impact of these financial crises is still unfolding. The oil prices within a span of about six months dropped from a high of US$147 per barrel to a low of US$33 per barrel – both levels unjustifiable in the eyes of many experts. Notwithstanding the impact that the turmoil has had on the regional and global economies, BisB has maintained a strong portfolio of assets and has increased its retail banking client base. The ratings by Moody's – first of its kind for an Islamic bank in Bahrain – is an example of our strong position and market standing.

BisB was largely sheltered from this crisis; due to its conservative approach guided by Sharia'a rules. However, it is inevitable that it was affected to a certain degree as it is part of the wider global financial system and consequently was, even if only in an indirect manner.

In the wake of the financial crisis BisB has been seen as a safe haven for secure liquidity and sound financial position. To some extent, this is reflected in a big increase in the number of our customers and consequently the size of deposits which increased by 78% compared to 2007.

During 2008 we have continued to build on the confidence shown by our shareholders and clients. Our financial performance in these difficult market conditions underlines our strong achievements. Total operating income for the period increased by 52% compared to last year, attributing this to the continued growth in Islamic finances and different investment activities plus the achievement of good returns on the Bank's equity investments.

The Bank achieved BD 22.3 million net income after making BD 15 million provisions against contingences that may arise in case the current international financial and economic crisis continues further.

During 2008, we continued to enhance the institutional capability of BisB in order to support the growth and development of our business. We were successful in recruiting high calibre professionals to our team who have helped to strengthen controls in key areas of the Bank. We are pleased that out of over 380 employees in BisB, over 98% are Bahrainis – the highest level in any bank in Bahrain. We remain committed to providing them with the necessary training and career development opportunities to prepare them for leadership positions in the future.

Despite the challenging global financial and economic conditions, we at BisB believe that during this period the market will also present opportunities that may prove viable especially for the medium and long outlook. Moving forward and with a proven track record, our core business values, inherent strategic position, known management strengths and the strategic ability to capitalize on new opportunities, I am confident that BisB will continue to grow from strength to strength in the years ahead.

I extend my sincere appreciation to His Majesty King of Bahrain, His Highness the Prime Minister, and His Highness the Crown Prince for their wise leadership, pragmatic reform programme and their encouragement for the Islamic banking industry which is a particular source of strength for BisB. My thanks are also due to the Central Bank of Bahrain and other Government institutions for their continued guidance and support.

I would also like to express my gratitude to our shareholders and customers for their loyalty and encouragement; to our Sharia'a Supervisory Board for their guidance and supervision; and to the Bank's management and staff for their highly valued dedication and professionalism.

At BisB we continue to have an optimistic and positive view of the future, in keeping with our goal of becoming the leader in Islamic banking services in Bahrain and the region.

Allah the Almighty is the Purveyor of all success.

Khalid Abdulla Al Bassam

Chairman

Board of Directors

Khalid Abdulla Al Bassam
Chairman

Holds a Bachelors degree in Business Administration from Eastern New Mexico University, USA. Currently Chairman of Al Bassam Investment Company, Bahrain Real Estate Investment Company and Capital Management House. Also Board Member of Gulf Investment Corporation and Liquidity Management Center and Deputy Chairman of European Islamic Investment Bank, London, UK.

Previously held important positions, for instance, Deputy Governor, Bahrain Monetary Agency (now Central Bank of Bahrain) and Vice Chairman of Bahrain Stock Exchange.

Shaikh Hesham Bin AbdulRahman Al-Khalifa
Vice Chairman & Head of Audit Committee

Holds an MBA in Finance from Suffolk University, Boston, USA and a Bachelors of Science in Business & Management from the University of Bahrain. Previously held prestigious positions like Head of Central Strategy Office, Ministry of Finance & National Economy, Bahrain; Head of Commercial Enterprises at the Government Shareholdings Directorate of the Ministry of Finance & National Economy and Senior Financial Analyst - Industrial Enterprises at the Government Shareholdings Directorate, Ministry of Finance & National Economy.

Khalid Mohamed Najeebi
Board Member and Chairman of Executive Committee

Founding member and Executive Director of Najibi Investment Company W.L.L, he holds a Bachelors Degree in Financial Management from Schiller International University in London. Became a Certified Public Accountant in 1993 and a Member of Washington State Board of Accountancy in 1996.

Also a founding Member, Vice Chairman & Managing Director of Capital Management House and Board Member of Gulf Finance House.

Rezam Mohammed Yousif Al Roomi
Board Member and Member of the Executive Committee

Holds a B.A. in Business Management from Kuwait University. He is currently Vice President & CEO/Executive Management Director of Efad Holding Company. Is also Board Member for various prominent business groups like Adeem Investment Company, Daar Investment Company, Refaad Hospitality Company, Vice President Aston Martin Laguna da, Britain.

Has previously worked extensively in the real estate and investment sectors in Japan and South East Asia.

Mohammed Alzarooq Rajab
Board Member and Member of the Audit Committee

Holds a B.S. in Accountancy from Libyan University and is a Fellow member of the Institute of Chartered Accountants in England and Wales since 1967. Has held prominent senior posts at various points in his career including the Auditor General of Libya, Minster of Treasury, Head of Libyan Peoples Congress, Prime Minister from 1983 to 1985, Convener of Libyan Central Bank, and has been with Libyan Foreign Investment from 2007 till now.

Yousif Mohammed Saleh Al Awadhi
Board Member and Member of the Executive Committee

Holds a 1969 Bachelors Degree in Management from Cairo University and is in the Ministry of AWQAF and Islamic Affairs of Kuwait. Has held various important positions starting from being a Finance Researcher - Finance Department to being Assistant Undersecretary for Financial, Administrative and Legal Affairs to holding the post of Director of the Department of Finance.

Adnan A.Qader Almusallam
Board Member and Member of the Executive Committee

Holds a Bachelors degree in Finance from Kuwait University and an MBA in Business Administration from North Texas State University in the USA. Over 25 years of experience in the industry, ranging from being founder and current Chairman and Mananging Director of The Investment Dar, Kuwait. Also Chairman of Al-Sham Islamic Bank, Vice Chairman of Almadar Finance & Investment Co., Board Member at Al Dar Asset Management Co. (Adam), and Board Member at Al Dar National Real Estate Co. Previously held leading positions in Kuwait at Kuwait Finance House, Bank of Kuwait & the Middle East, Takaful Insurance Co., and Al Shall Economic Studies Bureau.

Ali Mohammed Ali Al Olimi
Board Member and Member of the Audit Committee

Holds a B.Sc. in Accounting from Kuwait University and is currently the Deputy General Manager of Public Authority for Minors' Affairs. Apart from being Assistant Under Secretary, Board Member for Al Reem Real Estate Services and Ex-Board Member for National Real Estate Company.

Nabil Ahmed Mohammed Ameen
Board Member and Member of the Executive Committee

Holds a B.S in Business Administration from American University, Switzerland. Currently Chairman & Managing Director of Almadar Finance & Investment Company, Kuwait. Also Vice Chairman of Al Wethaq Takaful Insurance Company, Kuwait and a Board Member of Boubyan Bank, Kuwait.

Has held senior positions in Kuwait Finance House and The International Investor in Kuwait.

Amr Ali Abou El Seoud
Board Member

A Certified Public Accountant from San Diego, California, he holds a Bachelors degree in Commerce & Accounting from Cairo University. Also a Board Member of Aston Martin, Park Lane Properties Ltd, Investment Dar UK, Dar Capital (UK) Limited, Dar Capital (Jersey) Limited, Investment Dar (Jersey) Limited and Credit Rating & Collection Company listed on Kuwait Stock Market and of Manazel Holding.

Past experience includes Senior Vice President of AlManar Financing and Leasing, Ernst & Young, Coopers & Lybrand and the Ministry of Public Works & Water Resources in Kuwait.

Total assets registered an increase of 33% during 2008 as compared to 2007, to reach BD 874 million, mainly due to the increase in Islamic finances and the restraint which was exercised in regards to investing in all high risk instruments.

Mohammad Ebrahim Mohammad
CE

Chief Executive's Statement

In the name of Allah, the Most Beneficent, the Most Merciful.

Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

I am delighted to report that 2008 was an excellent year of operations for BisB with a strong performance across all areas of our activities that exceeded expectations. This performance, God willing, will form a solid base for the ongoing success of BisB during the challenging market conditions we are facing. During the year BisB has also held true to its vision and mission and we are successfully engaged in developing all aspects of our operations in line with the strategic direction of the Board of Directors and the aspirations of our shareholders and customers.

As envisaged last year, our emphasis during 2008 has been on building an organization that is respected and acknowledged in the market for its depth of human capital with the expertise and experience necessary to lead it to greater heights of success in the years ahead. In this context we are pleased with, and encouraged by the positive feedback we have received from the market about our efforts during the year. We succeeded in positioning ourselves more solidly in the local market and made forays into potential sectors in regional markets.

As far as the financial position of the Bank is concerned, the total assets of BD 874 million in 2008 registered an increase of 33% over 2007. This was mainly due to the increase in Islamic finances and in refraining from investing in high risk instruments. The deposits registered an increase of 79% and current accounts increased by 14%. This clearly reflects investors' confidence we can be proud of. On the other side, Islamic finances registered an increase of 83% compared to last year highlighting the fact that the Bank is granting finances to various economic sectors and actively contributing to the current development and growth of our country.

The Bank's capital adequacy rate of 29% remains significantly higher than the minimum requirements of the Central Bank of Bahrain. I would also like to stress that the Bank has a very strong balance sheet; it is not leveraged and enjoys healthy levels of liquidity and a successful investment portfolio. Investment accounts increased by 19% compared to last year which reflects the Bank's continued commitment to distribute best returns to its investors.

In 2008 we have broadened our customer focus from consumer and commercial to corporate banking, with focus on corporate and trade finance. We have added more members to our management team and the new structure of the Bank is already in place. We also expanded our nationwide footprint. We are now delivering our products and services more effectively through a network of 12 branches and 28 ATMs throughout the Kingdom and an integrated mix of e-channels bring us closer than before to our customers on a 24/7 basis. During the year we have launched the first drive-in ATM in Muharraq to serve a large number of our customers in the surrounding areas. We plan to operate more ATMs of similar nature in 2009 throughout Bahrain, as part of our expansion plans.

Last year also witnessed the launch of Visa card and the Tejoori savings account; the first savings account in Bahrain that complies with the principles of Islamic Sharia'a and allows its holders to win considerable cash prizes. This new savings account received an overwhelming response from the public. The Bank will continue to focus on its retail banking business as it will predominantly continue to be in high demand and BisB's presence in more geographical areas in the Kingdom will be necessary to capture a large number of customers.

BisB is very keen to continue its expansion plan in 2009, renovating existing branches, introducing the financial malls concept and continue being the most innovative bank in the Kingdom.

Against the backdrop of current and future challenging market conditions, highlighted by unprecedented uncertainty and lack of clarity, I remain confident that our financial, business and organisational developments will enable the Bank to continue to protect the interests of all stakeholders and advance our strategic business goals.

Once again, the concerted effort of all employees of the Bank has resulted in excellent performance of BisB in 2008. This continued success would not have been possible without the support of our Chairman and Board of Directors, the confidence of our shareholders, the trust of our customers, and the loyalty of our management and staff. I would also like to thank all our stakeholders for their invaluable contributions during 2008. With God's blessing, I look forward to working with you to achieve even greater success in 2009 and beyond.

Mohammed Ebrahim Mohammed

Chief Executive

Executive Management

Left:
Khalid Mohammed Al Dossari
Chief Financial Officer

Right:
Mohammed Ahmed Hassan
General Manager
Support Services

Left:
Jaffar Saleem Badwan
General Manager
Treasury & Investment

Right:
Abdulrahman Mohammed Turki
General Manager
Retail Banking

Left:
Khalid Mahmoud Abdulla
Head of Internal Audit

Right:
Dr. Salahudin Saeed A. Qader
General Manager
Credit & Risk Management

Left:
Nader Mohammed Ebrahim
General Manager
Corporate & Institutional Banking


Enduring
Legacy

Review of Operations

Corporate & Institutional Banking

The C&IB division is a major asset book building and revenue generating business group of the Bank. In 2008 the focus was to expand the asset portfolio of the Bank while contributing actively on the enhancement of the funding base through attracting substantial amounts of Islamic deposits for the Bank.

Through it six departments i.e. Corporate Banking (CB), Financial Institutions (FI), Private Banking, Commercial Banking, Special Accounts and Structured Finance the division took great strides in providing superior services to its clients. The client base was substantially expanded both locally and regionally. The multi facet approach to business and the focus on major corporates, SME's, financial institutions, selective high net worth individuals and institutional investors have yielded the Bank very good fee and profit income.

Moreover, during the year excellent opportunities of sizeable financing transactions were identified and concluded. In a number of such deals we managed to enhance the Bank's profile to have a very senior role as arrangers and book runners of these deals. We also managed through our structured finance capabilities to conclude major deals which yielded us good fee income and positioned us well in the market for future such business.

In 2008, the C&IB through its Structured Finance unit was able to successfully conclude a number of structured finance deals totaling BD 80M. A good fee income was generated by the said portfolio in addition to profit income. As an MLA two medium size club deals worth BD 34M were arranged by the FI. FI has also participated in a number of syndicated deals arranged by other financial institutions and in which our total participation was in excess of BD 20M. Moreover, a number of financing deals were extended on bilateral basis to a number of financial institutions both locally and regionally. Total deals concluded in 2008 amounted to around BD 40M.

In addition, to the existing portfolio CB managed to conclude major financing deals totaling around BD 86M in 2008. These were short and medium term deals in the sectors of Trade, Industry and Real Estate. Most of these deals are done with new clients with the objective of widening the corporate client base for the Bank.

We can confidently say that in 2008 we managed to be widely accepted in the market as a key player in supporting all sectors of the economy in the region in general and locally in specific through our major financing contributions. Also we were very much noticed by our high net worth clients as an excellent service provider through the active Private Banking Unit. Excellent support was provided by Private Banking to the funding base of the Bank by attracting good volumes of customer deposits. We are very pleased with the C&IB achievements in 2008 and expect them to continue their major contribution to the book building and bottom line targets in 2009.

In 2009, and in view of the current market situation, we will be more selective soliciting new major deals locally and regionally. Our focus will be widely spread on financing of Trading, Industrial, Government, Semi Government Financial Institutions and other non Real Estate names mainly locally and regionally as well as very selectively internationally.

Retail Banking

Market conditions for the Retail Banking division remained challenging, with demand being fueled primarily by the influx of new job opportunities in the Kingdom of Bahrain and the adjustments witnessed in the payroll of many financial institutions and large corporations. Subsequently, this trend made demands on the property market with higher consumer spending giving rise to a very competitive environment.

Within this context, Retail Banking focused on delivering new products and services, while raising the bar for superior customer services. In doing so, BisB enhanced its market penetration and effectively increased its market share, while shifting its focus from asset growth to deposit attraction. Retail sales growth in 2008 was 300% compared to the previous year, this excellent achievement significantly improved BisB's market share.

Innovative new deposit products such as Tejoori and Iqra educational saving scheme ensured that the Bank's retail deposits increased by 77% in 2008. Other new product developments included Auto finance product, and SME. BisB also introduced IVR and Internet Banking, while revamping its mortgage finance product to become the best of its kind in the Kingdom of Bahrain. BisB's first drive-through ATM was also inaugurated in October 2008 and the total offsite ATMs grew by 100%, from 6 to 12 units.

BisB will continue to strengthen its geographic presence throughout the Kingdom to cater to the foreseeable and ongoing high demand for its retail banking business, focused on enhancing challenging delivery domains such as E-banking, and processes related to utility payments and fund transfers.

Review of Operations cont...

BisB is very keen to continue with its 2008-2010 business expansion plan, and looks forward to renovating its existing branches and building the BisB's flagship outlets throughout the Financial Malls. We will continue being the most innovative and preferred commercial bank in the Kingdom of Bahrain. With this inspirational mission in mind, we will continue to invest in our staff and exceed our customers' expectations on all fronts.

In its pursuit to offer new products and services that meet all its customers' requirements, Bahrain Islamic Bank has announced several products over the past year.

Iqra Educational Investment Scheme:

BisB understands the value of higher education as being vital for the future of the new generations and launched the Iqra Educational Investment Scheme aimed to enable families to make an affordable monthly contribution to cover the basic costs of their children's future higher education. Given the current high cost of education in private universities in Bahrain and overseas, the Iqra account would allow parents to avail admissions for their children into the best universities and institutes.

Tejoori Savings Account:

The Tejoori savings account, was the first ever savings account launched in Bahrain that conformed to the principles of Islamic Sharia'a. A unique initiative in terms of developing and diversifying products, Tejoori allows customers to avail of suitable alternatives and to have better saving options wherein customers obtain certificates giving them the opportunity to win cash prizes up to a total of US$750,000 thirty days after opening the account. A draw is held on the certificates on a monthly, quarterly and annual basis and a customer can obtain this certificate against every BD50 held in his account.

BisB becomes first Islamic bank in the Kingdom to receive Moody's ratings

Bahrain Islamic Bank (BisB) has been assigned Baa 1 long-term and Prime-2 short-term local and foreign currency issuer ratings as well as a D+ bank financial strength rating (BFSR) by Moody's Investor Service. This is the first time that the renowned agency has assigned ratings to an Islamic bank in the Kingdom of Bahrain. The ratings are a significant milestone for the Bank; particularly in the current economic environment, and it further reinforces BisB's leading position in Bahrain's Islamic banking industry and is a validation of its strong fundamentals that form the heart of its operating philosophy. It rightly recognizes the rapid growth that the bank saw from 2005 to 2008, recording high compound annual growth in assets of 37%.

Investment & Treasury

The global economy has witnessed a strong recessionary climate in the wake of the most severe crisis to have impacted financial markets in the developed nations since the thirties period during the last century. Many developed economies have entered into a state of contraction, while the economies in developing countries have continued to retract quickly.

The financial crisis began in August of 2007, immediately following the collapse of the high risk securitized mortgages market in the United States. Thereafter, in September of last year, the situation entered into a new phase when severe turbulence was featured across all major financial markets. Understandably, the growing reach of the crisis now poses an eminent threat to the entire global financial system.

The negative effects of the crisis were primarily reflected on the real economy, where panic in short term lending markets resulting from the insolvency of a number of leading financial institutions, which lead to a severe liquidity crunch. This in turn, caused unprecedented deterioration in the financial positions and credit worthiness of investment banks along with industrial and service companies. As a result, some companies chose to liquidate, while others turned to their respective Governments for bailout packages.

The slump in global economy can be attributed to many factors, the most important of which remain relaxations on financial regulatory procedures and rules, and the absence of effective financial legislation to ensure the availability of flexible mechanisms with which to attain financial stability and to discourage reckless leveraging. This has contributed to the exceptional imbalances in financial, commodity-driven and real estate markets. Overall, financial markets reflected the pressures which resulted from the decrease in financial leverage, as a consequence of the downturn in economic activity.

Further deterioration in economic conditions resulted in the depreciation of assets values of financial institutions. To counter this, many institutions considered downsizing their balance sheet by applying a variety of measures, including selling off assets and the repayment of debt. These policies have placed additional pressure on asset prices and the curtailment of credit.

The slowdown in the global economy has also resulted in decreasing commodity prices. Oil prices for instance, continued to slide by more than 60%, as compared to the prices which were registered in global oil markets in July of last year, in spite of the output limitations which were enforced by producers and the political tensions being felt in the Middle East.

It is also noteworthy to mention that the outlook on oil prices suggests that prices will remain steady at around $50 per barrel during 2009, rising to roughly $60 per barrel during 2010. It is also fair to assume that these price levels will sustain throughout 2009 and even 2010, if the economic environment fails to improve.

To counter these conditions, many Governments have taken exceptional financial and monetary measures to stabilize financial markets and to contain deterioration in the value of real and financial assets. Some of these policies included injecting a steady stream of liquidity, lowering interest rates and prompt intervention to protect financial institutions most affected by the financial crisis. Moreover, many other regulations have been enacted to allow Governments to buy toxic assets from financial institutions and to insure their deposits, in addition to numerous hasty successive policies.

The goals which Governments are prioritizing at the moment include: enabling financial institutions to regain their functional abilities; restoring confidence in financial institutions; taking up actions which will halt the deterioration of asset prices; providing liquidity (pump funds) in all vital economic sectors; and following more aggressive policies to direct the operations of financial institutions towards genuine development initiatives and away from speculation and greed.

Conversely, a large number of industrial nations (The Group of Twenty) declared a number of financial packages and schemes, aimed at revitalizing the economy. This was envisioned to place an end to the vicious circle in which the global economy is now caught up in, between pulling and pushing forces and its repercussions on the real economy. It is expected that the activating dose ensuing from the Government spending policies will reach 1.5% of GDP. Increases in the deficits of Governments' budgets are also foreseeable, while economies of the developed countries are poised to reach 7% of GDP in 2009.

It is hoped that the steps taken by the US Government will lead, in the long run, to maintain equilibrium in the real estate market and to revive consumption.

Developing economies will continue to actively partner all existing efforts to support the global economy on the strength of their robust productivity and progressive reforms in their economic and political systems.

At the core of BisB's risk philosophy, rests the Credit and Risk Management (C&RM) Division which is appointed to provide independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business units which ultimately own the risks. The General Manager of C&RM reports directly to the CE of the Bank.

Risk Management Framework

The Board of Directors retains complete responsibility for establishing BisB's overall risk management culture and ensures the existence of an effective risk management framework. The Board Audit Committee reviews the implementation of all risk management policies, guidelines, limits while ensuring that a monitoring process is in place. As an Islamic bank operating in the Kingdom of Bahrain, BisB operates in accordance with the regulatory framework of the Central Bank of Bahrain (CBB) with full commitment to Islamic Sharia'a laws.

The accelerating growth which the Bank is currently witnessing, together with its long–term strategic goal of expanding across local markets and realizing broader transactions to serve new client segments with specialized needs mandates an enhanced credit culture for BisB. This is best achieved by expanding the scope of the credit and risk management departments and strengthening the capabilities of their various units, which include Risk Management & Compliance, Credit Review, Credit Administration and Legal Affairs. An independent risk management unit is already in place to provide leadership and direction while coordinating all efforts involved in actively managing the Bank's risks. This unit will provide a holistic, integrated, future-focused and process-oriented approach enabling the Bank to balance its key business risks and opportunities with the intent of maximizing returns and

shareholder value. The Bank has also hired bankers with extensive experience in Islamic Banking to assume responsibility for these functions.

The C&RM Division assumes the responsibility for managing the risks involved across all areas and aspects of the Bank, including monitoring and control of risk factors associated with various financing and investment operations. The C&RM division submits quarterly risk reports to the Audit Committee, which describe potential issues for a wide range of risk factors classified from low to high, with comments on possibilities for mitigating such risks.

The Bank's processes are consistent with prudent management norms, adopted by large financial organizations and are aimed at balancing costs against risks within the constraints of the Bank's risk appetite. While the Bank is exposed to a wide variety of risks, including credit, liquidity, profit rate, market, operational, reputation, legal and regulatory risks, the Board considers reputation risk as the most significant for a business operating in the financial services sector. This watchful approach underpins our control culture, which recognizes that this risk could emanate as the result of failure on our financial, operational or compliance controls.

The implementation of the Core Banking application and the establishment of a Risk Management Framework received future impetus and the Bank is now fully positioned to meet the challenges of Basel II as it embarked upon setting-up the "SunGard" enterprise-wide risk architecture. The Bank is committed to implementing an automated risk reporting process in order to meet the requirements of Basel II. This automation has already been initiated and will be carried through in two phases – the first phase focuses on the Pillar one issues of minimum capital requirements, while the second phase will focus on disclosure requirements and related issues under Pillar two of Basel II.

Support Services

Operations

The Operations department focused on increasing the level of operational efficiency of the Bank by streamlining various procedures to deliver greater convenience and satisfaction to its customers while maintaining the due diligence necessary to mitigate operational risk.

The efficiency and speed at which daily transactions and financial deals are processed witnessed significant improvements as compared to the previous year. This is in comparison to the growth in sales and corporate business. Highlights from this period include the implementation of a system for faster salary transfers of various government departments, as well as the Bank's corporate and commercial clients.

The development and enhancement of various business support applications supported a host of general developments across the Bank's various departments. The Central Operations department's primary undertaking was the analysis of business applications, with an aim to identify any gaps, and to confirm the applications' compatibility with client needs and expectations.

The Bank's strategic focus remained firmly grounded in reviewing and improving all business management processes and in realizing a general reduction in overall cycle time and over all costs.

Human Capital

BisB views the development of its human capital as a key initiative for strategic growth. Throughout the course of 2008, the HR department actively worked to fulfill the recruitment needs of the Bank. As a result of this hard work, external recruitment increased by 30% in 2008 raising the Bank's total staff headcount to 380 compared to 293 in 2007. Highly experienced candidates filled senior positions within the Bank, while a host of middle and lower management level employees were brought in and groomed to become the leaders of tomorrow.

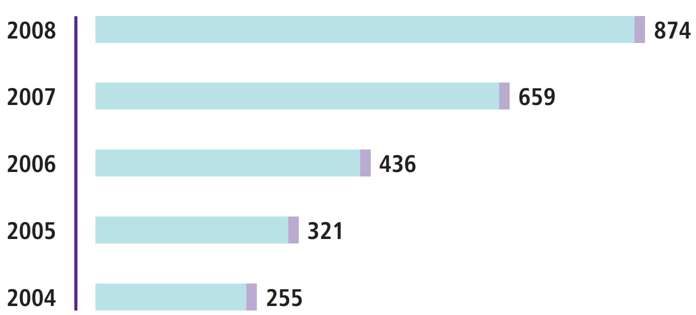
The HR department also took steps to enhance the morale, loyalty and engagement levels of the staff. The review and upgrading of staff benefit packages, training and development programs, succession planning, and a new Performance Management Program served as the focal-points of this agenda.

With the implementation of a new HR System, a Payroll module was activated in December 2008. Other modules aimed at enhancing training, recruitment and employee self services; staff timings and attendance, are also envisioned to come online within the year 2009. These initiatives will add greater efficiency to the Bank's HR processes, which in turn will support the Bank's overall growth and development.

Introduction of BisB's Employee Saving Scheme was a highlight of the year 2008. The Scheme was devised to ensure the Bank's compatibility with the banking sector in Bahrain and to bolster employee job satisfaction levels. A thorough review of employee allowances and benefits was also conducted to strengthen the Bank's ability to attract new talent.

In order to address the challenges and objectives defined in the Bank's Strategic Plan 2008 – 2010, a new function of HR planning was introduced during 2008.

Looking ahead, we will continue to focus our attention on enhancing employee morale and satisfaction. Plans to roll out an Employee Opinion Survey in 2009 are already underway and are aimed at measuring the level of satisfaction amongst the staff.



Total Assets (BD Millions)

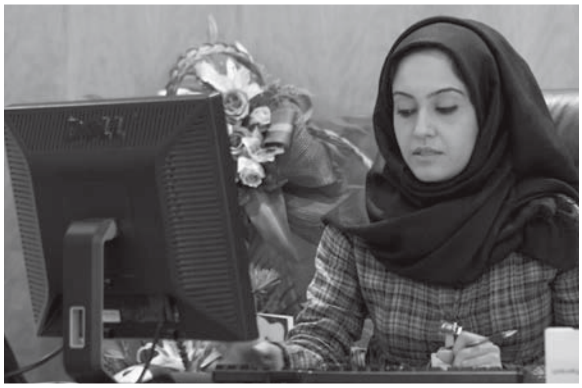
A new Performance Management Program will also be implemented during 2009 to objectively assess employee performance levels. Cost effectiveness and value addition will continue to impact the Bank's recruitment drive throughout 2009, where internal postings and inter-departmental transfers will be encouraged. We remain resolute in our commitment to providing rewarding career opportunities to existing staff and attract newer talent to adequately support the Bank's growth strategy.

Training

During 2008, our employees received extensive training to enhance their front-line capabilities. Measures were also taken to enhance the academic qualifications of the staff by offering Bachelor of Science Degree and MBA programs. Five employees graduated with their MBA Degrees from various universities, while the Bank sponsored numerous others for overseas training in IT, Audit and Risk Management to reinforce their skills with the changing market environment.

Significant emphasis is on increasing the level of English language proficiency of the staff. Over 100 employees attended the Business English Program at BIBF, while 50 employees attended specialized overseas courses.

In 2009, our efforts will continue unabated to analyze the training needs of our staff and offer general as well as suitably tailored training programs to enhance the quality of our human capital. A program of AML courses will be carried forward as per CBB regulations. Time management courses are also expected to be rolled out in 2009.

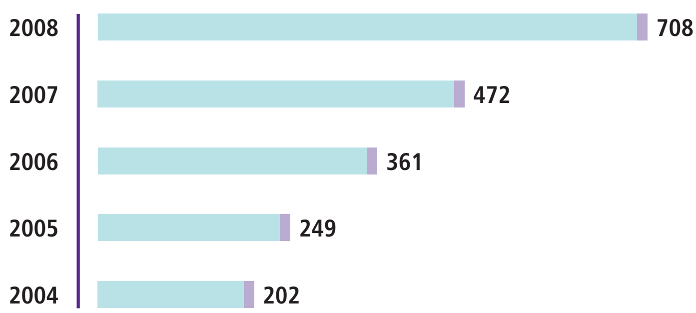


General Services

The General Services department, rightly considered as the back bone of BisB for its role in fulfilling the day-to-day needs of the Bank from stationery to security, transport and mail delivery, renting and decorating premises to mention a few, formalized its internal organizational structure in 2008. It also launched a progressive program for improving its work flow and the quality of its services to other departments within the Bank. A data system was developed to support this initiative.

The Properties Unit continued to provide valuations from real estate agencies for corporate and institutional clients to help achieve business targets. Valuations were also provided for acquiring investment assets. The Unit also supervised the purchase of two plots of land for the Bank's flag-ship branches at Budaiya and Arad.

The Maintenance Unit attended to all maintenance and security related requirements of BisB's premises and branch outlets as well as all existing on-site and off-site ATM units. It also



Total Liabilities (BD Millions)

oversees issues related to utilities, security, allied man-power, and arranges for all contract agreements which Bisb enters into for the timely maintenance, upkeep and leasing of its branches.

Moving forward, programs aimed at enhancing performance levels will be established to assure better value and quality output. Effective methods of scheduling manpower and reporting output progress will also be developed. In tandem, effective budgetary controls for direct and indirect costs will be introduced. The Department looks forward to establishing plans and action steps which will enable better communications and conflict management to strengthen its collaborative ties with other BisB departments.

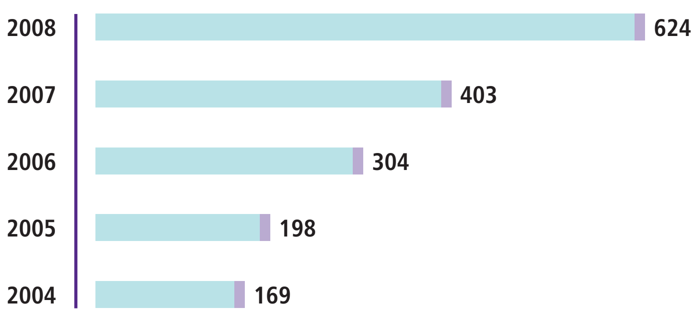
ICT

The Information & Communication Technology (ICT) department remained duly focused on strengthening the delivery of effective and efficient banking services. It successfully implemented various automated business information systems throughout 2008 towards this purpose.

Reorganization efforts within the ICT witnessed the recruitment of key personnel to meet the requirements of the Bank's various business units. Separate areas of responsibilities were identified within the department and a vital new layer of management was introduced to spearhead activities.

Several projects were initiated to automate various business processes. The ICT successfully inaugurated the Internet Banking and IVR services. It helped to increase the number of ATMs to 26 and will help further to extend this to more than 50 in 2009. The ICT also embarked on a project to streamline best practices in IT Service Management. All policies and procedures impacting the ICT were duly documented.

Looking ahead to 2009, The ICT will continue with its automation drive, while enforcing tighter information security measures to safeguard its flow of mission critical financial information. These efforts are aimed at securing the prestigious ISO 27001 certification for BisB. ICT will continue to implement best practices in IT Service Management in line with ITIL and ISO 20000 standards. The ICT also plans to build a new Business Continuity and Disaster Recovery Centre in the very near future.



Unrestricted Investment Accounts (BD Millions)

Corporate Governance

BisB is committed to upholding the highest standards of corporate governance. The Bank seeks to balance entrepreneurship, compliance, and industry best practices, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of BisB in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organisation to ensure that the right things are always done in the right way.

Responsibilities

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the executive management and maintaining a dialogue with the Bank's shareholders. The Board has appointed two Committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit Committee. The Board delegates the authority for management of the business to the Chief Executive Officer.

Framework

BisB's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls and risk management systems; internal and external audit and compliance procedures; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

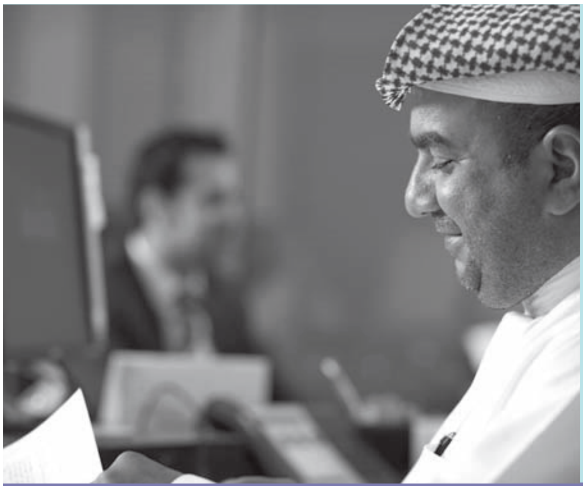
BisB conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

BisB has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including appropriate anti-money laundering procedures.

Communication

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate brochure and website, and regular announcements in the appropriate local media.



Corporate Social Responsibility

Since inception, BisB has been committed to supporting the social and economic development of the Kingdom of Bahrain. As a responsible corporate citizen, we have put in place a comprehensive corporate social responsibility programme that provides financial assistance for deserving causes of various charitable, educational, medical, cultural and sporting organisations.

BisB also supports the development of Bahrain's financial services industry. In line with the Bank's business philosophy, we are particularly keen to support initiatives that foster entrepreneurship and that encourage the development of tomorrow's leaders.

Sharia Supervisory Board's Report

To the shareholders of

Bahrain Islamic Bank B.S.C.

In The Name of Allah, most Gracious, most Merciful
Peace and Blessings Be Upon His Messenger

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Pursuant to the powers entrusted to the Sharia'a Supervisory Board to supervise the Bank's activities and investments, we hereby submit the following report.

The Sharia'a Supervisory Board monitored the operations, transactions and contracts related to the Bank throughout the year ended 31 December 2008 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the guidelines and decisions issued by the Sharia'a Supervisory Board. The Sharia'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Bank's Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Sharia'a Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through the Sharia'a Internal Audit department. We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. The Sharia'a Internal Audit department audited the Bank's transactions and submited a report to the Sharia'a Supervisory Board. The report confirmed the Bank's commitment and conformity to the Sharia'a Supervisory Board's opinions.

The Sharia'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. It held several meetings throughout the year ended 31 December 2008 and replied to inquiries, in addition to approving a number of new products presented by the Management. The Sharia'a Supervisory Board discussed with the Bank's officials all transactions and applications carried out by the Management throughout the year and reviewed the Bank's conformity with the provisions and principles of Islamic Sharia'a as well as the resolutions and guidelines of the Sharia'a Supervisory Board.

The Sharia'a Supervisory Board believes that:

1. Contracts, operations and transactions conducted by the Bank throughout the year ended 31 December 2008 were made in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.

2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board.

3. No gains resulted from any sources or means prohibited by the provisions and principles of Islamic Sharia'a.

4. Zakah was calculated according to the provisions and principles of Islamic Sharia'a. The Bank distributed Zakah on the statutory reserve, general reserve and retained earnings. The shareholders should pay their portion of Zakah on their shares as stated in the financial report.

5. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

1. **Dr. Shaikh A. Latif Mahmood Al Mahmood**
   Chairman

2. **Shaikh Mohammed Jaffar Al Juffairi**
   Vice Chairman

3. **Shaikh Adnan Abdullah Al Qattan**
   Member

4. **Shaikh Nedham M. Saleh Yacoubi**
   Member

5. **Shaikh Dr. Essam Khalaf Al Onazi**
   Member

Timeless Values

Financial Statements

31 December 2008

Contents

Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.

We have audited the accompanying consolidated balance sheet of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary [together the "Group"] as of 31 December 2008, and the related consolidated statements of income, cash flow, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, the results of its operations, its cash flows, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Group and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Group, have occurred during the year ended 31 December 2008 that might have had a material adverse effect on the business of the Group or on its consolidated financial position and that the Group has complied with the terms of its banking licence.

Ernst & Young

21 January 2009
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

31 December 2008

	Notes	2008 BD'000	2007 BD'000
ASSETS			
Cash and balances with Central Bank of Bahrain and other banks	3	**49,579**	18,349
Murabaha receivables	4	**368,563**	337,055
Mudaraba investments	5	**55,436**	36,372
Musharaka investments	6	**80,526**	39,426
Investments	7	**127,193**	156,353
Investments in associates	8	**7,423**	7,045
Investments in Ijarah assets	9	**9,901**	5,893
Ijarah Muntahia Bittamleek	10	**67,960**	13,574
Investments in properties	11	**97,829**	34,950
Ijarah rental receivables		**1,469**	2,963
Other assets	12	**8,088**	6,989
TOTAL ASSETS		**873,967**	658,969
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customers' current accounts		**69,466**	60,963
Other liabilities	13	**13,935**	7,615
TOTAL LIABILITIES		**83,401**	68,578
UNRESTRICTED INVESTMENT ACCOUNTS	14	**624,119**	403,215
EQUITY	15		
Share capital		**66,235**	60,214
Share premium		**43,936**	50,869
Reserves		**42,387**	62,460
Proposed appropriations		**13,889**	13,633
TOTAL EQUITY		**166,447**	187,176
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**873,967**	658,969
COMMITMENTS AND CONTINGENT LIABILITIES	17	**37,434**	15,199

Khalid Abdulla Al Bassam
Chairman

Nabil Ahmed Amin
Board Member

Mohammed Ebrahim Mohammed
Chief Executive Officer

The attached Notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2008

	Notes	2008 BD'000	2007 BD'000
INCOME			
Income from jointly financed sales and investments	18	**36,934**	31,463
Return on unrestricted investment accounts before Group's share as a Mudarib		**30,885**	25,433
Group's share as a Mudarib		**(13,183)**	(9,824)
Return on unrestricted investment accounts		**17,702**	15,609
Group's share of income from joint financing and investment accounts		**19,232**	15,854
Income from investments	19	**18,279**	11,698
Gain on fair value adjustment for investments in properties		**11,436**	5,328
Share of results of associates		**663**	558
Fee and commission income	20	**4,990**	2,801
Other income		**1,038**	785
Total income		**55,638**	37,024
EXPENSES			
Staff costs		**10,528**	7,082
Depreciation		**929**	1,079
Other expenses	21	**5,971**	3,838
Total expenses		**17,428**	11,999
Net income before provisions		**38,210**	25,025
Provision for impairment	22	**(15,897)**	–
NET INCOME FOR THE YEAR		**22,313**	25,025
BASIC AND DILUTED EARNINGS PER SHARE (fils)	24	**33.69**	55.76

The attached Notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

	Notes	2008 BD'000	2007 BD'000
OPERATING ACTIVITIES			
Net income for the year		**22,313**	25,025
Adjustments for non-cash items:			
Depreciation		**929**	1,079
Provision for impairment	22	**15,897**	–
Gain on sale of investment in properties		**(1,607)**	(190)
Gain on sale of investments		**(11,907)**	(8,141)
Fair value gain on investment in properties		**(11,436)**	(5,328)
Share of results of associates	8	**(663)**	(558)
Operating profit before changes in operating assets and liabilities		**13,526**	11,887
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**(18,963)**	(4,770)
Murabaha receivables		**(38,460)**	(95,345)
Mudaraba investments		**(22,485)**	(21,429)
Musharaka investments		**(41,100)**	(25,472)
Ijarah rental receivables		**1,494**	(648)
Other assets		**(1,893)**	(377)
Customers' current accounts		**8,503**	9,570
Other liabilities		**5,772**	1,574
Net cash used in operating activities		**(93,606)**	(125,010)
INVESTING ACTIVITIES			
Purchase of investments in properties		**(57,056)**	(22,212)
Proceeds from disposal of investments in properties		**7,220**	2,765
Ijarah Muntahia Bittamleek		**(54,386)**	2,324
Purchase of investments in Ijarah assets		**(4,143)**	(719)
Purchase of investments		**(38,393)**	(59,235)
Proceeds from disposal of investments		**39,046**	22,230
Proceeds from associates		**480**	–
Net cash used in investing activities		**(107,232)**	(54,847)
FINANCING ACTIVITIES			
Increase in share capital		**–**	28,336
Increase in share premium		**–**	56,581
Increase in unrestricted investment accounts		**220,904**	99,097
Dividends paid		**(7,535)**	(5,667)
Directors' remuneration paid		**–**	(210)
Zakah paid		**(264)**	(170)
Net cash from financing activities		**213,105**	177,967
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**12,267**	(1,890)
Cash and cash equivalents at 1 January		**6,064**	7,954
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	**18,331**	6,064

The attached Notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital	Share premium	Statutory reserve	General reserve	Investments in properties fair value reserve	Cumulative changes in fair value of investments	Retained earnings	Proposed appropriations	Total equity
			Reserves						
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
At 1 January 2008	**60,214**	**50,869**	**8,037**	**1,000**	**7,133**	**30,217**	**16,073**	**13,633**	**187,176**
Bonus shares issued (note 15)	**6,021**	**(309)**	**–**	**–**	**–**	**–**	**–**	**(5,712)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(216)**	**(7,615)**	**(7,831)**
Zakah paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(306)**	**(306)**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**22,313**	**–**	**22,313**
Transfer to statutory reserve	**–**	**–**	**2,231**	**–**	**–**	**–**	**(2,231)**	**–**	**–**
Unrealized gain on investments in properties	**–**	**–**	**–**	**–**	**11,436**	**–**	**(11,436)**	**–**	**–**
Realized gain on investments in properties	**–**	**–**	**–**	**–**	**(476)**	**–**	**476**	**–**	**–**
Net movement in cumulative changes in fair value of investments	**–**	**–**	**–**	**–**	**–**	**(34,905)**	**–**	**–**	**(34,905)**
Appropriations (note 15)	**–**	**(6,624)**	**–**	**–**	**–**	**–**	**(7,265)**	**13,889**	**–**
At 31 December 2008	**66,235**	**43,936**	**10,268**	**1,000**	**18,093**	**(4,688)**	**17,714**	**13,889**	**166,447**
At 1 January 2007	28,336	–	5,534	1,000	3,255	21,860	5,350	9,589	74,924
Right shares issued	28,336	56,581	–	–	–	–	–	–	84,917
Bonus shares issued	3,542	–	–	–	–	–	–	(3,542)	–
Dividends paid	–	–	–	–	–	–	–	(5,667)	(5,667)
Directors' remuneration paid	–	–	–	–	–	–	–	(210)	(210)
Zakah paid	–	–	–	–	–	–	–	(170)	(170)
Net income for the year	–	–	–	–	–	–	25,025	–	25,025
Transfer to statutory reserve	–	–	2,503	–	–	–	(2,503)	–	–
Unrealized gain on investments in properties	–	–	–	–	5,328	–	(5,328)	–	–
Realized gain on investments in properties	–	–	–	–	(1,450)	–	1,450	–	–
Net movement in cumulative changes in fair value of investments	–	–	–	–	–	8,357	–	–	8,357
Appropriations	–	(5,712)	–	–	–	–	(7,921)	13,633	–
At 31 December 2007	60,214	50,869	8,037	1,000	7,133	30,217	16,073	13,633	187,176

The attached Notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

For the year ended 31 December 2008

	Qard hasan receivables	Funds available for qard hasan	Total
	BD'000	BD'000	BD'000
At 1 January 2008	**27**	**101**	**128**
Uses of qard fund:			
Marriage	**17**	**(17)**	**–**
Refurbishment	**16**	**(16)**	**–**
Medical treatment	**14**	**(14)**	**–**
Others	**11**	**(11)**	**–**
Total uses during the year	**58**	**(58)**	**–**
Repayments	**(75)**	**75**	**–**
At 31 December 2008	**10**	**118**	**128**
At 1 January 2007	35	93	128
Uses of qard fund:			
Marriage	20	(20)	–
Refurbishment	16	(16)	–
Medical treatment	17	(17)	–
Others	12	(12)	–
Total uses during the year	65	(65)	–
Repayments	(73)	73	–
At 31 December 2007	27	101	128

	2008	2007
	BD'000	BD'000
Sources of Qard Fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Total of sources during the year	**128**	128

The attached Notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement Of Sources and Uses of Zakah and Charity Fund

For the year ended 31 December 2008

	2008 BD'000	2007 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at 1 January	**486**	365
Zakah due from the Bank for the year	**641**	306
Non-Islamic income	**–**	25
Donations / late fee	**238**	14
Total sources of funds during the year	**1,365**	710
Uses of zakah and charity funds		
Philanthropic societies	**33**	76
Aid to needy families	**283**	148
Total uses of funds during the year	**316**	224
Undistributed zakah and charity funds at 31 December	**1,049**	486

The attached Notes 1 to 32 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in the year 1979 by Amiri Decree No.2 of 1979, under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a retail banking licence issued by the Central Bank of Bahrain (CBB). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c) ("Subsidiary"). The Subsidiary was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorized and fully paid-up share capital of BD 25 million. The Subsidiary has started operations during the year 2007. The main activities of the Subsidiary are the management and development of real estate in accordance with the Islamic Shari'a rules and principles.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has twelve branches (2007: twelve), all operating in the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 21 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous year except for the following:

On 30 October 2008, Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued a guidance statement on accounting for investments and amendment in Financial Accounting Standard 17 Investments. This amendment allows Islamic Financial Institutions to carry unrealised losses from re-measurement of investments in shares in the statement of equity under the cumulative changes in fair value reserve. Previously, any net negative unrealised losses were to be taken to the consolidated statement of income. The amendment is effective from 1 July 2008 and has been adopted by the Group.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in properties and certain "available for sale" investments that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards (FAS) issued by the AAOIFI, the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, CBB and the Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary (together referred to as the "Group").

The Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

The financial statements of the subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

2 SIGNIFICANT ACCOUNTING POLICIES Continued

Basis of consolidation Continued

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Murabaha receivables

Murabaha receivables consist mainly of murabaha and international commodities stated net of deferred profits and provisions for impairment.

Mudaraba and Musharaka investments

These are stated at the fair value of consideration given less provision for impairment.

Investments

These are classified as either held-to-maturity or available-for-sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Held-to-maturity

Investments that have fixed or determinable payments, which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Available-for-sale

After initial recognition, investments are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported is included in the consolidated statement of income for the year.

Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in equity.

Investments for which fair value cannot be determined or cannot be remeasured to fair value are carried at cost or at a previously revalued amount, less provision for any impairment.

Investments in associates

The Group's investments in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of income reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated statement of income.

Unrealized profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

2 SIGNIFICANT ACCOUNTING POLICIES Continued

Ijarah assets, Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek comprise of land and buildings. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek other than land (which is deemed to have indefinite life), at rates calculated to write off the cost of each asset over its useful life.

For Ijarah assets, the depreciation is calculated using the straight-line method, at rates calculated to write off the cost of the assets over its estimated useful life. The estimated useful lives of the assets for calculation of depreciation ranges between 10 to 35 years.

Investments in properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in properties. Investments in properties are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in properties are measured at fair value and changes in fair value are recognised in the consolidated statement of income.

In accordance with AAOIFI, such gains or losses are appropriated to investments in properties fair value reserve at year end. Upon realization, these gain/losses are transferred to retained earnings from investments in properties fair value reserve.

Unrestricted investment account holders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders share of income is calculated based on the income generated from investment accounts after deducting mudarib share. Operating expenses are charged to shareholders funds and not included in the calculation.

The basis applied by the Group in arriving at the unrestricted investment account holders' share of income is (total income from jointly financed Islamic finances less shareholders' "Bank" income). Portion of the income generated from unrestricted investment account holders will be deducted as mudarib share and the remaining will be distributed to the unrestricted investment account holders.

Investment risk reserve

The Group deducts 10% from the profit distributable to unrestricted investment accounts as an investment risk reserve, after allocating the mudarib share in order to cater against future losses for unrestricted investment account holders.

Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts after taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for unrestricted investment account holders.

Zakah

Zakah is calculated on the Zakah base of the Group in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net invested funds method. Zakah is paid by the Group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2 SIGNIFICANT ACCOUNTING POLICIES Continued

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the right to receive cash flows from the asset have expired;
– the Group has transferred its rights to receive cash flows from and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
– the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expire.

Earnings prohibited by Shari'a

The Group is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

Joint and self financed

Investments, financing and receivables that are jointly owned by the Group and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self financed".

Offsetting

Financial assets and financial liabilities are only offsetted and the net amount reported in the consolidated balance sheet when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Murabaha receivables

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

Where the income from a contract is not quantifiable, it is recognised when realised. Income related to non performing accounts is excluded from the consolidated statement of income.

Musharaka investments

Income is recognised on the due dates of the installments or when received. Income related to non performing accounts is excluded from the consolidated statement of income.

Mudaraba investments

Income is recognised when it is quantifiable or on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

2 SIGNIFICANT ACCOUNTING POLICIES Continued

Revenue recognition Continued

Ijarah and Ijarah Muntahia Bittamleek

Ijarah income and income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the lease term. Income related to non performing Ijarah Muntahia Bittamleek is excluded from the consolidated statement of income.

Return on unrestricted investment accounts

Unrestricted investment accounts holders' share of income is calculated based on the underlining individual mudaraba contract. The income is generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income.

Group's share of unrestricted investment income as a Mudarib

The Group's share as a mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related mudaraba agreements.

Dividends income

Dividends are recognised when the right to receive payment is established.

Income from Ijarah assets

Rental income is accounted for on a straight-line basis over the Ijarah terms.

Fee and commission income

Fee and commission income is recognised when earned.

Income allocation

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale.

Cash and cash equivalents

For the purpose of consolidated cash flow statement, "cash and cash equivalents" consist of cash in hand, bank balances, balances with the Central Bank of Bahrain with original maturities of 90 days or less.

Taxation

There is no tax on corporate income in the Kingdom of Bahrain.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

2 SIGNIFICANT ACCOUNTING POLICIES Continued

Impairment of financial assets Continued

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

For available for sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

Judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Impairment

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their expected realisable value.

Collective impairment provision

Impairment is assessed collectively for losses on Islamic financing facilities that are not individually significant and for individually significant facilities where there is not yet objective evidence of individual impairment. Collective impairment is evaluated on each reporting date with each portfolio receiving a separate review.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value criteria explained above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Employees' end of service benefits

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the balance sheet.

Bahraini employees of the Group are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

3 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN AND OTHER BANKS

	2008	2007
	BD'000	BD'000
Cash in hand	**3,974**	2,664
Balances with CBB, excluding mandatory reserve deposits	**3,015**	1,208
Balances with other banks	**11,342**	2,192
Cash and cash equivalents	**18,331**	6,064
Mandatory reserve with CBB	**31,248**	12,285
At 31 December	**49,579**	18,349

The mandatory reserve with CBB is not available for use in the day-to-day operations.

4 MURABAHA RECEIVABLES

	Jointly financed 2008	Jointly financed 2007
	BD'000	BD'000
Murabaha with banks:		
International commodities	**95,756**	146,521
Other murabaha:		
Tawarooq	**142,562**	83,188
Letters of credit	**49,746**	30,537
Commodities murabaha with non-banks	**35,421**	34,846
Tasheel	**37,992**	17,129
Land	**2,702**	13,820
Building	**9,816**	8,440
Motor vehicles	**15,590**	8,418
Building materials	**2,570**	4,991
Furniture	**182**	94
Others	**1,552**	2,488
	298,133	203,951
Qard fund	**125**	125
	298,258	204,076
Gross receivables	**394,014**	350,597
Deferred profits	**(16,584)**	(11,627)
* Provision for impairment (note 22)	**(8,867)**	(1,915)
At 31 December	**368,563**	337,055

* This includes collective impairment provision of BD 5,343 thousand (2007: nil).

4 MURABAHA RECEIVABLES Continued

Non-performing murabaha receivables outstanding as of 31 December 2008 amounted to BD 4,809 thousand (2007: BD 5,304 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the gross Murabaha receivables portfolio geographically and by sector is as follows:

	Europe	Arab World	2008 Total	2007 Total
	BD'000	BD'000	BD'000	BD'000
Commercial	**14,376**	**142,276**	**156,652**	30,537
Financial institutions	**18,258**	**18,118**	**36,376**	176,775
Secured by real estate	**–**	**15,088**	**15,088**	18,716
Others including retail	**–**	**185,898**	**185,898**	124,569
At 31 December 2008	**32,634**	**361,380**	**394,014**	
At 31 December 2007	10,673	339,924		350,597

5 MUDARABA INVESTMENTS

	Jointly financed 2008	Jointly financed 2007
	BD'000	BD'000
Mudaraba investments	**58,857**	36,372
Provision for impairment (note 22)	**(3,421)**	–
At 31 December	**55,436**	36,372

The Group's Mudaraba investments transactions consist of investment in funds operated by other banks and financial institutions and participation in the financing transactions through other banks and financial institutions.

Impaired Mudaraba investments as of 31 December 2008 amounted to BD 10,095 thousand (2007: nil).

6 MUSHARAKA INVESTMENTS

	Jointly financed 2008	Jointly financed 2007
	BD'000	BD'000
Real estate	**80,576**	39,476
Provision for impairment (note 22)	**(50)**	(50)
At 31 December	**80,526**	39,426

Non-performing Musharaka investments outstanding as of 31 December 2008 amounted to BD 3,754 thousand (2007: BD 921 thousand).

7 INVESTMENTS

	2008			2007		
	Self financed	**Jointly financed**	**Total**	Self financed	Jointly financed	Total
	BD'000	**BD'000**	**BD'000**	BD'000	BD'000	BD'000
i) Held to maturity						
Unquoted investments						
Sukuk	**–**	**66,065**	**66,065**	–	84,498	84,498
	–	**66,065**	**66,065**	–	84,498	84,498
ii) Available for sale						
Quoted investments						
Equity shares	**21,016**	**–**	**21,016**	43,577	–	43,577
Unquoted investments						
Equity shares	**36,509**	**–**	**36,509**	25,926	–	25,926
Sukuk	**–**	**9,427**	**9,427**	–	2,667	2,667
	57,525	**9,427**	**66,952**	69,503	2,667	72,170
	57,525	**75,492**	**133,017**	69,503	87,165	156,668
Provision for impairment (note 22)	**(4,781)**	**(1,043)**	**(5,824)**	(315)	–	(315)
At 31 December	**52,744**	**74,449**	**127,193**	69,188	87,165	156,353

8 INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	Country of incorporation	Ownership	
		2008	2007
Takaful International Company B.S.C.	Kingdom of Bahrain	**22.75%**	22.75%
Liquidity Management Centre B.S.C. (c)	Kingdom of Bahrain	**25.00%**	25.00%

Takaful International Company B.S.C. (incorporated in 1989) carries out takaful and retakaful activities in accordance with the teachings of Islamic Shari'a.

Liquidity Management Centre B.S.C. (c) was set up in 2002 to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

8 INVESTMENTS IN ASSOCIATES Continued

The following tables illustrate summarised financial information relating to the Group's associates:

	2008 BD'000	2007 BD'000
Carrying amount of investments in associates		
At 1 January	**7,045**	6,652
Share of results	**663**	558
Dividends paid	**(480)**	(361)
Cumulative change in fair value	**195**	196
At 31 December	**7,423**	7,045

9 INVESTMENTS IN IJARAH ASSETS

	2008					2007				
	Self financed		Jointly financed			Self financed		Jointly financed		
	Land BD'000	Buildings BD'000	Land BD'000	Buildings BD'000	Total BD'000	Land BD'000	Buildings BD'000	Land BD'000	Buildings BD'000	Total BD'000
Cost:										
At 1 January	**2,453**	**5,640**	**–**	**–**	**8,093**	1,380	5,640	–	–	7,020
Additions	**4,147**	**–**	**–**	**–**	**4,147**	1,073	–	–	–	1,073
At 31 December	**6,600**	**5,640**	**–**	**–**	**12,240**	2,453	5,640	–	–	8,093
Depreciation:										
At 1 January	**–**	**2,200**	**–**	**–**	**2,200**	–	2,022	–	–	2,022
Provided during the year	**–**	**139**	**–**	**–**	**139**	–	178	–	–	178
At 31 December	**–**	**2,339**	**–**	**–**	**2,339**	–	2,200	–	–	2,200
Net book value:										
At 31 December	**6,600**	**3,301**	**–**	**–**	**9,901**	2,453	3,440	–	–	5,893

10 IJARAH MUNTAHIA BITTAMLEEK

	2008					2007				
	Self financed		Jointly financed			Self financed		Jointly financed		
	Land	Buildings	Land	Buildings	Total	Land	Buildings	Land	Buildings	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cost:										
At 1 January	–	–	1,669	14,868	16,537	–	–	9,733	8,304	18,037
Additions	–	–	31,859	27,691	59,550	–	–	1,678	15,593	17,271
Disposals	–	–	(1,236)	(5,103)	(6,339)	–	–	(9,130)	(7,885)	(17,015)
Repayments	–	–	–	(319)	(319)	–	–	(612)	(1,144)	(1,756)
At 31 December	–	–	32,292	37,137	69,429	–	–	1,669	14,868	16,537
Depreciation:										
At 1 January	–	–	–	2,963	2,963	–	–	–	2,551	2,551
Provided during the year	–	–	–	1,282	1,282	–	–	–	412	412
Relating to disposed assets	–	–	–	(2,776)	(2,776)	–	–	–	–	–
At 31 December	–	–	–	1,469	1,469	–	–	–	2,963	2,963
Net book value:										
At 31 December	–	–	32,292	35,668	67,960	–	–	1,669	11,905	13,574

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2008 is nil (2007: BD 140 thousand).

11 INVESTMENTS IN PROPERTIES

	2008			2007		
	Self financed	Jointly financed	Total	Self financed	Jointly financed	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cost:						
At 1 January	27,817	–	27,817	6,730	–	6,730
Additions	57,056	–	57,056	22,212	–	22,212
Disposals	(5,137)	–	(5,137)	(1,125)	–	(1,125)
At 31 December	79,736	–	79,736	27,817	–	27,817
Fair value adjustments	18,093	–	18,093	7,133	–	7,133
At 31 December	97,829	–	97,829	34,950	–	34,950

Investments in properties comprises of plots of land located in GCC.

Investments in properties are stated at fair value, which has been determined based on valuations performed by independent valuers, industry specialists in valuing these types of investment properties.

12 OTHER ASSETS

	2008 BD'000	2007 BD'000
Equipment	**3,635**	2,567
Receivables under letter of credit	**1,339**	556
Staff advances	**751**	427
Income receivable	**576**	472
Others	**1,787**	2,967
At 31 December	**8,088**	6,989

13 OTHER LIABILITIES

	2008 BD'000	2007 BD'000
Payable to vendors	**3,684**	–
Accrued expenses	**3,149**	2,613
Clearance cheques	**1,426**	–
Murabaha bills payable	**1,249**	837
Managers' cheques	**1,189**	1,417
Dividends payable	**713**	417
Zakah and charity fund	**408**	180
Margin on letters of credit	**216**	423
Provision for employees' end of service benefits and leave	**280**	160
Others	**1,621**	1,568
At 31 December	**13,935**	7,615

14 UNRESTRICTED INVESTMENT ACCOUNTS

	2008 BD'000	2007 BD'000
Investment accounts:		
Customers	**425,702**	237,506
Banks and other financial institutions	**195,882**	163,218
Profit equalisation reserve (note 14.1)	**2,368**	2,491
Investment risk reserve (note 14.2)	**167**	–
At 31 December	**624,119**	403,215

14 UNRESTRICTED INVESTMENT ACCOUNTS Continued

14.1 Movement in profit equalisation reserve

	2008 BD'000	2007 BD'000
At 1 January	**2,491**	2,491
Transferred to income from jointly financed sales	**(123)**	–
At 31 December	**2,368**	2,491

14.2 Movement in investment risk reserve

	2008 BD'000	2007 BD'000
At 1 January	**–**	–
Amount apportioned from income allocable to unrestricted investment account holders	**167**	–
At 31 December	**167**	–

The profit equalisation reserve will revert to Unrestricted Investment Accounts as per terms and conditions of the Mudaraba contract.

As unrestricted investment account holder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of unrestricted investment accounts is up to a maximum of 65% (2007: 65%).

The following table represents the distribution of profit to unrestricted investment account holders.

	2008		2007		2006	
	Percentage of funds invested	**Percentage distribution**	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution
Defined deposits	**85**	**3.37**	85	4.49	85	4.41
Specific investment deposits	**100**	**3.5 – 4.5**	100	4.50 – 5.00	100	4.80 – 5.05
Investment certificates	**90**	**4.00**	90	5.00	90	4.76
Savings accounts	**43**	**0.70**	45	0.80	50	0.80
Education and shifa	**83**	**4.00**	90	4.50	90	4.38
Iqra	**83**	**2.67**	–	–	–	–
Tejoori	**43**	**0.67**	–	–	–	–

15 EQUITY

	2008 BD'000	2007 BD'000
(i) Share capital		
a) Authorised		
1,000,000,000 shares of BD 0.100 each	**100,000**	100,000
b) Issued and fully paid up		
662,354,000 shares (2007: 602,140,000 shares) of BD 0.100 each	**66,235**	60,214

During the year the Group has issued bonus shares of 60,214 thousand at one share for every ten shares held amounting to BD 6,021 thousand.

(ii) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

(iii) Reserves

Statutory reserve

As required by Bahrain Commercial Companies Law and the Group's articles of association, 10% of the net income for the year is transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

General reserve

The general reserve is established in accordance with the articles of association of the Group and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

Investments in properties fair value reserve

This represents cumulative unrealized revaluation gains on investments in properties. This reserve is transferred to the retained earnings upon sale of the investment properties.

Cumulative changes in fair value of investments

This represents the net unrealized gains / (loss) on available-for-sale investments relating to self financed investments.

15 EQUITY Continued

(iv) Appropriations

	2008 BD'000	2007 BD'000
Proposed dividend	**6,624**	7,615
Bonus shares	**6,624**	5,712
Zakah (note 23)	**641**	306
Total	**13,889**	13,633

The directors have proposed a cash dividend of 10% (2007: 13%) and bonus shares of 10% (2007: 15%) based on the outstanding number of shares during the year. This will be submitted for formal approval at the Annual General Meeting. This issuance of bonus shares is also subject to relevant approval from the Ministry of Industry and Commerce and CBB.

The cash dividend of BD 7,615 thousand and bonus shares of BD 5,712 thousand proposed and approved for the year 2007 were paid in 2008 for BD 7,831 thousand and BD 6,021 thsousand respectively, excess payments of BD 216 thousand for cash dividend and BD 309 thousand for bonus shares to be ratified by the Annual General Meeting to be held in 2009.

16 CAPITAL ADEQUACY

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

The Group 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 of its paid-up capital, including share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier 1 form as defined by the CBB, i.e., most of the capital are 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.

16 CAPITAL ADEQUACY Continued

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2008 BD'000	2007 BD'000
Core capital - Tier 1:		
Issued and fully paid ordinary shares	**66,235**	60,214
General reserves	**1,000**	1,000
Legal / statutory reserves	**8,037**	8,037
Share premium	**50,560**	50,869
Retained earnings / losses (other than current year net income)	**14,272**	(8,952)
Less:		
Unrealized gross losses arising from fair valuing equity securities	**(5,811)**	–
Tier 1 Capital before deductions	**134,293**	111,168
Supplementary capital - Tier 2:		
Current year net income	**9,934**	25,025
Asset revaluation reserve - Equipment (45% only)	**6,085**	3,210
Unrealized gains arising from fair valuing equities (45% only)	**329**	13,598
Tier 2 Capital before deductions	**16,349**	41,833
Total available capital	**150,642**	153,001
Deductions		
Significant minority interest in banking, securities and financial entities	**(5,710)**	–
Excess amount over materiality threshold	**(2,440)**	–
Investment in insurance entity greater than or equal to 20%	**(1,322)**	(1,380)
Total eligible capital	**141,170**	151,621

To assess its capital adequacy requirements in accordance to the 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. The Capital requirements for these risks are as follows:

	2008 BD'000	2007 BD'000
Total Credit Risk Weighted Assets	**390,344**	239,577
Total Market Risk Weighted Assets	**54,733**	119,214
Total Operational Risk Weighted Assets	**36,965**	28,210
Total Regulatory Risk Weighted Assets	**482,042**	387,001
Capital Adequacy Ratio	**29.29%**	39.18%
Minimum requirement	**12%**	12%

Starting from 2008, the Group has adopted the Basel II guidelines for calculation of the capital adequacy ratio.

17 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2008	2007
	BD'000	BD'000
Letters of credit and acceptances	**27,578**	9,125
Guarantees	**9,564**	5,850
Operating lease commitments *	**292**	224
At 31 December	**37,434**	15,199

* The Group has entered into commercial leases for certain branches. These leases have an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2008	2007
	BD'000	BD'000
Within one year	**60**	132
After one year but not more than five years	**224**	84
More than five years	**8**	8
At 31 December	**292**	224

Credit Lines Commitment

The Group has provided credit line to its associate of BD 9,425 thousand (2007:BD 5,655 thousand) for liquidity purposes which is fully utilised as of 31 December 2008 (2007: 2,267 thousand).

18 INCOME FROM JOINTLY FINANCED SALES AND INVESTMENTS

	2008	2007
	BD'000	BD'000
Income from Murabaha receivables	**20,455**	18,999
Income from Mudaraba investments	**2,250**	3,181
Income from Musharaka investments	**6,678**	2,290
Income from investments in Sukuk	**4,012**	4,973
Income from Ijarah Muntahia Bittamleek - net *	**3,539**	2,020
Total	**36,934**	31,463

* The details of Income from Ijarah Muntahia Bittamleek is as follows:

	2008	2007
	BD'000	BD'000
Income from Ijarah Muntahia Bittamleek – gross	**4,821**	2,432
Depreciation provided during the year (note 10)	**(1,282)**	(412)
Total	**3,539**	2,020

19 INCOME FROM INVESTMENTS

	2008	2007
	BD'000	BD'000
Gain on sales of investments	**11,907**	8,141
Dividend income	**4,191**	2,829
Income from Ijarah assets	**574**	538
Gain on sale of investments in properties	**1,607**	190
Total	**18,279**	11,698

20 FEE AND COMMISSION INCOME

	2008	2007
	BD'000	BD'000
Commission income	**4,557**	2,465
Fees and others	**433**	336
Total	**4,990**	2,801

21 OTHER EXPENSES

	2008	2007
	BD'000	BD'000
Marketing, advertisement and re-branding expenses	**1,664**	1,182
Computer maintenance expenses	**676**	275
Board remuneration	**586**	333
Expenses on Ijarah assets	**506**	294
Communication expenses	**438**	230
Professional services and consultancy fees	**331**	785
Stationery expenses	**270**	140
Travelling and transportation expenses	**258**	132
Brokerage fees and commission	**255**	146
Shari'a committee remuneration and board expenses	**144**	42
Miscellaneous	**843**	279
Total	**5,971**	3,838

22 PROVISIONS

	Murabaha receivables	**Mudaraba investments**	**Musharaka investments**	**Investments**	**Total**
2008	**BD'000**	**BD'000**	**BD'000**	**BD'000**	**BD'000**
At 1 January	**1,915**	**–**	**50**	**315**	**2,280**
Written off during the year	**(15)**	**–**	**–**	**–**	**(15)**
	1,900	**–**	**50**	**315**	**2,265**
Provided during the year	**6,967**	**3,421**	**–**	**5,509**	**15,897**
At 31 December	**8,867**	**3,421**	**50**	**5,824**	**18,162**
Notes	4	5	6	7	

	Murabaha receivables	Mudaraba investments	Musharaka investments	Investments	Total
2007	BD'000	BD'000	BD'000	BD'000	BD'000
At 1 January	1,915	–	50	315	2,280
Written off during the year	–	–	–	–	–
	1,915	–	50	315	2,280
Provided during the year	–	–	–	–	–
At 31 December	1,915	–	50	315	2,280
Notes	4	5	6	7	

23 ZAKAH

The total Zakah payable as of 31 December 2008 amounted to BD 3,687 thousand (2007: BD 1,373 thousand) of which BD 641 thousand (2007: BD 306 thousand) represent the Zakah on the statutory reserve, general reserve and retained earning as at 1 January 2007, is payable by the Bank. The remaining Zakah balance amounting to BD 3,046 thousand or 4.6 fils per share (2007: BD 1,067 thousand or 3.3 fils per share) is due and payable by the shareholders.

24 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the year by the weighted average number of shares during the year as follows:

	2008	2007
	BD'000	BD'000
Net income for the year	**22,313**	25,025
Weighted average number of shares	**662,354**	448,798
Basic and diluted earnings per share (fils)	**33.69**	55.76

There have been no transactions during the year which caused dilution of the earnings per share.

25 RELATED PARTY TRANSACTIONS

Related parties represents associated companies, major shareholders, directors, key management personnel of the Group and Shari'a Supervisory Board.

The balances and values of major transactions with the related parties are as follows:

		Income (expense)		**Balance at 31 December**	
Related party	Transaction	**2008**	2007	**2008**	2007
		BD'000	BD'000	**BD'000**	BD'000
Shareholders	Sukuk	**629**	1,181	**11,700**	14,582
Shareholders	Tawarooq	**2,705**	460	**40,870**	18,003
Shareholders	Real Estate	**–**	–	**18,850**	–
Associate	Ijarah Muntahia Bittamleek	**–**	63	**–**	848
Associate	Sukuk	**220**	362	**9,427**	2,266
Associate	Murabaha	**–**	92	**–**	8,294
Associate	Murabaha	**–**	89	**–**	7,540
Associate	Mudaraba	**59**	47	**2,770**	1,041
Board of Directors	Ijarah Muntahia Bittamleek	**52**	16	**356**	660
Board of Directors	Musharaka	**223**	137	**941**	1,054
Shari'a Supervisory Board	Remuneration	**54**	24	**–**	–
Total		**3,942**	2,471	**84,914**	54,288

25 RELATED PARTY TRANSACTIONS Continued

Key management personnel include the staff in assistant general manager grade and above.

Compensation of the key management personnel is as follows:

	2008	2007
	BD'000	BD'000
Short term employee benefits	803	581
Other long term benefits	183	59
Total	**986**	640

26 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed mainly to credit, liquidity, market and operational risks.

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.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and Organization of Risk Management Function

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

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

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

26 RISK MANAGEMENT Continued

Executive Committee (EC) comprises six designated members of the Board of Directors. The Executive Committee is delegated authorities by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit & Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with the authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

Risk Measurement & Reporting Systems

Based on risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breaches are reported by Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised, if necessary at least annually (or earlier if required).

a) CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

Type 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 instalments are settled.

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).

26 RISK MANAGEMENT Continued

a) CREDIT RISK Continued

Credit Risk Mitigation Continued

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.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

a. Collateral security, fully covering the exposure; or
b. Joint and Several Guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

The market value of tangible collateral security are properly evaluated by the Group approved value (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 CIC reviews and approves the Loan-able Value of securities. It has also approved a list of acceptable securities.

(i) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	Jointly financed 2008 BD'000	Jointly financed 2007 BD'000
Murabaha receivables	**377,430**	338,970
Mudaraba investments	**58,857**	36,372
Musharaka investments	**80,576**	39,476
Investments	**66,065**	84,498
Ijara income receivables	**1,469**	2,963
Total	**584,397**	502,279
Letters of credit, guarantees and acceptances	**37,142**	14,975
Irrevocable commitments to provide trading facilities	**292**	224
Total	**37,434**	15,199

26 RISK MANAGEMENT Continued

a) CREDIT RISK Continued

Credit Risk Mitigation Continued

(ii) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution by geographic region and industry sector is as follows:

	Assets		Liabilities and unrestricted investment accounts		Commitments and contingent liabilities	
	2008	2007	**2008**	2007	**2008**	2007
	BD'000	BD'000	**BD'000**	BD'000	**BD'000**	BD'000
Geographical region						
North America	**5,995**	6,660	**–**	–	**113**	46
Europe	**48,053**	34,854	**–**	–	**6,913**	2,807
Middle East	**809,078**	617,120	**707,520**	471,793	**21,569**	8,757
Asia	**10,841**	335	**–**	–	**8,839**	3,589
At 31 December	**873,967**	658,969	**707,520**	471,793	**37,434**	15,199
Industry sector						
Trading and manufacturing	**76,892**	45,393	**62,836**	64,486	**36,427**	14,790
Banks and financial institutions	**397,000**	414,222	**193,676**	171,685	**–**	–
Others	**400,075**	199,354	**451,008**	235,622	**1,007**	409
At 31 December	**873,967**	658,969	**707,520**	471,793	**37,434**	15,199

26 RISK MANAGEMENT Continued

a) CREDIT RISK Continued

Credit Risk Mitigation Continued

(iii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system.

	31 December 2008				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
	BD'000	BD'000	BD'000	BD'000	BD'000
Balances with CBB and other banks	**49,579**	**–**	**–**	**–**	**49,579**
Murabaha receivables	**10,159**	**362,463**	**2,680**	**2,128**	**377,430**
Mudaraba investments	**–**	**58,857**	**–**	**–**	**58,857**
Musharaka investments	**–**	**76,822**	**3,692**	**62**	**80,576**
Investments	**7,059**	**125,958**	**–**	**–**	**133,017**
Ijarah rental receivables	**–**	**1,469**	**–**	**–**	**1,469**
Total	**66,797**	**625,569**	**6,372**	**2,190**	**700,928**

	31 December 2007				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
	BD'000	BD'000	BD'000	BD'000	BD'000
Balances with CBB and other banks	18,349	–	–	–	18,349
Murabaha receivables	10,211	323,455	2,957	2,347	338,970
Mudaraba investments	–	36,372	–	–	36,372
Musharaka investments	–	38,555	906	15	39,476
Investments	20,392	136,276	–	–	156,668
Ijarah rental receivables	–	2,963	–	–	2,963
Total	48,952	537,621	3,863	2,362	592,798

26 RISK MANAGEMENT Continued

a) CREDIT RISK Continued

Credit Risk Mitigation Continued

(iv) Aging analysis of past due but not impaired Islamic financing facilities per class of financial assets

	Less than 30 days	31 to 60 days	61 to 90 days	Total
2008	**BD'000**	**BD'000**	**BD'000**	**BD'000**
Murabaha receivable	**4,668**	**13,197**	**766**	**18,631**
Mudaraba investments	**–**	**–**	**–**	**–**
Musharaka investments	**2,507**	**157**	**33**	**2,697**
Total	**7,175**	**13,354**	**799**	**21,328**

	Less than 30 days	31 to 60 days	61 to 90 days	Total
2007	BD'000	BD'000	BD'000	BD'000
Murabaha receivable	2,769	7,828	454	11,051
Mudaraba investments	–	–	–	–
Musharaka investments	1,253	78	16	1,347
Total	4,022	7,906	470	12,398

b) LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, international commodity Murabaha, credit lines and quoted investments.

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its unrestricted investment accounts.

26 RISK MANAGEMENT Continued

b) LIQUIDITY RISK Continued

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2008 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
ASSETS	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**
Cash and balances with CBB and other banks	15,316	–	–	–	–	–	34,263	49,579
Murabaha receivables	142,380	57,020	72,305	33,920	18,078	44,860	–	368,563
Mudaraba investments	1,995	–	20,668	–	–	32,773	–	55,436
Musharaka investments	5,650	867	10,339	11,394	20,029	32,247	–	80,526
Investments	9,427	21,016	2,268	–	43,164	19,782	31,536	127,193
Investments in associates	–	–	–	–	–	–	7,423	7,423
Investments in Ijarah assets	–	–	–	–	–	–	9,901	9,901
Ijarah Muntahia Bittamleek	17,262	1,437	1,615	–	173	47,473	–	67,960
Investments in properties	–	–	–	–	–	–	97,829	97,829
Ijarah rental receivables	–	–	1,469	–	–	–	–	1,469
Other assets	–	–	4,453	–	–	–	3,635	8,088
Total	192,030	80,340	113,117	45,314	81,444	177,135	184,587	873,967
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY								
Customers' current accounts	69,466	–	–	–	–	–	–	69,466
Other liabilities	13,935	–	–	–	–	–	–	13,935
Unrestricted investment accounts	340,886	118,223	54,793	105,048	2,633	–	2,536	624,119
Equity	–	–	–	–	–	–	166,447	166,447
Total	424,287	118,223	54,793	105,048	2,633	–	168,983	873,967
Liquidity gap	(232,257)	(37,883)	58,324	(59,734)	78,811	177,135	15,604	–
Cumulative liquidity gap	(232,257)	(270,140)	(211,816)	(271,550)	(192,739)	(15,604)	–	–

26 RISK MANAGEMENT Continued

b) LIQUIDITY RISK Continued

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2007 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
ASSETS	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the CBB and other banks	6,064	–	–	–	–	–	12,285	18,349
Murabaha receivables	128,432	92,504	31,440	47,421	12,696	24,562	–	337,055
Mudaraba investments	5,121	5,331	4,373	–	–	21,547	–	36,372
Musharaka investments	1,135	480	1,118	4,969	18,877	12,847	–	39,426
Investments	–	2,308	10,803	4,662	2,329	67,063	69,188	156,353
Investments in associates	–	–	–	–	–	–	7,045	7,045
Investments in Ijarah assets	–	–	–	–	–	–	5,893	5,893
Ijarah Muntahia Bittamleek	869	4,077	3,585	867	183	3,993	–	13,574
Investments in properties	–	–	–	–	–	–	34,950	34,950
Ijarah rental receivables	–	–	2,963	–	–	–	–	2,963
Other assets	–	–	4,422	–	–	–	2,567	6,989
Total	141,621	104,700	58,704	57,919	34,085	130,012	131,928	658,969
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY								
Customers' current accounts	60,963	–	–	–	–	–	–	60,963
Other liabilities	7,615	–	–	–	–	–	–	7,615
Unrestricted investment accounts	219,408	54,229	55,810	67,218	4,059	–	2,491	403,215
Equity	–	–	–	–	–	–	187,176	187,176
Total	287,986	54,229	55,810	67,218	4,059	–	189,667	658,969
Liquidity gap	(146,365)	50,471	2,894	(9,299)	30,026	130,012	(57,739)	–
Cumulative liquidity gap	(146,365)	(95,894)	(93,000)	(102,299)	(72,273)	57,739	–	–

26 RISK MANAGEMENT Continued

c) MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, equity prices, and foreign exchange rates.

(i) 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 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.

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.

(ii) Equity price risk

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

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for 10% increase and decrease of the portfolio's value:

Equity price risk variation as of 31 December is as follows;

	Outstanding balance	**Variance after 10 % appreciation**	**Variance after 10 % depreciation**
2008	**BD'000**	**BD'000**	**BD'000**
Bahrain Stock Exchange	**18,606**	**20,467**	**16,745**
Kuwait Stock Exchange	**2,107**	**2,318**	**1,896**

	Outstanding balance	Variance after 10 % appreciation	Variance after 10 % depreciation
2007	BD'000	BD'000	BD'000
Bahrain Stock Exchange	47,717	52,489	42,945

As at balance sheet date, the Group has unquoted (equities and sukuk) of BD 112 million (31 December 2007: BD 113.1 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

26 RISK MANAGEMENT Continued

c) MARKET RISK Continued

iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent Long (short)	Equivalent Long (short)
	2008	2007
	BD'000	BD'000
Currency		
Pound Sterling	**1,451**	177
US Dollar	**89,684**	49,034

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange risk against the BD with other variables held constant will have an immaterial impact on the consolidated statement of income and equity.

d) OPERATIONAL RISK

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.

27 SEGMENTAL INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated balance sheet.

29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a qard fund account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of good faith qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

30 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

31 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through zakah and charity fund's expenditures and donations to good faith qard fund for marriage, refurbishment, medical treatments, etc.

32 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or equity.

Basel II, Pillar III Disclosures

31 December 2008

Contents

Basel II, Pillar III Disclosures

31 December 2008

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 that 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 of its paid-up capital, including share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier 1 form as defined by the CBB, i.e., most of the capital are 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.

2 CAPITAL ADEQUACY Continued

As part of the risk management practice, the Bank has already started the implementation of Sunguard system to be Basel II compliant as prescribed by CBB.

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 2008 after deductions for Capital Adequacy Ratio (CAR) calculation

	Tier 1 BD'000	Tier 2 BD'000
Components of capital		
Issued and fully paid ordinary shares	**66,235**	**–**
General reserves	**1,000**	**–**
Legal / statutory reserves	**8,037**	**–**
Share premium	**50,560**	**–**
Retained profit brought forward (other than current year net income)	**14,272**	**–**
Less:	**–**	**–**
Unrealized gross losses arising from fair valuing equity securities	**(5,811)**	**–**
Current year net income	**–**	**9,934**
Asset revaluation reserve - Equipment (45% only)	**–**	**6,086**
Unrealized gains arising from fair valuing equities (45% only)	**–**	**329**
Tier 1 and Tier 2 capital before PCD deductions	**134,293**	**16,349**
Total available capital		**150,642**
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	**(2,855)**	**(2,855)**
Excess amount over materiality thresholds in case of investment in commercial entities	**(1,220)**	**(1,220)**
Investment in insurance entity greater than or equal to 20%	**(661)**	**(661)**
Total Deductions	**(4,736)**	**(4,736)**
Tier 1 and Tier 2 eligible capital	**129,557**	**11,613**
Total eligible capital		**141,170**

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

2 CAPITAL ADEQUACY Continued

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

The following table summarises the amount of exposures as of 31 December 2008 subject to standardized measurement approach of credit risk and related capital requirements by type of Islamic financing contracts;

	Amount of exposures BD'000	Capital requirements BD'000
Type of Islamic Financing Contracts		
Murabaha receivables	**368,563**	**119,880**
Ijarah Muntahia Bittamleek	**67,960**	**30,989**
Musharaka investments	**80,526**	**39,426**
Mudaraba investments	**55,436**	**32,194**
Investment in Sukuk	**74,449**	**29,425**
Others	**227,033**	**138,430**
Total	**873,967**	**390,344**

Table – 3. Capital requirement for market risk (PD-1.3.18-19)

The following table summarises the amount of exposures as of 31 December 2008 subject to standardized approach of market risk and related capital requirements;

	Self Financed BD'000	PSIA BD'000
Market Risk - Standardised Approach Foreign exchange risk	**2,503**	**6,252**
Total of Market Risk - Standardised Approach	**2,503**	**6,252**
Multiplier	**12.5**	**12.5**
	31,288	**78,150**
Eligible Portion for the purpose of the calculation	**100%**	**30%**
RWE to be used in CAR calculation	**31,288**	**23,445**
Total market risk exposures		**54,733**

2 CAPITAL ADEQUACY Continued

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 2008 subject to basic indicator approach of operational risk and related capital requirements;

	Capital charge BD'000
Indicators of operational risk	
Average Gross income	**19,715**
Multiplier	**12.5**
	246,438
Eligible Portion for the purpose of the calculation	**15%**
TOTAL OPERATIONAL RISK EXPOSURE	**36,965**

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

The following are Capital Adequacy Ratios as of 31 December 2008 for total capital and Tier 1 capital;

	Total capital ratio	Tier 1 capital ratio
Top consolidated level	**29.29%**	**26.88%**

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 and consequently is in the process of developing an 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 RISK MANAGEMENT Continued

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. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Group.

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

Limit structures serve as 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 Group is in the process of implementing various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

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

3.2.2 Credit risk

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

3.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group 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 Group has established a limit structure to monitor and control the market risk in its portfolio. These limits include maximum loss limits, currency mismatch limits and maturity limits.

3.2.4 Operational risk

The Group will establish a self assessment process necessary for identifying and measuring its operational risks. It will conduct a Risk and Control Self Assessment ("RCSA") exercise in the second quarter of 2009, which will undertake the Group's business lines and their critical activities, posing operational risks to the Group. The Group will develop quantitative criteria for risk appetite once it has enough data to determine the thresholds.

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

3.2.5 Equity price risk

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

3 RISK MANAGEMENT Continued

3.2 Strategies, Processes and Internal Controls Continued

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 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.

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.

3.3 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 Group. The responsibilities associated with each level of risk management structure and authorities include the following:

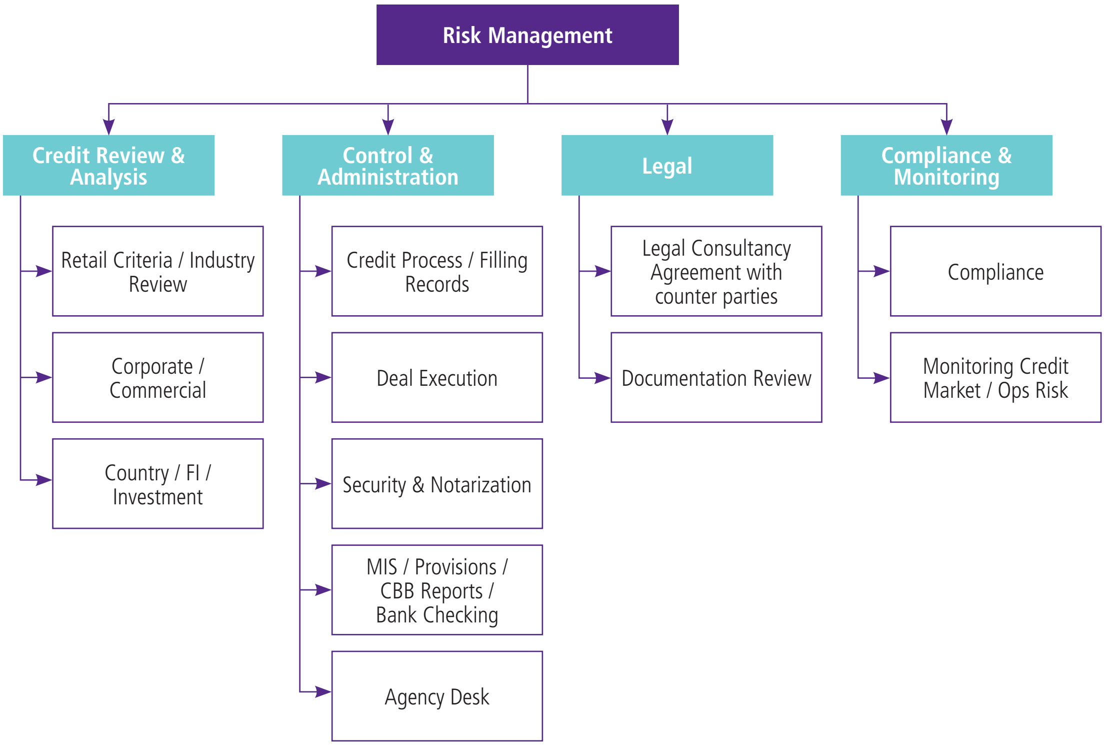
The Board retains ultimate responsibility and authority for all risk matters, including:

a. Establishing overall policies and procedures; and

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

3 RISK MANAGEMENT Continued

3.3 Structure and Organization of Risk Management Function Continued



3 RISK MANAGEMENT Continued

3.4 Risk Measurement and Reporting Systems

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

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

3.5 Credit Risk

3.5.1 Introduction

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

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical and industry. 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 Group's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/ facilities are reviewed on 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.

3 RISK MANAGEMENT Continued

3.5.2 Types of credit risk Continued

Ijarah Muntahia Bittamleek

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

3.5.3 Past Due and impaired Islamic financing

The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, 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 Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters.

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.

3 RISK MANAGEMENT Continued

3.5.7 Credit risk mitigation Continued

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.

The market value of tangible collateral security are properly evaluated by the Group approved value (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).
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 appraiser, 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

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

3 RISK MANAGEMENT Continued

3.5.7.1 General policy guidelines of collateral management Continued

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.

3.5.8.3 Group exposure

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

3.5.8.4 Connected counterparties

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

3 **RISK MANAGEMENT** Continued

3.5.8 Counterparty credit risk Continued

3.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect or funded by restricted 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 a 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 or members of Shari'a Supervisory Board.

3.5.8.9 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

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

The following table summarises the amount of gross funded credit exposure as of 31 December 2008 and average gross funded exposures over the period from 1 January 2008 to 31 December 2008 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	*Average gross exposure over the period	Total gross credit exposure	Average gross credit risk exposure over the period
	BD'000	BD'000	BD'000	BD'000
Cash and balances with Central Bank of Bahrain and other banks	14,173	9,180	35,406	22,931
Murabaha receivables	33,967	31,169	343,463	315,171
Mudaraba investments	5,297	5,606	53,560	56,689
Musharaka investments	7,251	6,194	73,325	62,636
Investments	64,319	88,940	68,698	70,714
Investments in associates	7,423	7,531	–	–
Investments in Ijarah assets	9,901	9,176	–	–
Ijarah Muntahia Bittamleek	6,116	3,898	61,844	39,410
Investments in properties	97,829	82,988	–	–
Ijarah rental receivables	1,469	2,963	–	–
Other assets	8,088	9,102	–	–
Total	**255,833**	**256,747**	**636,296**	**567,551**

*Average Balances are computed based on month end balances

3 RISK MANAGEMENT Continued

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

The following table summarises the geographic distribution of net exposures as of 31 December 2008, broken down into significant areas by major types of credit exposure;

	Own capital and current account * Geographic area					Profit Sharing Investment Account (PSIA) * Geographic area				
	North America	Europe	Middle East	Asia	Total	North America	Europe	Middle East	Asia	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cash and balances with Central Bank of Bahrain and other banks	623	1,762	11,534	254	**14,173**	1,556	4,401	28,815	634	**35,406**
Murabaha receivables	–	2,937	29,591	641	**33,169**	–	29,698	299,219	6,477	**335,394**
Mudaraba investments	326	823	3,585	255	**4,989**	3,297	8,321	36,248	2,581	**50,447**
Musharaka investments	–	–	7,246	–	**7,246**	–	–	73,280	–	**73,280**
Investments	192	111	59,142	–	**59,445**	–	–	67,748	–	**67,748**
Investments in associates	–	–	7,423	–	**7,423**	–	–	–	–	**–**
Investments in Ijarah assets	–	–	9,901	–	**9,901**	–	–	–	–	**–**
Ijarah Muntahia Bittamleek	–	–	6,116	–	**6,116**	–	–	61,844	–	**61,844**
Investments in properties	–	–	97,829	–	**97,829**	–	–	–	–	**–**
Ijarah rental receivables	–	–	1,469	–	**1,469**	–	–	–	–	**–**
Other assets	–	–	8,088	–	**8,088**	–	–	–	–	**–**
Total	**1,141**	**5,633**	**241,924**	**1,150**	**249,848**	**4,853**	**42,420**	**567,154**	**9,692**	**624,119**

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

3 RISK MANAGEMENT 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 2008 by industry, broken down into major types of credit exposure;

	Own capital and current account Industry sector				Profit Sharing Investment Account (PSIA) Industry sector			
	Trade	Financial Institution	Others	Total	Trade	Financial Institution	Others	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cash and balances with Central Bank of Bahrain and other banks	–	13,037	1,136	**14,173**	–	32,568	2,838	**35,406**
Murabaha receivables	6,749	15,422	10,998	**33,169**	68,249	155,942	111,203	**335,394**
Mudaraba investments	–	4,989	–	**4,989**	–	50,447	–	**50,447**
Musharaka investments	170	375	6,701	**7,246**	1,723	3,794	67,763	**73,280**
Investments	–	35,763	23,682	**59,445**	–	53,906	13,842	**67,748**
Investments in associates	–	7,423	–	**7,423**	–	–	–	**–**
Investments in Ijarah assets	–	–	9,901	**9,901**	–	–	–	**–**
Ijarah Muntahia Bittamleek	–	202	5,914	**6,116**	–	2,039	59,805	**61,844**
Investments in properties	–	21,092	76,737	**97,829**	–	–	–	**–**
Ijarah rental receivables	–	–	1,469	**1,469**	–	–	–	**–**
Other assets	–	–	8,088	**8,088**	–	–	–	**–**
Total	**6,919**	**98,303**	**144,626**	**249,848**	**69,972**	**298,696**	**255,451**	**624,119**

Table – 9. Credit Risk – Concentration of Risk (PD-1.3.23(f))

Following balances representing the concentration of risk to individual counterparties as of 31 December 2008;

	Own capital and current account	Profit Sharing Investment Account (PSIA)	Total
	BD'000	BD'000	BD'000
Counterparties			
Counterparty # 1 *	7,773	19,413	**27,186**

* The exposure is in excess of the 15% individual obligor limit

3 RISK MANAGEMENT Continued

Table – 10. 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 2008, broken down by major types of credit exposure;

	Own capital and current account Maturity breakdown							
	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	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets								
Cash & balance with the Central Bank of Bahrain and Other Bank	4,378	–	–	–	–	–	9,795	**14,173**
Murabaha receivables	12,814	5,132	6,507	3,053	1,626	4,037	–	**33,169**
Mudaraba investments	180	–	1,860	–	–	2,949	–	**4,989**
Musharaka Investments	508	78	930	1,025	1,804	2,901	–	**7,246**
Investments	848	21,016	204	–	3,885	1,956	31,536	**59,445**
Investment in associates	–	–	–	–	–	–	7,423	**7,423**
Investment in Ijarah assets	–	–	–	–	–	–	9,901	**9,901**
Ijara Muntahia Bittamleek	1,553	129	145	–	16	4,273	–	**6,116**
Investment in properties	–	–	–	–	–	–	97,829	**97,829**
Ijara rental receivables	–	–	1,469	–	–	–	–	**1,469**
Other assets	–	–	4,453	–	–	–	3,635	**8,088**
Total	**20,281**	**26,355**	**15,568**	**4,078**	**7,331**	**16,116**	**160,119**	**249,848**
LIABILITIES and EQUITY								
Customers' current accounts	69,466	–	–	–	–	–	–	**69,466**
Other liabilities	13,935	–	–	–	–	–	–	**13,935**
Total	**83,401**	**–**	**–**	**–**	**–**	**–**	**–**	**83,401**
Equity	**–**	**–**	**–**	**–**	**–**	**–**	166,447	**166,447**
Total liabilities and equity	**83,401**	**–**	**–**	**–**	**–**	**–**	**166,447**	**249,848**

3 RISK MANAGEMENT Continued

Table – 11. 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 2008, broken down by major types of credit exposure;

	Profit Sharing Investment Account (PSIA) Maturity breakdown							
	Up to 1 month	1-3 month	3-6 month	6-12 month	1-3 years	Over 3 years	No fixed maturity	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Assets								
Cash & balance with the Central Bank of Bahrain and Other Bank	10,938	–	–	–	–	–	24,468	**35,406**
Murabaha receivables	129,566	51,888	65,798	30,867	16,452	40,823	–	**335,394**
Mudaraba investments	1,815	–	18,808	–	–	29,824	–	**50,447**
Musharaka Investments	5,142	789	9,409	10,369	18,225	29,346	–	**73,280**
Investments	8,579	–	2,064	–	39,279	17,826	–	**67,748**
Ijara Muntahia Bittamleek	15,709	1,308	1,470	–	157	43,200	–	**61,844**
Total	**171,749**	**53,985**	**97,549**	**41,236**	**74,113**	**161,019**	**24,468**	**624,119**
UNRESTRICTED INVESTMENT ACCOUNTS								
Unrestricted investment accounts	340,886	118,223	54,793	105,048	2,633	–	2,536	**624,119**
Total	**340,886**	**118,223**	**54,793**	**105,048**	**2,633**	**–**	**2,536**	**624,119**

3 RISK MANAGEMENT Continued

Table – 12. Credit Risk – Impaired Exposures, Past Due Exposures and Provision (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 provision disclosed by major industry sector as of 31 December 2008;

	Own capital and current account							
	Non-performing or past due or impaired Islamic financing facilities	Aging of Past Due Facilities			Specific Provision			
		90 To 180 Days	181 To 270 Days	Over 270 Days	Charges during the period	Charge-offs during the period	Balance at the end of the period	* General provision
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Trade	360	51	–	309	148	–	148	227
Others	2,088	1,760	10	318	860	–	860	1,315
Total	**2,448**	**1,811**	**10**	**627**	**1,008**	**–**	**1,008**	**1,542**

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

Table – 13. Credit Risk – Impaired Exposures, Past Due Exposures and Provision (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 provision disclosed by major industry sector as of 31 December 2008;

	Profit Sharing Investment Account (PSIA)							
	Non-performing or past due or impaired Islamic financing facilities	Aging of Past Due Facilities			Specific Provision			
		90 To 180 Days	181 To 270 Days	Over 270 Days	Charges during the period	Charge-offs during the period	Balance at the end of the period	* General provision
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Trade	899	128	–	771	370	–	370	566
Others	5,217	4,397	26	794	2,146	–	2,146	3,285
Total	**6,116**	**4,525**	**26**	**1,565**	**2,516**	**–**	**2,516**	**3,851**

* General provision 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

Table – 14. 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 2008;

	Own capital and current account			Profit Sharing Investment Account (PSIA)		
	Past due Islamic financing facilities	Specific Impairment provision	Collective Impairment provision	Past due Islamic financing facilities	Specific Impairment provision	Collective Impairment provision
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Middle East	2,448	1,008	1,542	6,116	2,516	3,851
Total	**2,448**	**1,008**	**1,542**	**6,116**	**2,516**	**3,851**

Table – 15. Credit Risk Mitigation CRM (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2008 by type of Islamic financing contract covered by eligible collateral after the application of haircuts;

	Total exposure covered by	
	Eligible collateral	Guarantees
	BD'000	BD'000
Murabaha receivables	**148,035**	–
Mudaraba investments	–	**17,500**
Musharaka investments	**136,805**	–
Ijarah Muntahia Bittamleek	**47,395**	–
Total	**332,235**	**17,500**

3 RISK MANAGEMENT Continued

Table – 16. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by eligible collateral after the application of haircuts as of 31 December 2008;

	BD'000
Gross positive fair value of contracts	**584,397**
Netting Benefits	**–**
Netted current credit exposure	**584,397**
Collateral held:	
- Cash	**6,855**
- Others	**342,880**
Total	**349,735**

3.6 Market Risk

3.6.1 Introduction

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

3.6.2 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).

Foreign exchange risk

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

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 RISK MANAGEMENT Continued

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.

3.6.5 Market risk monitoring and limits structure

The Asset and Liability Committee (ALCO) have set the tolerance for market risk and have communicated that tolerance 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 market prices and rates.

3 RISK MANAGEMENT Continued

3.6.6 Limits monitoring

The Treasury Department and Risk & Compliance Department 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 Department 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 Department 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 Department 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 Department 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 – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for foreign exchange risk as of 31 December 2008;

	Foreign exchange risk **BD'000**
Foreign exchange risk capital requirements	**54,733**
Maximum value	**74,340**
Minimum value	**54,733**

3 RISK MANAGEMENT Continued

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 risk 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,

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

software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug etc.

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 also plans to carry out Risk and Control Self-Assessments ("RCSA") to identify the operational risks it is exposed to.

Once the RCSA is carried out, the Group on a continuous basis will:

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

3.7.4 Operational risk monitoring and reporting

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

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

3.7.5 Operational risk mitigation and control

The business units, in consultation with Risk and Compliance Department will determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks, once the RCSA exercise has been completed.

3 RISK MANAGEMENT Continued

3.7 Operational Risk Continued

For those risks that cannot be controlled, the business units in conjunction with Risk and Compliance Department 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 Department 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 Positions 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 – 18. 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 2008;

	Total gross exposure BD'000	* Average gross exposure BD'000	Publicly traded BD'000	Privately held BD'000	Capital Requirement
Sukuks	**75,492**	**77,707**	**–**	**75,492**	**29,425**
Equity investments	**57,525**	**81,946**	**21,016**	**36,509**	**18,311**
Funds	**36,195**	**33,596**	**–**	**36,195**	**29,410**
Total	**169,212**	**193,249**	**21,016**	**148,196**	**77,146**

*Average Balances are computed based on month end balances.

Table – 19. Equity Gains or losses in Banking Book (PD-1.3.31 (d) and (e))

The following table summarises the cummulative realised and unrealised gains or (losses) during the year ended 31 December 2008;

	BD'000
Cumulative realized gains arising from sales or liquidations in the reporting period	**11,907**
Total unrealized losses recognized in the balance sheet but not through P&L	**(4,688)**
Unrealized losses included in Tier 1 Capital	**(5,811)**
Unrealized gains included in Tier 2 Capital	**329**

3 RISK MANAGEMENT Continued

Table – 20. Equity Position in Banking Book (PD-1.3.31 (f))

The following table summarises the capital requirement broken down by appropriate equity groupings as of 31 December 2008;

	BD'000
Investment in shares	**18,312**
Investment in funds	**29,410**
Total	**47,722**

3.9 Unrestricted Investment Accounts ("URIA")

The Group may require to decrease or increase losses or profit on certain unrestricted investments for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by unrestricted Investment Account Holders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by unrestricted IAH 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 – 21. Unrestricted Investment Account (PD-1.3.33 (a))

The following table summarises the breakdown of unrestricted investment accounts as of 31 December 2008;

	BD'000
Customers	**425,702**
Banks and other financial institutions	**195,882**
Profit equalisation reserve	**2,368**
Investment risk reserve	**167**
Total	**624,119**

Table – 22. 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 2008;

Return on Average Assets	**3.49%**
Management Fee to Total Investment Profits	**65%**

3 RISK MANAGEMENT Continued

Table – 23. 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 2008;

	Financing to Total Financing
Murabaha receivables	**56.97%**
Mudaraba investments	**8.57%**
Musharaka investments	**12.45%**
Ijarah Muntahia Bittamleek	**10.50%**
Investment in Sukuk	**11.51%**

Table – 24. Unrestricted Investment Account by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of 31 December 2008;

Counterparty type	Financing to Total Financing
Claims on Sovereigns	**5.92%**
Claims on Banks	**15.09%**
Claims on Corporate, Takaful Companies & Investment Firms	**11.44%**
Retail Portfolio	**28.12%**
Mortgage	**18.71%**

Table – 25. 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 2008;

Share of profit paid to IAH before transfer to/from reserves	**17,869**
Percentage share of profit paid to IAH before transfer to/from reserves	**3.52%**
Share of profit paid to IAH after transfer to/from reserves	**17,702**
Percentage share of profit paid to IAH after transfer to/from reserves	**3.49%**
Share of profit paid to Bank as mudarib	**13,183**

3 RISK MANAGEMENT Continued

Table – 26. 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 2008;

	Profit Equalisation Reserve BD'000	Investment Risk Reserve BD'000
Opening Balance	2,491	–
Amount appropriated	–	167
Amount utilized	(123)	–
Closing Balance	**2,368**	**167**

Table – 27. 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 2008;

	3 month	6 month	12 month	36 month
Percentage of average declared rate of return to profit rate of return	3.27%	3.58%	3.61%	4.00%

Table – 28. 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 2008;

	Opening Actual Allocation BD'000	Movement BD'000	Closing Actual Allocation BD'000
Cash & balance with the Central Bank of Bahrain and Other Bank	14,406	21,000	35,406
Murabaha receivables	264,618	70,776	335,394
Mudaraba investments	28,555	21,892	50,447
Musharaka investments	30,953	42,327	73,280
Ijarah Muntahia Bittamleek	10,657	51,187	61,844
Investment in Sukuk	68,432	(684)	67,748
Total	**417,621**	**206,498**	**624,119**

3 RISK MANAGEMENT Continued

3.9 Unrestricted Investment Accounts ("URIA") Continued

Table – 29. 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
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%
2004	7,686	4.55%	5,612	3.32%

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 become 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.

3.10.3 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 that 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 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.

3 RISK MANAGEMENT Continued

3.9 Unrestricted Investment Accounts ("URIA") Continued

The Treasury Department, in conjunction with Risk and Compliance Department periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO and the RMC, 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 is in the process of developing a contingency funding plan 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.

Table – 30. Liquidity Ratios (PD-1.3.37)

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

	2008	2007	2006	2005	2004
Commodities Murabaha / Total Assets	**15.01%**	27.52%	41.25%	32.83%	43.80%
Islamic Financing / Customer Deposits excluding banks	**90.11%**	86.95%	58.69%	51.39%	40.22%
Customer Deposits / Total Assets	**49.00%**	36.42%	35.56%	44.76%	50.46%
Liquid Assets / Total Assets	**20.68%**	30.31%	44.79%	36.09%	47.49%
Growth in Customer Deposits	**78.43%**	55.50%	10.16%	6.28%	5.71%

3 RISK MANAGEMENT Continued

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.

3.11.1Profit 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 Department monitors these limits regularly. GM-C&RM reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or EXCOM, according to authority parameters approved by the Board.

Table – 31. 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 2008;

	Effect on value of Asset	**Effect on value of Liability**	**Effect on value of Economic Capital**
	BD'000	**BD'000**	**BD'000**
Upward rate shocks:	**5,923**	**(11,286)**	**(5,363)**
Downward rate shocks:	**(5,923)**	**11,286**	**5,363**

Table – 32. 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;

	2008	2007	2006	2005	2004
Return on average equity	**12.60%**	25.00%	17.80%	12.00%	7.90%
Return on average assets	**2.90%**	5.00%	3.50%	2.50%	1.50%
Cost to Income Ratio	**31.30%**	32.00%	39.00%	41.00%	57.50%

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

The information about the qualification and the experience of each Board member is given on pages 10 and 11.

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.

Table – 33. 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;

Name of Executive	Designation	Profession	Experience	Qualification
Mohammed Ebrahim Mohammed	Chief Executive	Banker	31 Years	Master degree in Business Administration from University of Glamorgan- Wales 1998
A. Rahman Mohammed Turki	General Manager Retail Banking	Banker	36 Years	Master Degree in Business Administration from University of Strathclyde Scotland 2002
Dr. Salah El Din Saeed	General Manager Credit & Risk	Banker	31 Years	MBA from University of Hull 1998
Jaffar Badwan	General Manager Treasury & Investment	Banker	28 Years	Master Degree In Economics from University of Bridgeport USA
Nader Ebrahim	General Manager Corporate & Institutional Banking	Banker	26 Years	Executive Management & Leadership from University of Virginia, USA
Mohammed Ahmed Hassan	General Manager Support Services	Banker	40 Years	Advanced Management for Senior Decision makers from Harvard University
Khalid Mohammed Al Dossari	Chief Financial Officer	Accountant	25 Years	CPA from The American Institute of Certified Public Accountants
Khalid Mahmood	Head of Internal Audit	Accountant	13 Years	CPA from The American Institute of Certified Public Accountants

3 RISK MANAGEMENT Continued

Table – 34. 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	Objective
Asset & Liability Committee (ALCO)	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)	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.
Shari'a Committee	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.
Information Technology Committee (IT)	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
Human Resource Committee (HR)	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.
Qard Al Hassan, Donation & Zakah Committee	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 is made available to the public through various channels of communication which may include publications, website, direct mailers, electronic mail and local media.

The Group has a Quality Assurance Department which is responsible for managing customer complaints. After receiving a complaint, the department rotates 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.

4 Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
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

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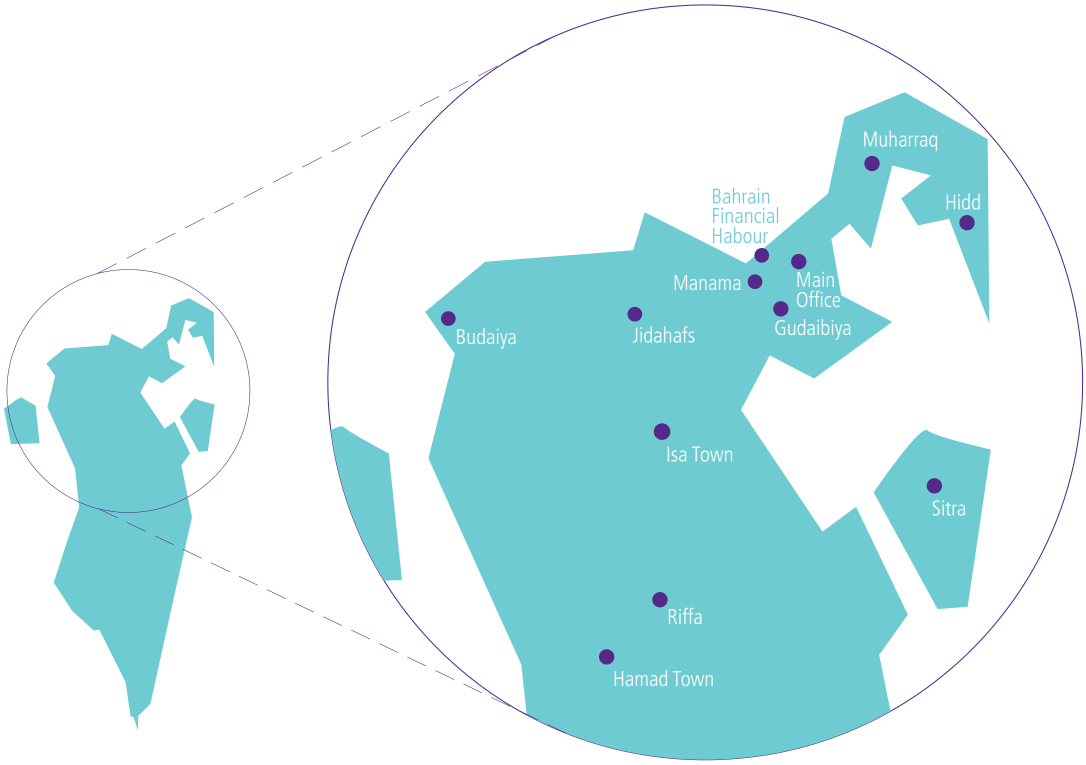
Branches



Offsite ATMs

No	Location
1	BisB Contact Center - Al Zinj
2	Al Salam Tower - Lobby
3	Arabian Gulf University
4	Arad Petrol Station*
5	Bahrain City Centre (Carrefour)
6	Bahrain City Centre (Gate 2)
7	Bahrain City Centre (Gate 3)
8	Bahrain International Airport (Arrivals)
9	Bukowara Road Riffa
10	E-Max Muharraq
11	GOSI Complex
12	Hamad Town (near Roundabout 22)
13	Seef Mall

Offsite ATMs In progress

No	Location
1	Busaiteen Club
2	Galali - near Al Muntazah
3	Jawad Dome - Barbar*
4	Jawad Supermarket - Nuwaidrat*
5	Lulu Hypermarket - Riffa
6	Ministry of Education - Isa Town
7	Ruyan Salmabad
8	Ruyan Sanad
9	Tubli Petrol Station*
10	24 Hours Market - A'ali
11	24 Hours Market - Arad
12	24 Hours Market - Busaiteen Petrol Station
13	24 Hours Market - Country Mall, Budaiya
14	24 Hours Market - Golden Sands, Hoora
15	24 Hours Market - Hamala
16	24 Hours Market - Sehla Petrol Station

* Drive-Thru ATM