AL SALAM BANK-BAHRAIN

BASEL II - PILLAR III
DISCLOSURES

30 JUNE 2009

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1. Introduction

The new Central Bank of Bahrain (CBB) requirements, which act as a common framework for the implementation of the Basel II accord in the Kingdom of Bahrain came into effect on 1 January 2008.

The Basel II accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- **Pillar II** addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- **Pillar III** complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

In November 2007 the CBB issued directives on the Pillar III disclosures under the Basel II framework applicable to licensed Islamic banks in Bahrain for the six months ended June 2009. These directives set out enhanced disclosure requirements required under Basel II framework. In accordance with the above requirement, the Al Salam Bank-Bahrain B.S.C. (the "Bank" or "ASBB") developed this document which gathers all the elements of the disclosure required under Pillar III and is organized as follows:

Firstly, it provides the profile of the risk weighted assets according to the "standard portfolio" as defined by the CBB.

Secondly, an overview of risk management practices and framework at the Bank is presented with specific emphasis on credit, market and operational risks and sets out the related monitoring processes and credit mitigation initiatives.

Finally, this document provides all other disclosures required under the public disclosure module of the CBB.

The disclosures in this document are in addition to the disclosures included in the consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions.

2. Financial Performance and Position

Al Salam Bank-Bahrain B.S.C., (the "Bank" or "ASBB") was incorporated on 19 January 2006 in the Kingdom of Bahrain. The Bank operates under Islamic Shari'a principles in accordance with the regulatory requirements for Islamic banks set by the Central Bank of Bahrain (CBB). The Bank is listed on Bahrain Stock Exchange and Dubai Stock Exchange and operates under an Islamic retail banking license issued by CBB.

The interim condensed financial statements and capital adequacy regulatory disclosure of ASBB have been prepared on a consistent basis where applicable.

Table 2.1 ***Key Financial Indicators*** ***(PD 1.3.9 a,b,c)***

	2009 Q2	2008	2007	2006*
Total Operating Income (BD millions)	16.6	37.6	32.7	20.4
Net Profit	10.6	25.5	23.1	16.4
Return on average equity (%)	12.6	15.8	15.6	15.1
Total equity (BD millions)	170.2	172.5	159.5	136.5
Earnings per share (fils)	8.9	21.3	19.3	15.1
Return on average assets (%)	3.6	4.7	7.9	11.2
Total assets (BD 'million)	640.7	554.5	397.8	188.1
Cost to operating income (%)	35.9	31.32	33.5	19.63
Dividend payout ratio (%)	-	46.98	51.84	-
Dividend yield ratio (%)	-	11.36	4.88	-

* Represents the period from 19 January 2006 (date of incorporation) to 31 December 2006.

Table 2.2 ***Financial Summary***

Financial Position *(BD '000)*	**2009 Q2**	**2008**	**2007**	**2006***
Murabaha and Mudaraba with banks	107,613	87,167	224,451	105,090
Investment in CBB Sukuk	34,539	31,095	20,380	-
Murabaha financing	123,795	72,484	32,642	22,963
Ijarah Muntahia Bittamleek	42,933	41,531	10,436	10,382
Non-trading investments	161,572	116,930	62,736	32,619
Investment in Associate	7,949	8,012	8,272	-
Murabaha from banks	93,229	32,881	96,983	23,647
Assets held-for-sale	39,742	88,934	9,024	-
Murabaha from non-banks	327,719	289,005	106,909	-
Customers' current accounts	4,583	3,231	5,689	5,674
Unrestricted Investment Account	31,962	46,125	19,770	20,112
Capital	**2009 Q2**	**2008**	**2007**	**2006***
Capital adequacy	24.60%	24.72%	48.7%	79.8%
Equity/total assets	26.57%	31.11%	40.10%	72.53%
Total deposits/equity (times)	2.1x	2.2x	1.4x	0.4x
Liquidity and Other	**2009 Q2**	**2008**	**2007**	**2006***
Islamic financing contracts/total assets	48.21%	41.89%	72.39%	73.61%
Investments/total assets	32.66%	38.57%	20.10%	19.07%
Liquid assets/total assets	32.54%	30.79%	60.26%	57.45%
Islamic financing contracts/customer deposits	67.52%	68.65%	217.51%	536.87%
Number of employees	*118*	*116*	*110*	*58*

As on 30 June 2009, the Bank has been finalizing its acquisition of 90.4% of BSB. For more details please refer to the interim condensed financial statements for the period ended 30 June 2009. (PD 1.3.9 c)

3. Capital structure

The Bank's capital base comprises of Tier 1 capital and Tier 2 capital which are detailed in the following table: (PD 1.3.11)

The issued and paid up share capital of the Bank was BD 120,000 thousand at 30 June 2009, comprising of 1,200,000 thousand shares of BD 0.100 each. (PD 1.3.11)

The Bank's capital base of BD 121,157 thousand comprises Tier 1 capital of BD 132,024 thousand as detailed below: (PD 1.3.11)

Table 3.1 Breakdown of Capital Base (PD 1.3.12, 13, 14, 15, 16) **BD '000s**

	Tier 1	Tier 2	Total
Paid-up share capital	120,000		120,000
General reserve			
Legal / statutory reserves	6,514		6,514
Proposed dividend	-		-
Retained earnings	12,575		12,575
Others	36		36
Unrealized gains arising from fair valuing equities (45%)	9,213		9,213
Less:			
Current interim cumulative net loss			
Tier 1 Capital before Prudential consolidation and deduction (PCD) requirements	148,338		148,338
Current Interim profit reviewed by auditors	-	6,685	6,685
Unrealized gains arising from fair valuing equities (45% only)	-	1,783	1,783
Investment Risk reserve		7	7
Tier 2 Capital before PCD requirements (2.1 to 2.5 inclusive less 2.6)	-	8,475	8,475
Total available capital	**148,338**	**8,475**	**156,813**
Regulatory deductions:			
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	3,975	3,975	7,950
Large exposures	13,853	13,853	27,706
Total Deductions	**17,828**	**17,828**	**35,656**
Net Available Capital	130,510	(9,353)	121,157
Total Eligible Capital (Tier I + Tier II) (a) (PD 1.3.20 a)			121,157

Table 3.2 **BD '000s**

Risk Weighted Assets (RWA)	**Amount**
Credit risk	450,517
Market risk	1,550
Operational risk	40,410
Total Risk Weighted Assets (b)	**492,477**
Capital adequacy ratio (a/b) (PD 1.3.20 a)	
Tier I ratio (PD 1.3.20 a)	**24.60%**
Tier II ratio (PD 1.3.20 a)	
Total ratio (PD 1.3.20 a)	**24.60%**
Minimum required by CBB regulations under Basel II (%)	**12**

4. Capital Adequacy Ratios (CAR)

No impediments on the transfer of funds or reallocation of regulatory capital exist within the Bank as it is does not have subsidiaries that require regulatory funding. (PD 1.3.6.c)

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank’s capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements.

The key principles driving capital management at ASBB include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Maximize return on capital and generate sustainable return above the cost of capital.

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Bahrain. The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements. The Bank complied in full with all externally imposed capital requirements during the six months ended June 2009.

5. Profile of Risk-weighted assets and capital charge

The Bank has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk for regulatory reporting purposes. The Bank's risk-weighted capital requirement for credit, market and operational risks are given below.

5.1 Credit risk

a) Definition of exposure classes per Standard Portfolio (PD 1.3.21 a)

The Bank has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel II capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are as follows:

a. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Claims on public sector entities (PSEs)

Listed Bahrain PSEs are assigned 0% risk weight. Other sovereign PSE's, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than those mentioned above are risk weighted based on their credit ratings.

c. Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

5.1 Credit risk (continued)

c. Claims on banks (continued)

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation. Investment in subordinated debt of banking, securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 20% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

e. Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due Islamic financing contracts), if it meets the criteria mentioned in the CBB's rule book.

f. Mortgages

Claims secured by mortgages on commercial real estate are subject to a minimum of 100% risk weight.

g. Past due receivables (PD 1.3.22 a)

The unsecured portion of the account receivables and lease payment receivable (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan.
(b) 100% risk weight when specific provisions are greater than 20% of the outstanding amount of the loan.

h. Investment in securities and sukuk

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

5.1 Credit risk (continued)

i. Holding of real estate

All holdings of real estate by banks (i.e. owned directly or by way of investments in Real estate companies, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Premises occupied by the bank are weighted at 100%

j. Underwriting of non-trading book items

Where the Bank has acquired assets on its balance sheet in the banking book which it is intending to place with third parties under a formal arrangement and is underwriting the placement, the following risk weightings apply during the underwriting period (which may not last for more than 90 days). Once the underwriting period has expired, the usual risk weights should apply.

(a) For holdings of private equity, a risk weighting of 100% applies instead of the usual 150%.
(b) For holdings of Real Estate, a risk weight of 100% applies instead of the usual 200% risk weight.

k. Other assets

These are risk weighted at 100%.

Capital Adequacy Ratios (CAR)

Table 5.1 **BD '000s**

	Gross Credit Exposure	Average Gross Credit Exposure	Funded Exposure	Unfunded Exposure (after CCF)	Cash Collateral	Eligible Guarantees	Eligible CRM	Risk-Weighted Assets (RWA)	RWA for CAR	Capital Charge
Cash	6,484	4,978	6,484	-	-	-	-	-	-	-
Claims on sovereigns	135,498	126,761	135,498	-	-	120	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-
Claims on banks	125,842	113,761	125,842	-	-	925	-	36,252	31,778	3,813
Claims on corporate portfolio	71,162	69,172	63,804	7,358	2,000		14,286	44,618	44,618	5,354
Claims on regulatory retail portfolio	47	23	47	-	-	-	-	34	34	4
Mortgages	34,488	36,670	34,488	-	-	-	13,450	18,769	18,769	2,252
Past due receivables over 90 days	6,623	5,253	6,623	-	-	-	-	9,935	9,935	1,192
Investments in Securities and Sukuk	31,684	32,712	31,684	-	-	-	-	47,526	47,526	5,703
Holding of Real Estate	111,822	103,108	111,822	-	-	-	-	223,644	223,644	26,837
Underwriting of Non-Trading Book Items	-	-	-	-	-	-	-	-	-	-
Other assets	72,043	68,620	71,942	101	-	-	-	74,213	74,213	8,906
	595,693	**561,058**	**588,234**	**7,459**	**2,000**	**1,045**	**27,736**	**454,991**	**450,517**	**54,061**

5.1 Credit risk (continued)

Following is the Gross credit exposure by Islamic financing contracts which represents the exposure on accounts receivable and lease payments receivable which are collateralized by cash or eligible guarantee: (PD 1.3.25 b, c)

Table 5.2 Portfolio by Islamic financing contract **BD '000s**

	Gross Credit Exposure	Average Credit Exposure	Funded Exposure	Unfunded Exposure (after CCF)	Cash Collateral	Eligible Guarantees	Eligible CRM	Risk-Weighted Assets	RWA for CAR	Capital Charge
Central Bank of Bahrain Sukuk	34,701	31,354	34,701	-	-	-	-	-	-	-
Murabaha and Mudaraba with banks	107,638	105,108	107,638	-	-	-	-	32,178	27,704	3,324
Murabaha financing	125,061	107,484	124,867	194	2,000	1,045	1,900	61,891	61,891	7,427
Ijarah Muntahia Bittamleek	43,674	36,807	43,674	-	-	-	25,836	12,449	12,449	1,494
Total	**311,074**	**280,753**	**310,880**	**194**	**2,000**	**1,045**	**27,736**	**106,518**	**102,044**	**12,245**

5.1 Credit risk (continued)

Excessive risk concentration (PD 1.3.26 a)

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk concentrations and thresholds

The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer group credit limits, set by the Risk Committee and allocated between the Bank. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Bank's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Bank policies require collateral to mitigate the credit risk in the form of cash, securities, and legal charges over the customer's assets or third-party guarantees. ASBB also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage. RAROC analysis is also conducted on a portfolio basis, aggregated for each business segment, business unit and for the whole group.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties exceeding 15 percent of the regulatory capital base.

As at 30 June 2009, the Bank's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures amounted to BHD 156 million and was funded from the Bank's own funds. The obligor limits referred to herein reflect the bank's eligible capital base as per CBB rules and regulations. (PD 1.3.23 f)

Table 5.3 (PD 1.3.23 b) **BD '000s**

	Financed by Equity and Current Account		Financed by Unrestricted Investment Account Holders		Total Exposure
	On Balance Sheet Exposure	Off Balance Sheet Exposure	On Balance Sheet Exposure	Off Balance Sheet Exposure	
Counterparty A	39,743	-	-	-	39,743
Counterparty B	36,436	-	-	-	36,436
Counterparty C	24,771	-	-	-	24,771
Counterparty D	30,532	-	-	-	30,532
Counterparty E	24,420	-	-	-	24,420
Total	**155,902**	-	-	-	**155,902**

Risk mitigation, collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from banks. With the exception of cash, the ASBB monitors the concentration of its credit risk mitigants in order to minimize exposure to one type of collaterals. As on 30 June 2009, the collaterals (before applying regulatory haircuts) amounted to BD 373 million.
(PD 1.3.25 a)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to Murabaha and Ijara facilities. The Bank also makes use of master netting agreements with counterparties where relevant. (PD 1.3.25 a)

The main types of guarantors include rated banks & other financial institutions and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors/ key management personnel of the borrower and other high net worth individuals.

The Bank obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable LTV ratio of collateral. Also where the customer is not in a position to provide additional collateral ASBB in consultation with its legal department evaluates the available legal and contractual options.

The Bank ensures that at the inception of the facility, third party valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the third party. In line with the Basel II Pillar II regulations, the Bank performs monthly collateral value stress tests to evaluate the effect of devaluations on their collateral portfolio. The devaluation parameters differ depending on the collateral type.

In case of default, the Bank will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

5.1.1 Geographical distribution of exposures

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Geographical distribution of exposures by exposure type and funded or unfunded by is as follows:

Table 5.4 (PD 1.3.23 b) **BD '000s**

Contribution by Equity and Current Account							
Exposure type	**GCC countries**	**Arab World**	**Europe**	**Asia**	**America**	**Others**	**Total**
Cash and balances with Central Bank of Bahrain	61,641	-	3,729	66	905	-	66,341
Central Bank of Bahrain Sukuk	34,539	-	-	-	-	-	34,539
Murabaha and Mudaraba with banks	72,088	-	3,563	-	-	-	75,651
Murabaha financing	108,450	-	-	-	15,345	-	123,795
Ijarah Muntahia Bittamleek	42,848	-	85	-	-	-	42,933
Non-trading investments	112,037	1,904	12,937	32,358	-	2,336	161,572
Investment in an associate	-	7,949	-	-	-	-	7,949
Investment properties	1,178	-	-	-	-	-	1,178
Receivables and prepayments	42,789	-	7,218	2,664	57	-	52,728
Premises and equipment	2,259	-	-	-	-	-	2,259
Investments held-for-sale	39,743	-	-	-	-	-	39,743
Total funded exposures	**517,572**	**9,853**	**27,532**	**35,088**	**16,307**	**2,336**	**608,688**
Commitments	6,439	-	7	3,015	-	3,208	12,669
Total unfunded exposures	**6,439**	**-**	**7**	**3,015**	**-**	**3,208**	**12,669**
TOTAL	**524,011**	**9,853**	**27,539**	**38,103**	**16,307**	**5,544**	**621,357**

The Geographical distribution of exposures by exposure type and funded or unfunded by is as follows:

Table 5.5 (PD 1.3.23 b) **BD '000s**

Contribution by Unrestricted Investment Account Holders							
Exposure Type	**GCC Countries**	**Arab World**	**Europe**	**Asia**	**America**	**Others**	**Total**
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	-
Central Bank of Bahrain Sukuk	-	-	-	-	-	-	-
Murabaha and Mudaraba with banks	31,962	-	-	-	-	-	31,962
Murabaha financing	-	-	-	-	-	-	-
Ijarah Muntahia Bittamleek	-	-	-	-	-	-	-
Non-trading investments	-	-	-	-	-	-	-
Investment in an associate	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-
Receivables and prepayments	-	-	-	-	-	-	-
Premises and equipment	-	-	-	-	-	-	-
Investments held-for-sale	-	-	-	-	-	-	-
Total funded exposures	**31,962**	-	-	-	-	-	**31,962**
Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**31,962**	-	-	-	-	-	**31,962**

5.1.1 Geographical distribution of exposures (continued)

The Bank has a few past due Islamic financing contracts that have not been settled as of 30 June 2009. All past due but not impaired Murabaha and Ijara financing are covered by sufficient collaterals that include cash, personal and sovereign guarantees. However, no provisions need to be taken in lieu of the past due contracts due to their recoverability. Thus, no collective or specific impairment provision has been created as on 30 June 2009. (PD 1.3.23 h, i)

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions (PD 1.3.23 i)
BD '000s

Contribution by Equity and Current Account						
	Gross Credit Exposure	Past Due Islamic Financing Contracts	Specific Provision Impaired Islamic Financing Contracts	Impaired Islamic Financing Contracts	Specific Provision Impaired Investments
GCC Countries	517,572	44,251*	-	-	-
Arab World	9,853	-	-	-	-
Europe	27,532	-	-	-	-
Asia	35,088	-	-	-	-
America	16,307	-	-	-	-
Other	2,336	-	-	-	-
Total	**608,688**	**44,251**	**-**	**-**	**-**

*The amount is expected to be collected within a period of one month and comprises of past due accounts over and under 90 days.

Table 5.7 **BD'000s**

Contribution by Unrestricted Investment Account Holders					
	Gross Credit Exposure	Impaired Islamic Financing Contracts	Specific Provision Impaired Islamic Financing Contracts	Impaired Investments	Specific Provision Impaired Investments
GCC Countries	31,962	-	-	-	-
Arab World	-	-	-	-	-
Europe	-	-	-	-	-
Asia	-	-	-	-	-
America	-	-	-	-	-
Other	-	-	-	-	-
Total	**31,962**	**-**	**-**	**-**	**-**

5.1.2 Exposure by Industry

Table 5.8 Exposure by type of credit exposure (PD 1.3.23 c) **BD '000s**

Contribution by Equity and Current Account							
Exposure Type	**Trading & Manufacturing**	**Banks & Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Others**	**Total**
Cash & balances with the CBB	-	6,427	-	-	-	59,914*	66,341
CBB Sukuk	-	-	-	-	-	34,539*	34,539
Murabaha & Mudaraba with banks	-	75,651	-	-	-	-	75,651
Murabaha financing	654	32,513	31,158	-	11,920	47,550	123,795
Ijarah Muntahia Bittamleek	842	-	6,346	3,596	15,402	16,747	42,933
Non-trading investments	-	-	121,122	3,042	-	37,408	161,572
Investment in an associate	-	7,949	-	-	-	-	7,949
Investment properties	-	-	1,178	-	-	-	1,178
Receivables and prepayments	22	255	51,938	109	404	-	52,728
Premises & equipment	-	-	-	-	-	2,259	2,259
Investment held-for-sale	-	-	-	-	-	39,743	39,743
Total funded	**1,518**	**122,795**	**211,742**	**6,747**	**27,726**	**238,160**	**608,688**
Commitments	950	-	7,525	-	1,504	2,690	12,669
Total unfunded	**950**	**-**	**7,525**	**-**	**1,504**	**2,690**	**12,669**
Total exposure	**2,468**	**122,795**	**219,267**	**6,747**	**29,230**	**240,850**	**621,357**

* Exposures with the Central Bank of Bahrain.

Table 5.9 Exposure by type of credit exposure (PD 1.3.23 c) **BD '000s**

Contribution by Unrestricted Investment Account Holders							
Exposure Type	**Trading & Manufacturing**	**Banks & Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Others**	**Total**
Cash & balances with the CBB	-	-	-	-	-	-	-
CBB Sukuk	-	-	-	-	-	-	-
Murabaha & Mudaraba with banks	-	31,962	-	-	-	-	31,962
Murabaha financing	-	-	-	-	-	-	-
Ijarah Muntahia Bittamleek	-	-	-	-	-	-	-
Non-trading investments	-	-	-	-	-	-	-
Investment in an associate	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-
Receivables and prepayments	-	-	-	-	-	-	-
Premises & equipment	-	-	-	-	-	-	-
Investment held-for-sale	-	-	-	-	-	-	-
Total funded	-	**31,962**	-	-	-	-	31,962
Undrawn commitments	-	-	-	-	-	-	-
Total unfunded	-	-	-	-	-	-	-
Total exposure	**-**	**31,962**	**-**	**-**	**-**	**-**	**31,962**

Table 5.10 The exposure by industry including impaired assets and the related impairment is as follows:
BD '000s

Contribution by Equity and Current Account							
	Gross Exposure	**Funded Exposure**	**Unfunded Exposure**	**Impaired Islamic Financing Contracts**	**Impaired Securities**	**Specific Provision Islamic Financing Contracts**	**Specific Provision Securities**
Trading and manufacturing	2,468	1,518	950	-	-	-	-
Banks and financial institutions	107,451	107,451	-	-	-	-	-
Real estate	175,641	168,116	7,525	-	-	-	-
Aviation	6,747	6,747	-	-	-	-	-
Individuals	29,230	27,726	1,504	-	-	-	-
Others	299,820	297,130	2,690	-	-	-	-
Total	**621,357**	**608,688**	**12,669**	**-**	**-**	**-**	**-**

Table 5.11 The exposure by industry including impaired assets and the related impairment is as follows: **BD '000s**

Contribution by Unrestricted Investment Account Holders							
	Gross Exposure	**Funded Exposure**	**Unfunded Exposure**	**Impaired Islamic Financing Contracts**	**Impaired Securities**	**Specific Provision Islamic Financing Contracts**	**Specific Provision Securities**
Trading and manufacturing	-	-	-	-	-	-	-
Banks and financial institutions	31,962	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Individuals	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	**31,962**	**-**	**-**	**-**	**-**	**-**	**-**

5.1.3 Exposure by external credit rating

ASBB uses external ratings from Standard & Poor's', Moody's, Fitch ratings, Islamic International Rating Agency and Capital Intelligence (accredited External Credit Assessment Institutions (ECAI's). The Bank follows the lowest of the above ECAI's ratings. The breakdown of the Bank's exposure into rated and unrated categories is as follows: (PD 1.3.22 c, d, e)

Table 5.12 **BD '000s**

	Net Credit Exposure	Rated Exposure	Unrated Exposure
Cash	6,484	-	6,484
Claims on sovereigns	135,498	-	135,498
Claims on public sector entities	-	-	-
Claims on multilateral development banks	-	-	-
Claims on banks	125,842	88,336	37,506
Claims on corporate portfolio	71,162	-	71,162
Regulatory retail exposure	47	-	47
Past due exposures	6,623	-	6,623
Mortgages	34,488	-	34,488
Investments in Securities and Sukuk	31,684	-	31,684
Holding of Real Estate	111,822	-	111,822
Other exposures	72,043	-	72,043
Total	**595,693**	**88,336**	**507,357**

5.1.3 Exposure by external credit rating (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio through internal risk rating system. As such, the Bank is in the process of introducing risk ratings that are supported by a variety of financial analytics, combined with processed market information, to provide the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories and are derived in accordance with ASBB's credit policy, are assessed and updated regularly. Each risk rating class is mapped to grades equivalent to Standard & Poor's', Moody's, Fitch ratings and Capital Intelligence rating agencies. (PD 1.3.22 e)

5.1.4 Maturity analysis of funded exposures

Table 5.13 Residual contractual maturity of the Bank's major types of funded credit exposures are as follows: (PD 1.3.23 g) (PD 1.3.24 a)

BD '000s

	within 1 month	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Total within 12 months**	**1 – 5 years**	**5-10 years**	**10 - 20 years**	**Over 20 years**	**Total over 12 months**	**Total**
Cash	6,484	-	-	-	6,484	-	-	-	-	-	6,484
Claims on sovereigns	77,656	6,291	283	273	84,503	50,897	92	6		50,995	135,498
Claims on banks	121,612	2,037	-	308	123,957	1,885	-	-	-	1,885	125,842
Claims on corporate portfolio	813	13,966	1,114	2,256	18,149	53,013	-	-	-	53,013	71,162
Regulatory retail exposures	32	2	2	3	39	8	-	-	-	8	47
Past due exposures	6,623	-	-	-	6,623	-	-	-	-	-	6,623
Mortgages portfolio	7,351	2,044	3,000	7,392	19,787	13,277	1,032	392	-	14,701	34,488
Equity portfolios	220	-	-	-	220	143,286	-	-	-	143,286	143,506
Other exposures	35,435	952	135	22,716	59,238	12,805	-	-	-	12,805	72,043
Total	**256,226**	**25,292**	**4,534**	**32,948**	**319,000**	**275,171**	**1,124**	**398**	**-**	**276,693**	**595,693**

*The amounts in the above table are based on the exposures as reported in the prudential returns.

5.1.5 Maturity analysis of unfunded exposures

Table 5.14 The residual contractual maturity analysis of unfunded exposures is as follows: **BD '000s**

	within 1 month	1 - 3 months	3 - 6 months	6 – 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Total over 12 months	Total
Claims on sovereigns	-	-	-	-	-	-	15	250	-	265	265
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-	-	-	-	-	-
Claims on corporate portfolio	922	313	-	1,359	2,594	9,478	-	-	-	9,478	12,072
Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
Mortgages Portfolio	-	-	-	-		-	-	332	-	332	332
Total	**922**	**313**	**-**	**1,359**	**2,594**	**9,478**	**15**	**582**	**-**	**10,075**	**12,669**

Unfunded exposures are divided into the following exposure types in accordance with the calculation of credit risk weighted assets in the CBB's Basel II capital adequacy framework:

Credit-related contingent items: Credit-related contingent items comprise undrawn contracted financing commitments and operating lease commitments etc as detailed below:

Undrawn amount on Islamic financing contracts, operating lease commitments and other commitments represent commitments that have not been drawn down or utilized at the reporting date and are due to be paid from the future use of the resources respectively. The nominal amount provides the calculation base to which a CCF is applied for calculating the exposure. CCF ranges between 20% and 50% for commitments with original maturity of up to one year and over one year respectively & 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

The table below summarizes the notional principal amounts and the relative exposure before applying credit risk mitigation:

Table 5.15 **BD '000s**

	Notional Principal	Credit Exposure*
Undrawn Islamic financing contracts commitments	6,640	-
Operating lease commitments	719	-
Other commitments	5,310	-
RWA	**12,669**	**-**

* Credit exposure is after applying CCF.

At 30 June 2009, the Bank held eligible cash collaterals in relation to credit-related contingent items amounting to BD 2,000k.

Table 5.16 Residual maturity analysis by major type of credit exposure **BD '000s**

Funded	within 1 months	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Total over 12 months	Total
Cash and balances with Central Bank of Bahrain	66,341	-	-	-	66,341	-	-	-	-	-	66,341
Central Bank of Bahrain Sukuk	220	-	-	-	220	34,319	-	-	-	34,319	34,539
Murabaha and Mudaraba with banks	107,613	-	-	-	107,613	-	-	-	-	-	107,613
Murabaha financing	54,407	9,740	2,617	2,477	69,241	54,553	-	-	-	54,553	123,794
Ijarah Muntahia Bittamleek	4,104	13,613	1,579	7,513	26,809	14,487	1,171	466	-	16,124	42,933
Non-trading investments	-	-	-	-	-	161,572	-	-	-	161,572	161,572
Investment in an associate	-	-	-	-	-	-	7,949	-	-	7,949	7,949
Investment properties	-	-	-	-	-	-	1,178	-	-	1,178	1,178
Receivables and prepayments	360	51,963	34	25	52,382	347	-	-	-	347	52,729
Premises and equipment	-	-	-	-	-	2,259	-	-	-	2,259	2,259
Investments held-for-sale	-	-	-	39,743	39,743	-	-	-	-	-	39,743
Total	**233,045**	**75,316**	**4,230**	**49,758**	**362,349**	**267,537**	**10,298**	**466**	**-**	**278,301**	**640,650**

*The amounts in the above table are based on the exposures as reported in the balance sheet.

Capital Adequacy Ratios (CAR)

Unfunded	within 1 months	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Total over 12 months	Total
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	-	-	-	-	-
Central Bank of Bahrain Sukuk	-	-	-	-	-	-	-	-	-	-	-
Murabaha and Mudaraba with banks	-	-	-	-	-	-	-	-	-	-	-
Murabaha financing	-	313	-	637	950	3,000	-	250	-	3,250	4,200
Ijarah Muntahia Bittamleek	-	-	-	-	-	-	15	332	-	347	347
Non-trading investments	-	-	-	-	-	6,192	-	-	-	6,192	6,192
Investment in an associate	-	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-	-	-	-
Receivables and prepayments	922	-	432	290	1644	286	-	-	-	286	1,930
Premises and equipment	-	-	-	-	-	-	-	-	-	-	-
Investments held-for-sale	-	-	-	-	-	-	-	-	-	-	-
Total	**922**	**313**	**432**	**927**	**2,594**	**9,478**	**15**	**582**	**-**	**10,075**	**12,669**

Table 5.17 Residual maturity analysis by major type of funding **BD '000s**

	within 1 months	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5-10 years	10 - 20 years	Over 20 years	Total over 12 months	Total
Murabaha from Banks	83,640	8,458	1,131	-	93,229	-	-	-	-	-	93,229
Murabaha from Non-Banks	156,698	84,135	60,071	25,979	326,883	836	-	-	-	836	327,719
Current account	4,582	-	-	-	4,582	-	-	-	-	-	4,582
Unrestricted Investment account	31,962	-	-	-	31,962	-	-	-	-	-	31,962
Other liabilities	4,199	1,920	1,908	4,887	12,914	-	-	-	-	-	12,914
Total	**281,081**	**94,513**	**63,110**	**30,866**	**469,570**	**836**	-	-	-	**836**	**470,406**

5.2 Market risk

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Bank's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee. (PD 1.3.27 a)

Table 5.18 ASBB's capital charge in respect of market risk in accordance with the standardized methodology is as follows: (PD 1.3.18) (PD 1.3.27 b)

BD '000s

	RWA	**Period End Capital Charge**	**Capital Charge – Minimum***	**Capital Charge – Maximum***
Equity position risk	-	-	-	-
Sukuk risk	-	-	-	-
Foreign exchange risk	1,550	124	109	124
Options risk	-	-	-	-
Total market risk	**1,550**	**124**	**109**	**124**

Foreign exchange positions constitute a major component of the market risk capital charge. The Bank maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Bank's banking book open positions. The open positions were taken in order of running the Bank's day to day operations that include private equity funding for the Bank's investment portfolio. The Bank monitors these open positions on a daily basis through the automated system reports. (PD 1.3.27 a)

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a day during the period ended 30 June 2009.

5.3 Operational risk

(PD 1.3.21 c)
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Bank has developed an operational risk framework which encompasses identification, measurement, management and monitoring of risk through risk control or mitigation. A variety of underlying processes are being deployed across the Bank including risk and control self-assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans.

The Bank policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line - including Operations, Information Technology, Human Resources, Legal & Compliance and Financial Control - is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the Bank's policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which ASBB is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. (PD 1.3.28) (PD 1.3.29)

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. All changes to all such procedures are subject to sign off by the Board of Directors, Risk Management and Compliance Group and Internal Audit and agreed by all respective business units. (PD 1.3.28) (PD 1.3.29)

ASBB has a well established disaster recovery program, and has documented updated procedures covering all activities necessary for business continuity in case of an eventuality. Internal Audit also provides an independent assessment to evaluate the program’s effectiveness.

Due to their independence from the business units within the Bank, the Internal Audit Department have a well drafted audit program to periodically review all business areas, and communicate all exceptions and control lapses, if any, to the business unit’s head. In turn, the business unit’s head will amend the policies and procedures to cover the gaps identified in the audit report. In line with best practices, the Internal Audit function reports directly to the Audit Committee.

In accordance with the basic indicator approach methodology of Basel II, the total capital charge in respect of operational risk was BD 4.8k. This capital charge was computed by categorizing ASBB's activities into its specific business lines (as defined by the Basel II framework) and multiplying the business line's average gross income for the last three financial years by a pre-defined beta factor. (PD 1.3.19)

5.3 Operational risk (continued)

Table 5.19 **BD '000s**

	2008	**2007**	**2006**
Gross income	38,294	21,163	5,199
Number of years with positive gross income	3	2	1
Average	21,552	13,181	5,199

ASBB uses the Temenos T24 core system developed by Globus, for consolidating all reporting and analysis of events and data related to credit, market and operational risk assessment which is an integral part of the Bank's Risk Management Framework. ASBB is also working on implementing the Fermat integrated risk solution package that would allow for automated capital adequacy calculations, asset liability management and exposure analysis. (PD 1.3.30 a, b)

5.4 Rate of return risk

(PD 1.3.21 e)
Rate of return risk arises from the possibility that changes in return rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to rate of return risk as a result of mismatches of return rate re-pricing of assets and liabilities. In addition, rate of return risk can also affect the Bank through market wide rate changes that are brought on by changes in the economy. The effect of the market rates is reflected and can be seen in the Bank's pricing of contracts as they carry competitive pricing that follows the market. When risks are high, the market tends to place a higher rate of return to maintain the risk/ return profile. Accordingly, the market reduces the rate of return when it identifies a decrease in the market wide risk that would be reflected by banks decreasing their rate of return pricing.

This risk is minimized as the Bank's rate sensitive assets and liabilities are mostly for short tenures. In addition, the Bank's cautious asset liability strategy avoids funding short term lending facilities from long term borrowings. The Bank has set limits for profit return risk and these are monitored on an ongoing basis by the Bank's Asset and Liability Committee (ALCO).

The Bank has implemented a system to automate the process of monitoring, measuring and reporting profit rate risk on a daily basis through the use of gap analysis based on repricing buckets. Any fixed rate assets and liabilities will be repriced at their maturity date. In addition, the system generates stress tests to analyze the effect of shock changes in profit rates on the Bank's assets and liabilities. This monitoring process is independently run on a daily basis from within the Risk Management & Compliance Group. Material rate of return risks are identified and mitigated through the coordinate of the Market Risk Department and ALCO.

The below table provides a summary of the Bank's rate of return sensitivity position based on the contractual re-pricing or maturity dates, whichever is earlier for the period ended 30 June 2009.

Table 5.20 **BD '000s**

Profit rate risk in the Banking Book		
100bp Profit Rate shocks		
Rate shock	**Currency**	**Effect on profit 2009**
Upward rate shocks:	USD	3,174
	BHD	1,197
Downward rate shocks:	USD	(3,174)
	BHD	(1,197)

5.5 Equity position risk

(PD 1.3.21 d) (PD 1.3.31)
Equity position risk arises from the possibility of changes in the price of equities or equity indices will affect future profitability or the fair values of financial instruments. The Bank is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

Executive and Investment Committee oversight

The Board's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit and market risks, strategy review and recommendation to the Board. The Executive committee consists of three members of which is the CEO and two members from the Board. The Investment Committee reviews and approves all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors. The Investment Committee is a sub-set of the Management and consists of six members: The CEO, COO, EVP – MENA Banking and Investments, EVP – Asia Investments, EVP – Europe Investments and the Advisor to the CEO.

The objectives are defined in terms of risks, returns & time horizon. When approved by the Board, the Investment Policy for the Bank will outline the permissible investments, asset classes, limits on asset classes & lines of authority for approvals. The policy will allow the Bank to deploy the Investment Committee's strategy as per the Board approved structure. The policy is to be reviewed on a yearly basis for comparison to the prevailing economic climate and expectations for the medium to long term. The Investment Committee maintains regular oversight over ASBB's investment portfolio.

Policies & procedures

Investment Policies, as approved by the Board, are documented and communicated to the appropriate personnel. Senior management reviews and ensures the existence of adequate policies, procedures and management information systems for managing equity investment activities on regular and long term basis. Through their qualified professionals, the Investments Department is responsible for measuring, monitoring, controlling and reporting on the equity risks with respect to investments to both the Senior Management and the Investment Committee. In addition to the aforesaid policies, the Investment Procedure Manual documents the processes and procedures for all investment actions. Investment Department Responsibilities include initial due diligence of investments, periodic review of holdings, investment valuation and realization of returns. All equity investments are reviewed for their suitability in the portfolio in light of the portfolio objectives, policy allocations and risk limits defined by the Board. All of the Bank's investment portfolio is subject to independent third party valuations that are conducted periodically.

Internal Controls

With regard to internal controls, the Bank's investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, separation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Investment Department are documented in the form of an Investment Portfolio Reports and Investment Memorandums and are subject to independent risk review by Risk Management. Responsibility for all deployments and receipt of redemption proceeds vests with the Investment Administration Department. The Investment Department ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the Investment Middle Office operates as an independent department that is responsible for undergoing the due diligence for investments proposed by the Investments Department. The Investment Middle Office is staffed with investment professionals who report to the COO, whereas the Investments Department reports to either the Bahrain Head of MENA, London EVP or Singapore EVP. This way, the Investment Department can specialize in sourcing deals and performing the initial analysis, whereas the Investment Middle Office will focus on preparing the detailed due diligence analysis at the start of an investment. The Investment Middle Office will also be able to perform the investment management duties of monitoring the investment company and preparing performance reports along with other required documentation. This set up helps streamline processes as each group will focus on a specific set of duties that result in time savings as well as having independence controls.

Table 5.21 Equity positions in the Banking Book **BD '000s**

Quoted Equities	4,727
Unquoted Equities	196,588
	201,315
Profit earned for URIA before smoothing	163
Realized gains (losses) during the period	13,344
Unrealized gains (losses) during the period	3,961

The Bank's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after considering the Board's risk appetite and the Board approved liquidity, market risk and capital management policies. In line with the Board approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced commercial risk

(PD 1.3.41) (PD 1.3.21 f)

The Bank is exposed to displaced commercial risk in the event of having unrestricted investment accounts (URIA) profit rates that are lower than market rates, thus putting the Bank in risk of paying URIA account holders from shareholder funds to cover the profit volatility risk. ASBB has mitigated this risk through the set up of an investment risk reserve that will be used in case of a drop in URIA profit rates. The reserve is funded from the excess returns during periods of high profit returns in order to normalize profit rate drops that can arise. Refer to section 8 for details on URIA investment structures.

5.7 Liquidity risk

(PD 1.3.36)(PD 1.3.37)

The Bank monitors on an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Bank's liquidity indicators through which the Bank's liquidity profile can be assessed. In addition, ASBB further mitigates its liquidity risk by establishing multiple funding sources to decrease it correlation to an individual funding counterparty. The multiple funding lines can be used to offset any shortage resulting from the Bank's obligations and/ or to settle any shortage from each of the current accounts and unrestricted investment accounts.

6. Unrestricted Investment Accounts

Unrestricted investment accounts (“URIA”) are funds of investors held by the Bank which it can invest as it deems appropriate without restriction as to where, how and for what purpose the funds are invested. URIA funds are invested in short term Murabaha with banks using specific limits assigned for each institution. The Mudaraba accounts are payable on demand and the account holder has the right to withdraw or transfer funds without penalty. In general, URIA provides a profit earning investment option for the risk averse account holder.

ASBB provides the unrestricted investment accounts as a service to savings accounts clients. Therefore, it is not the practice of the Bank to guarantee the preservation of capital through the investment risk reserves. As a result, the Bank has no displaced commercial risk. (PD 1.3.32 a, i)

This allocation of assets has not changed since the last financial period. The funds are invested and managed in accordance with Shari’a principles. (PD 1.3.32 b)

Unrestricted investment account holders' funds are commingled with the Bank's funds and invested mostly in short-term highly liquid Commodity Murabahas and/or Wakala deposits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. There were no major movements during the period in the investment risk reserve and the ending balance amounted to BD 7k. In order to avoid excessive risk concentration the Bank invests the commingled funds in such a way so as to comply with the CBB’s large exposures limits. All unrestricted investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as they there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or total waived in order to match investment account holder market returns. (PD 1.3.32 c, j, k)

Profit paid to the URIA holders is based on the rate of return earned by the pool of profit-bearing assets in which the URIA have participated. The account holder participates in 45% of the profits earned in full after netting off the Mudarib fee as above. As a result, the share of profits earned by the URIA holders for their Mudaraba accounts is equal to the share of profits paid to them. All unrestricted investment accounts are carried at cost plus accrued profits less amounts repaid. Income to unrestricted investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances. The profits paid to URIA and the rate of return earned over the previous periods are disclosed in the below table. (PD 1.3.32 d, l)

The Risk weighted assets of the Bank include the contribution from URIA which are subject to the 30% risk weight.

The Bank has neither pledged any asset as collateral nor given any clean guarantee to date.

The URIA holders and other customers can use the Bank’s relationship managers for any advice, mediation services, grievances and complaints. (PD 1.3.10 j)

There is no variation between Mudareb agreed sharing and contractual agreed ratio. Profit earned and paid and Rate of return comparatives for the Unrestricted Investment Account

Holders for the current period ended 30 June 2009 and the year ended 31 December 2008 is as follows: (PD 1.3.33 e, l, m, n)

Table 6.1 **BD '000s**

Total Mudarabaha Profit (URIA)	**2008**	**2009**
Shareholders	4,942	230
IAH (before smoothing)	340	163
Total Profit	**5,282**	**393**
Profit earned for URIA before smoothing	340	163
Profit paid for URIA after smoothing	220	59
Balance		
PER	N/A	N/A
IRR	38	7*
Annual Rate of Return Benchmark	4.50%	3%
Annual Rate of Return (URIA)	3.53%	1.97%
PER Amount	N/A	N/A
PER %	N/A	N/A
IRR Amount	38	7
IRR %	0.08%	0.02%
Mudaraba Earned Profit	340	163
Mudarib fees	(153)	(73)
Profit after Mudarib Fees	187	90
IRR*	33	(31)
Profit Paid to URIA	220	59
URIA Balance	46,125	31,962
RWA as PIRI Report	9,225	6,392

*The ending balance of the IRR after other adjustments is BHD 7k.

Table 6.2 **BD '000s**

Balance Sheet Date	Profit Earned and Paid to URIA	Rate of Return
31 December 2008	**340 profit earned 220 profit paid**	**3.53%**
30 June 2009	**163 profit earned 59 profit paid**	**1.97%**
Return on average assets (ROAA)	**June 2009:0.65% 2008:2.25%**	
Return on average equity (ROAE)	**June 2009*:0.46% 2008:3.13%**	

Table 6.3 Unrestricted Investment Account by Counterparty Type and Islamic Product-Murabaha (PD 1.3.33 i) **BD '000s**

Murabaha				
Counterparty	**Total Exposures**	**Funded by URIA**	**Funded by Self**	**% of URIA to Total**
Sovereign	-	-	-	-
Bank	31,962	31,962	-	100%
Multi-national Development Bank	-	-	-	-
Investment Firms	-	-	-	-
Corporate	-	-	-	-
Retail	-	-	-	-
Total	**31,962**	**31,962**	-	**100%**

Table 6.4 The changes in asset allocation ratio in the last six months by the Bank are as follows: (PD 1.3.32 d) **BD '000s**

	Murabaha and Mudaraba with banks		**Murabaha financing**	
	URIA	Self & Call Accounts	URIA	Self & Call Accounts
Asset Allocation as on 30 June 2009	31,962	75,651	-	123,795
Asset Allocation as on 31 December 2008	46,125	41,042	-	72,483

There are no off balance sheet exposures arising from investment decisions attributable to the URIA holders because the URIA are used for short term Islamic financing contracts.

7. Other disclosures

7.1 Currency risk

The Bank is exposed to foreign exchange rate risk through both its foreign exchange trading and its structural positions. Foreign exchange rate risk is managed by appropriate trading limits and stop loss parameters determined by ALCO and approved by its Board Executive committee. ASBB's structural balance sheet positions is reviewed regularly by ALCO in accordance with the Bank's strategic plans and managed on a dynamic basis by the Treasury hedging such exposures, as appropriate.

7.2 Profit Rate risk

The Bank has exposure to fluctuations in the profit rates on its assets and liabilities. The Bank recognizes income on certain financial assets on a time-apportioned basis. The Bank has set limits for profit return risk and these are monitored on an ongoing basis by the Bank's ALCO. The Bank manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cashflows. The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

Table 7.1 **BD '000s**

Profit rate risk in the Banking Book		
25bp Profit Rate shocks		
Rate Shock	**Currency**	**Effect on Profit 2009**
Upward Rate Shocks:	USD	1,381
	BHD	521
Downward Rate Shocks:	USD	(1,381)
	BHD	(521)

7.3 Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's Senior Management. For further details refer section titled related party disclosure in the interim condensed financial statements for 30 June 2009. (PD 1.3.10 e) (PD 1.3.23 d)

7.4 Restructured facilities

During the period, BD 3,211k of financing facilities to individuals and corporate were renegotiated. All renegotiated facilities are performing and are fully secured. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. Given that the renegotiated facilities are performing, no provision for impairment is needed. (PD 1.3.23 j)

7.5 Assets sold under recourse agreements

ASBB has not entered into any recourse agreement during the six months ended 30 June 2009. (PD 1.3.23 k)