Kuwait Finance House (Bahrain) B.S.C.(c)

Public Disclosure

30th June 2010

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1. Group Structure

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 3.1.6 Additional Requirements for Semi Annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. All quantitative disclosures, in the tables, have been presented in Bahraini Dinars (BHD) and rounded up to thousand BHD. Rules concerning the disclosures under this section are applicable to Kuwait Finance House, (Bahrain) B.S.C. (c) ("KFH Bahrain" or "the Bank") being a locally incorporated Bank with an Islamic retail banking license, and its subsidiaries together known as ("the Group").

The Board of Directors (the "Board") at KFH Bahrain seeks to optimize the Group's performance by enabling the 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 risk policy framework.

2. Capital Adequacy

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Capital Adequacy Ratio limit approved by the Bank's Board.

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, retained earnings, foreign currency translation and minority interests (or non controlling interest) less goodwill. Tier 2 capital includes subordinated murabaha, collective impairment provision, current year's profit and revaluation reserves. Certain adjustments are made to IFRS based results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1 form.

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardized Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank'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 expectations for each business group, expected growth in off–balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank is only consolidating its financial subsidiaries (KFH Jordan and Baytik Investment Advisory). None of the Bank's investment in subsidiaries exceeds the materiality thresholds specified in Prudential Consolidation and Deduction Module hence not deducted from the available capital. All other subsidiaries (i.e. commercial subsidiaries) are risk weighted as per the requirement of CA Module.

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

Table – 1. Capital Structure

CAPITAL STRUCTURE	
Capital Structure (PD-1.3.12, 1.3.13,1.3.14,1.3.15) *	
Components of Capital	**Amount**
Core capital - Tier 1:	
Issued and Paid up Share Capital	177,140
Less: Employee stock incentive program funded by the Bank (outstanding)	(15,059)
Shares premium accounts	71,403
Statutory reserve	12,419
General reserve	30,331
Retained earnings	11,964
Minority interest in consolidated subsidiaries	-
Innovative Capital	-
Equity related instruments	-
Other capital instruments	-
Total Tier 1 Capital	288,198
Deductions from Tier 1:	
Interim losses during the year	-
Intangible assets (including goodwill)	-
Unrealized gross losses arising from fair valuing equity securities	5,699
	5,699
Tier 1 Capital before PCD deductions	282,499
Supplementary capital - Tier 2:	
Current interim profits	8,388
Subordinated murabaha payable	95,952
Asset revaluation reserve - Property, plant, and equipment (45% only)	6,595
Unrealized gains arising from fair valuing equities (45% only)	-
Profit equalization reserve	11,910
Investment risk reserve	-
Tier 2 Capital before PCD deductions	122,845
Total Available Capital before PCD deductions (Tier 1 & 2)	**405,344**

	Tier I	Tier II
Available Capital before PCD deductions	282,499	122,845
Deductions		
Excess amount over materiality thresholds in case of investment in commercial entities	42,290	42,290
Investment in insurance entity greater than or equal to 20%	1,167	1,167
Excess amount over maximum permitted large exposure limit		
Other deductions	19,248	19,248
Additional deduction from Tier 1 to absorb deficiency in Tier 2	-	-
Total Deductions	62,705	62,705
Net Available Capital	**219,794**	**60,140**
Total Eligible Capital	**279,934**	

* For the purposes of guidance we have cross referenced every table with the relevant Para number of the CBB's Public Disclosures module.

Table – 2. Capital Requirement by Type of Islamic Financing Contracts.

CAPITAL ADEQUACY	
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contract	
Type of Islamic Financing Contracts	**Capital Requirement**
Murabaha Contracts with Banks	325
Murabaha	54,601
Ijarah	9,697
Musharakah	3,607
Total	**68,230**

Table – 3. Capital Requirement for Market and Operational Risk

CAPITAL ADEQUACY	
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)	
Particulars	**Capital requirement**
Market Risk - Standardised Approach	6,957
Operational Risk - Basic Indicator Approach	11,506

Table – 4. Capital Ratios

CAPITAL ADEQUACY		
Capital Adequacy Ratios (PD-1.3.20)		
Particulars	**Total capital ratio**	**Tier 1 capital ratio**
	%	
Top Consolidated Group in Bahrain	25.36	19.91

2.1. Credit Risk

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 financing, trade finance and treasury 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 the form of mortgaged land/properties or other tangible securities.

Table – 5. Average and Gross Credit Risk Exposure

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
	Own Capital & Current Account		**Unrestricted Investment Account**	
Portfolios	*** Total Gross Credit Exposure**	**** Average Gross Credit Exposure Over The Period**	**Total Gross Credit Exposure**	**** Average Gross Credit Exposure Over The Period**
Balances with Banks and Central Bank of Bahrain	16,832	12,932	27,412	24,918
Murabaha and Mudaraba contracts with Banks	-	-	43,406	31,267
Financing contracts with customers	329,475	302,767	323,398	362,149
Investments – Sukuk	-	-	51,121	47,181
Receivables	47,394	47,351	-	-
Total	**393,701**	**363,050**	**445,337**	**465,515**
Credit commitments and contingent items	68,074	74,458	-	-
Grand Total	**461,775**	**437,508**	**445,337**	**465,515**

* The total gross credit exposure does not include the impact of collective provisions of BD 11,910 thousand.
** Average credit exposure has been calculated using quarterly management accounts or PIRI forms submitted to CBB.

Table – 6. Portfolio Geographic Breakdown

CREDIT RISK: QUANTITATIVE DISCLOSURES												
Geographic Breakdown (PD-1.3.23(b)												
	Own Capital & Current Account						**Unrestricted Investment Account**					
Portfolios	**Geographic Area**						**Geographic Area**					
	Middle East	**North America**	**Europe**	**NZ / Australia**	**Others Countries**	*** Total**	**Middle East**	**North America**	**Europe**	**NZ / Australia**	**Others Countries**	**Total**
Balances with Banks and Central Bank of Bahrain	15,195	-	1,637	-	-	16,832	24,058	3,133	221	-	-	27,412
Murabaha and Mudaraba contracts with Banks	-	-	-	-	-	-	43,406	-	-	-	-	43,406
Financing contracts with customers	325,554	1,470	2,451	-	-	329,475	323,398	-	-	-	-	323,398
Investments – Sukuk	-	-	-	-	-	-	50,165	956	-	-	-	51,121
Receivables	39,322	-	8,072	-	-	47,394	-	-	-	-	-	-
Total	**380,071**	**1,470**	**12,160**	**-**	**-**	**393,701**	**441,027**	**4,089**	**221**	**-**	**-**	**445,337**
Un-funded												
Credit commitments and contingent items	68,074	-	-	-	-	68,074	-	-	-	-	-	-
Grand Total	**448,145**	**1,470**	**12,160**	**-**	**-**	**461,775**	**441,027**	**4,089**	**221**	**-**	**-**	**445,337**

* The total gross credit exposure does not include the impact of collective provisions of BD 11,910 thousand.

Note: The assets are allocated to the Geographical location based on the residence of the counterparty.

Table – 7. Industrial Sector Breakdown by Portfolio

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Industry Sector Breakdown (PD-1.3.23(c))										
	Own Capital and Current Account					**Unrestricted Investment Account**				
Portfolios	**Industry Sector**					**Industry Sector**				
	Trading & Manufacturing	**Banking & Financial Institutions**	**Construction / Real Estate**	**Others**	*** Total**	**Trading & Manufacturing**	**Banking & Financial Institutions**	**Construction / Real Estate**	**Others**	**Total**
Funded										
Balances with Banks and Central Bank of Bahrain	-	16,832	-	-	16,832	-	27,412	-	-	27,412
Murabaha and Mudaraba contracts with Banks	-	-	-	-	-	-	43,406	-	-	43,406
Financing contracts with customers	26,202	37,966	201,250	64,057	329,475	25,718	37,266	197,539	62,875	323,398
Investments – Sukuk	-	-	-	-	-	-	16,254	34,867	-	51,121
Receivables	-	-	29,623	17,771	47,394	-	-	-	-	-
Total	**26,202**	**54,798**	**230,873**	**81,828**	**393,701**	**25,718**	**124,338**	**232,406**	**62,875**	**445,337**
Un-funded										
Credit commitments and contingent items	9,208	-	37,446	21,420	68,074	-	-	-	-	-
Grand Total	**35,410**	**54,798**	**268,319**	**103,248**	**461,775**	**25,718**	**124,338**	**232,406**	**62,875**	**445,337**

* The total gross credit exposure does not include the impact of collective provisions of BD 11,910 thousand.

Table – 8. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of Risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	Own Capital & Current Account	Unrestricted Investment Account
	Concentration of Risk	Concentration of Risk
Counterparty # 1	35.87%	-
Counterparty # 2	27.02%	-

Restructured Islamic Financing Contracts:

As at 30 June 2010, the restructured financing facilities (included in Financing Contracts with Customers) amounted to BD 123,778 thousand. Management does not expect any significant impact on impairment provisions based on its knowledge of the capacity of obligors to repay and the level of collateral. Restructured financing has primarily consisted of extending repayment dates.

Penalties Imposed on Customers:

During the period Bank has charged customers with penalties amounting to BD 996. The amount of penalties charged by the Bank has been given away as charity.

Table – 9. Maturity Breakdown of Credit Exposures

CREDIT RISK: QUANTITATIVE DISCLOSURES								
Residual Contractual Maturity Breakdown (PD-1.3.23(g))								
	Own Capital & Current Account							
Portfolios	**Maturity Breakdown**							
	Not Later Than One Month	**1-3 Month**	**3-12 Month**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	*** Total**
Balances with Banks and Central Bank of Bahrain	5,843	850	2,261	1,547	974	974	4,383	16,832
Financing contracts with customers	20,456	16,086	91,655	161,887	36,117	2,934	340	329,475
Receivables	-	3,169	58	36,553	7,614	-	-	47,394
Total	**26,299**	**20,105**	**93,974**	**199,987**	**44,705**	**3,908**	**4,723**	**393,701**

* The total gross credit exposure does not include the impact of collective provisions of BD 11,910 thousand.

Table – 9 (Contd.). Maturity Breakdown of Credit Exposures

CREDIT RISK: QUANTITATIVE DISCLOSURES								
Residual Contractual Maturity Breakdown (PD-1.3.23(g))								
	Unrestricted Investment Account							
Portfolios	**Maturity Breakdown**							
	Not Later Than One Month	**1-3 Month**	**3-12 Month**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with Banks and Central Bank of Bahrain	6,854	1,649	4,392	3,003	1,889	1,889	7,736	27,412
Murabaha and Mudaraba contracts with Banks	40,538	2,761	107	-	-	-	-	43,406
Financing contracts with customers	20,204	15,325	88,146	154,796	35,837	8,751	339	323,398
Investments – Sukuk	-	-	6,975	44,146	-	-	-	51,121
Total	**67,596**	**19,735**	**99,620**	**201,945**	**37,726**	**10,640**	**8,075**	**445,337**

Table – 10. Break-up of Impaired Loans by Industry Sector

CREDIT RISK: QUANTITATIVE DISCLOSURES												
Impaired Loans, Past Due Loans & Allowances (PD-1.3.23(h))												
				Own Capital & Current Account								
Industry Sector	**Total Portfolio**	**Good/ Standard**	**Past Due But Not Impaired**	**Non-Performing or Past Due or Impaired Islamic Financing Contracts**				**Specific Allowances**				***Collective Provision**
					Over 3 Months	**Over 1 Year**	**Over 3 Years**	**Balance at the Beginning of the Period**	**Charges During the Period**	**Charge-offs During the Period**	**Balance at the End of the Period**	
Trading & Manufacturing	26,202	22,590	3,471	141	-	141	-	-	66	-	66	
Banking & Financial Institutions	37,966	37,966	-	-	-	-	-	-	-	-	-	
Construction & Real Estate	201,250	168,963	32,013	274	-	274	-	-	274	-	274	
Others	64,057	52,960	10,196	901	-	901	-	1,183		(282)	901	
Total	**329,475**	**282,479**	**45,680**	**1,316**	**-**	**1,316**	**-**	**1,017**	**340**	**(282)**	**1,241**	***11,910**

* This amounts to BD 11,910 thousands representing collective impairment provision against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 10 (Contd.). Break-up of Impaired Loans by Industry Sector

CREDIT RISK: QUANTITATIVE DISCLOSURES												
Impaired Loans, Past Due Loans & Allowances (PD-1.3.23(h))												
				Unrestricted Investment Account								
Industry Sector	**Total Portfolio**	**Good/ Standard**	**Past Due But Not Impaired**	**Non-Performing or Past Due or Impaired Islamic Financing Contracts**				**Specific Allowances**				**Collective Provision**
					Over 3 Months	**Over 1 Year**	**Over 3 Years**	**Balance at the Beginning of the Period**	**Charges During the Period**	**Charge-offs During the Period**	**Balance at the End of the Period**	
Trading & Manufacturing	25,718	25,718	-	-	-	-	-	-	-	-	-	-
Banking & Financial Institutions	37,266	37,266	-	-	-	-	-	-	-	-	-	-
Construction & Real Estate	197,539	197,539	-	-	-	-	-	-	-	-	-	-
Others	62,875	62,875	-	-	-	-	-	-	-	-	-	-
Total	**323,398**	**323,398**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***11,910**

* This amounts to BD 11,910 thousands representing collective impairment provision against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 11. Break-up of Provision by Geographic Area

CREDIT RISK: QUANTITATIVE DISCLOSURES						
Impaired Loans, Past Due Loans & Allowances (PD-1.3.23(i))						
	Own Capital & Current Account			**Unrestricted Investment Account**		
Geographic Area	**Past Due & Impaired Islamic Financing Contracts**	**Specific Impairment Provision**	**Collective Impairment Provision**	**Past Due Islamic Financing Contracts**	**Specific Impairment Provision**	**Collective Impairment Provision**
Bahrain	1,316	1,241	-	-	-	-
Other GCC	-	-	-	-	-	-
Middle East	-	-	-	-	-	-
North America	-	-	-	-	-	-
Europe	-	-	-	-	-	-
Asia / Pacific	-	-	-	-	-	-
Others countries	-	-	-	-	-	-
Total	**1,316**	**1,241**	***11,910**	**-**	**-**	**-**

* This amounts to BD 11,910 thousands representing collective impairment provision against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 12. Break-up of Eligible Collateral by Portfolio

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH		
Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))		
Portfolios	**Total Exposure Covered By**	
	Eligible Collateral	**Guarantees**
Murabaha	87,242	-
Ijarah	153,864	-
Total	**241,105**	**-**

Table – 13. Counter Party Credit Risk

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)			
General Disclosures (PD-1.3.26 (b)) & (PD-1.3.23(j))			
Current Credit Exposure by Type Islamic Financing Contracts	**Gross Positive Fair Value**	**Netting Benefits**	**Netted Current Credit Exposures**
Murabaha	388,455	-	388,455
Ijarah	245,181	-	245,181
Musharaka	19,237	-	19,237
Total	**652,873**	**-**	**652,873**

The break-up of eligible collateral is as follow:

Type of Collateral	Total
Cash	12,313
Commercial Real Estate	228,793
	241,105

Over and above the eligible collateral under the Capital Adequacy Module; the Bank maintains additional collateral in the form of mortgage of residential properties and corporate guarantees and other tangible assets, which could be invoked to claim the amount owed.

2.2. Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the group's income or the value of its portfolios. The Group is also exposed to benchmark profit rate and potential foreign exchange risks arising from financial assets and liabilities not held for trading. The Bank also accepts the definition of market as defined by Central Bank of Bahrain (CBB) as "the risk of losses in on- and off-balance-sheet positions arising from movements in market prices."

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure risk is maintained within established limits.

The Group is exposed to the currency risk due the fact that the assets and liabilities of its foreign subsidiaries are denominated in their respective functional currencies. Net assets of the Group's foreign subsidiaries, located in Jordan, as at 30 June 2010 is BD 35,731 (31 December 2009: BD 35,926) thousand. Net assets of the Group's foreign subsidiary, located in United Kingdom, as at 30 June 2010 is BD 11,822 (31 December 2009: 13,725) thousand. The assets and liabilities are translated into Bahraini Dinar using the closing rate at the date of statement of financial position for the purpose of consolidated financial statements. The impact of foreign currency translation is recognized in the statement of comprehensive income and will be routed to statement of income at the time of disposal of investment in subsidiaries.

Quantitative Disclosures

Table – 14. Minimum & Maximum Capital Requirement for Market Risk

MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH			
Level of Market Risks In Terms of Capital Requirements (PD-1.3.27 (b))			
Particulars	**Price Risk**	**Equity Position Risk**	**Foreign Exchange Risk**
Capital Requirements	964	-	5,993
Maximum Value	964	-	5,993
Minimum Value	587	-	5,602

This disclosure is based on the figures from the PIRI for the two quarters of 2010

2.3. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

Table – 15. Indicators of Operational Risk

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b))	
Particulars	**Total**
Gross Income (average)	49,094
Amount of Non-Shari'a Compliant Income	-
Number of Shari'a violations that were identified and reported during the financial year	-

2.4. Equity Risk 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.

Table – 16. Total & Average Gross Exposures

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total & Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type & Nature of Investment	**Total Gross Exposure**	*** Average Gross Exposure**	**Publicly Traded**	**Privately Held**
Equity Investments	248,447	253,673	16,632	231,815
Managed Funds	9,221	9,528	-	9,221
Total	**257,668**	**263,201**	**16,632**	**241,036**

* Average exposure has been calculated using quarterly management accounts or PIRI forms submitted to CBB.

Table – 17. Break-up of Capital Requirement for Equity Groupings

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS	
Capital Requirement - (PD-1.3.31 (f))	
Equity Grouping	**Capital Requirement**
Listed	1,062
Unlisted	97,917
Managed Funds	1,729
Total	**100,708**

Table – 18. Gain & Loss Reported

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31 (d) and (e))	
Particulars	**Total**
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	(6,261)
Total unrealized gains (losses) recognized in the balance sheet but not through P&L	(1,795)
Unrealized gross losses included in Tier One Capital	5,699
Unrealized gains included in Tier Two Capital	-

2.5. Unrestricted Investment Accounts

The Investment Account Holder ("IAH") authorises the Bank to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner's equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of Mudaraba contract). The IAH and the Bank participate in the returns on the invested funds.

The Bank has developed a Profit Sharing Investment (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are:

- Investment in Shari'a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders' funds are invested in short and medium term Murabaha, Sukuks and Ijarah Muntahia Bittamleek. The Bank invests these funds through various departments including corporate, consumer, and debt capital markets. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after deductions of mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari'a requirements. Income generated through invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. The Bank does not share income from fee based services with the URIA holders. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total assets of the Bank. The process has not changed significantly from the past years.

The mudarib fee on investment accounts ranges from 20% to 40% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib fee ranges from 50% to 60%. However, during the period, in addition to investors' share of profit, the Bank has distributed profit to investors from its own share of mudarib fee.

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 PSIA, when the return on assets is under performing as compared with competitors' rates. Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by depositors.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on pool of assets. Number of factors are considered while deciding rate of return payable to URIA holders, including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmark rates (LIBOR etc).

Table – 19. Break-up of URIA (Consolidated)

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (a), (e) &(g))			
	Amount	**Financing to Total URIA %**	**Ratio of Profit Distributed**
On demand	53,345	12%	7%
Term deposit	391,992	88%	93%
Total	445,337	100%	100%

Table – 20. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (d))	
	Annualised Percentage
Average profit paid on average URIA assets	3.03%

* Average assets funded by URIA have been calculated using monthly management accounts.

Table – 21. Percentage of Mudarib Fee to Total URIA Profits

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (f) & (n))			
	URIA Return Before Mudarib Fees	**Share of Profit Paid to Bank as Mudarib**	**Percentage**
Mudarib fee to total URIA profits	9,710	2,654	27%

Table – 22. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA (Consolidated)

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Amount**	**% to Total URIA**
Balances at Banks	27,412	6%
Short-term investments and treasury securities	43,406	10%
Murabaha	183,000	41%
Ijarah	140,398	32%
Sukuks	51,121	11%
Total	445,337	100%

Table – 23. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA (Based on PIRI Form Submitted to CBB)

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty type	**Amount**	**% to Total URIA**
Claims on Sovereigns and cash	30,027	7%
Claims on MDBs	956	0%
Claims on Banks	56,089	13%
Claims on Corporate	292,944	66%
Others	63,641	14%
Total	443,657	100%

Table – 24. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (l) & (m))		
	*** Share of Profit Paid to IAH Before Transfer to/from Reserves %**	*** Share of Profit Paid to IAH after Transfer to/from Reserves %**
URIA	3.03%	3.03%

* Annualised Percentage

Table – 25. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:				
Unrestricted Investment Account (PD-1.3.33 (q))				
	1-Month	**3-Months**	**6-Months**	**12-Months**
Declared rate of return	2.00 – 2.70 %	2.50 – 3.40%	3.00 – 3.60 %	3.50 – 4.20%

Table – 26. Movement of URIA by Type of Assets (Consolidated)

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r),(s) & (u))			
Type of Assets	**Opening Actual Allocation**	**Net Movement During the Period**	**Closing Actual Allocation**
Cash and Balance with banks and CBB	27,718	(306)	27,412
Murabaha due from banks	24,612	18,794	43,406
Investments – Sukuk	35,728	15,393	51,121
Murabaha due from customers	316,204	(133,204)	183,000
Ijarah Muntahia Bittamleek due from customers	95,031	45,367	140,398
Total	**499,293**	**(53,956)**	**445,337**

Note: There are no limits imposed on the amount that can be invested in any one of the above assets.

Table – 27. Capital Charge on URIA by Type of Claims

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (v))			
Type of claims	**RWA**	**RWA for Capital Adequacy Purposes**	**Capital Charge**
Claims on Banks	12,303	3,691	461
Claims on Corporate	169,702	50,911	6,364
Regulatory Retail Portfolio	24,370	7,311	914
Mortgages	50,728	15,218	1,902
Total	**257,103**	**77,131**	**9,641**

Table – 28. Percentage of Profit Earned and Profit Paid to Total URIA Funds

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w) & 1.3.41 (b))					
	**** URIA Funds (Average)**	**Profit Earned**	**As a Percentage of Funds Invested *****	**Profit Paid**	**As a Percentage of Funds Invested (after smoothing)**
2010 (Percentages are annualised)	465,515	9,710	4.17%	7,056	3.03%
2009	503,207	25,045	4.98%	20,817	4.14%
2008	211,917	10,862	5.13%	9,865	4.66%
2007	78,055	1,807	2.32%	1,662	2.13%
2006	*	*	*	*	*

* Data not available
** Average assets funded by URIA have been calculated using management accounts.
*** This is the rate of return gross of mudarib fee which ranges from 20% to 40% for term deposits, depending on the investment period of the deposit, and from 50% to 60% for saving deposits.

Table – 29. Administrative Expenses Allocated to URIA

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	**Administrative Expenses**
Amount of Administrative expenses allocated to URIA	4,022

2.6. Restricted Investment Accounts

RIA funds are invested and managed in accordance with Shari'a requirements.

Risks Faced by RIA Investors

The Bank discloses all the relevant risks pertaining to respective RIA portfolios. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks. The detailed risks are disclosed in the respective RIA information pack.

Table – 30. History of Profit Paid to RIA Holders

RESTRICTED INVESTMENT ACCOUNTS:							
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (a) & (b))							
	2010 (6 months)	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Return to RIA Holders	2,185	4,191	3,852	2,122	944	-	-

Table – 31. Break-up of RIA by Type of Deposits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (a))	
	Amount
RIA Funds	93,664

Table – 32. Percentage of Profit Paid to RIA holders to RIA assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (d))	
	Annualised Percentage
Return on average* RIA assets	5.19%

* Average RIA funds have been calculated using management accounts.

Table – 33. Mudarib Fee as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (f))	
	Percentage
Mudarib fee to total (gross) RIA profits	10.08%

Table – 34. Share of Islamic Financing Contracts in Total RIA Financing

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (h))		
Shari'a-Compliant Contract	**Amount**	**% to Total RIA**
Murabaha	89,101	95.13%
Ijara	4,563	4.87%
Total	**93,664**	**100.00%**

Table – 35. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (i))		
Counterparty Type	**Amount**	**% to Total RIA**
Claims on Banks	-	-
Claims on corporate	93,664	100.00%
Total	**93,664**	**100.00%**

Table – 36. Share of Profit Paid to RIA Holders as a Percentage of Total RIA

RESTRICTED INVESTMENT ACCOUNTS:						
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (l) (m) & (n))						
Type of RIA	**Total RIA**	**RIA Return before Mudarib Fees**	**RIA Return after Mudarib Fees**	**Share of Profit paid to Bank as Mudarib**	**Share of Profit Paid to IAH before Transfer to/from Reserves % (Annualised)**	**Share of Profit Paid to IAH after Transfer to/from Reserves % (Annualised)**
	A	**B**	**C**	**D**	**E = C / A**	**F = C / A**
Murabaha	89,101	2,208	2,014	194	4.52%	4.52%
Ijarah	4,563	222	171	51	7.50%	7.50%
Total	**93,664**	**2,430**	**2,185**	**245**	**4.67%**	**4.67%**

Table – 37. Average Declared Rate of Return of RIA

RESTRICTED INVESTMENT ACCOUNTS:			
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (q))			
	6-Month	**12-Month**	**24-Month**
Average Declared Rate of Return / Profit Rate of Return	5.60%	6.55%	6.95%

Table – 38. Treatment of Assets Financed by RIA in the Calculation of RWA for Capital Adequacy Purposes

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (v))		
Type of IAH	**Exposure**	**Risk Weighted Amount While Calculating CAR**
Murabaha	89,101	-
Ijarah	4,563	-
Total	**93,664**	**-**

Table – 39. Profit Earned & Profit Paid as a Percentage of Total RIA Funds

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.35 read with PD 1.3.33 (w))					
	*** RIA Funds (Average)**	**Profit Earned**	**As a Percentage of RIA Funds**	**Profit Paid**	**As a Percentage of RIA Funds**
2010 (Percentages are annualised)	84,164	2,430	5.77%	2,185	5.19%
2009	71,272	4,481	6.29%	4,191	5.88%
2008	71,729	4,839	6.75%	3,852	5.37%
2007	28,475	2,739	9.62%	2,122	7.45%
2006	14,913	1,258	8.44%	944	6.33%

* Average RIA funds have been calculated using monthly management accounts.

2.7. Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Table – 40. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2010	17.4%
During the period:	
Average	14.3%
Highest	17.4%
Lowest	12.7%

Table – 41. Maturity Analysis

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE								
Maturity Analysis by Different Maturity Buckets. (PD-1.3.38)								
	Upon One Year			**Over One Year**				**Total**
	Up to 3 Months	**3 Months to 12 Months**	**Subtotal up to 12 Months**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Subtotal Over 1 Year**	
Assets								
Cash and balances with banks and Central Bank of Bahrain	18,726	6,652	25,378	4,550	2,863	14,983	22,396	47,774
Murabaha due from banks	43,299	107	43,406	-	-	-	-	43,406
Financing contracts with customers	71,059	176,293	247,352	309,592	71,675	12,345	393,612	640,964
Investments	16,631	6,974	23,605	152,645	57,796	-	210,441	234,046
Investment in associates	-	-	-	74,741	-	-	74,741	74,741
Investment properties	-	-	-	-	138,375	-	138,375	138,375
Receivables, prepayments and other assets	8,189	58	8,247	149,671	11,151	-	160,822	169,069
Premises and equipment	-	-	-		23,067	-	23,067	23,067
Assets of disposal group classified as held for sale	-	-	-	35,986	-	-	35,986	35,986
Total	**157,904**	**190,084**	**347,988**	**727,185**	**304,927**	**27,328**	**1,059,440**	**1,407,428**
Liabilities and Unrestricted Investment Accounts								
Murabaha and due to banks	90,150	18,850	109,000	86,656	95,952	-	182,608	291,608
Murabaha contracts non-banks	71,712	54,488	126,200	70,837	2,150	2,150	75,137	201,337
Customers' current accounts	40,561	24,860	65,421	-	-	-	-	65,421
Other liabilities	8,011	7,272	15,283	25,866	-	-	25,866	41,149
Unrestricted investment accounts	89,018	110,528	199,546	80,883	80,883	84,025	245,791	445,337
Liabilities directly associated with the assets classified as held for sale	-	-	-	2,839	-	-	2,839	2,839
Total	**299,452**	**215,998**	**515,450**	**267,081**	**178,985**	**86,175**	**532,241**	**1,047,691**
Net	**(141,548)**	**(25,914)**	**(167,462)**	**460,104**	**125,942**	**(58,847)**	**527,199**	**359,737**

2.8. 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. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Table – 42. Profit Rate Shock

PROFIT RATE RISK IN THE BANKING BOOK			
200bp Profit Rate Shocks (PD-1.3.40 (a) & (b)) Total			
Assets	**Credit Exposure**	**Change in Basis Points**	**Effect on Net Income for the Period**
Murabaha due from Banks	43,406	200	868
Financing contracts with customers	245,181	200	4,904
Investments – Sukuk	51,121	200	1,022
Liabilities		**Change in Basis Points**	**Effect on Net Income for the Period**
Murabaha due to Banks	291,608	200	(5,832)
Murabaha contracts with non-banks	201,337	200	(4,027)
Unrestricted investments accounts	445,337	200	(8,907)
		Net Impact	(11,972)

2.9. Financial Performance & Position

Table – 43. Ratios

Financial Performance & Position					
(PD-1.3.9(b))					
Quantitative Indicator	**2010 (Annualised)**	**2009**	**2008**	**2007**	**2006**
ROAE	5.5%	0.9%	15%	26%	27%
ROAA	1.4%	0.2%	4%	6%	6%
Staff Cost to Operating Income Ratio	24.9%	31%	15%	15%	17%

Formula is as follows:
ROAE = Net Income/Average equity
ROAA= Net Income/ Average Assets