IIRA has assigned national scale entity credit rating for medium to long term at BBB (Triple B) and for short term at A-2 (A two) and International scale entity credit rating for medium to long term at BBB- (Triple B minus) and for short term at A-3 (A three) with positive outlook to Bahrain Islamic Bank.

Manama, April 22, 2007 – IIRA has assigned national scale entity credit rating for medium to long term at BBB (Triple B) and for short term at A-2 (A two) and International scale entity credit rating for medium to long term at BBB- (Triple B minus) and for short term at A-3 (A three) with positive outlook to Bahrain Islamic Bank.

The above ratings indicate strong capital reflected by core capital ratio of 10% in 2006 (FY05 11.6%) coupled with strong ownership (entities such as Almadar and IDB constitute majority ownership) and the stable regulatory environment that the bank operates in. Further the management is planning to increase the paid up capital by BD 85 m through issuance of right shares in two phases during the year 2007. The Stronger growth in assets and earnings, relative to peers in 2005 and 2006, and strong liquidity position also supports the rating.

Non performing loans (NPL) portfolio reflects adequacy of credit policies and loan administration procedures with good asset quality indicator ratios. Loan delinquency is considered low relative to industry and international norms. The asset mix shows the geographical and industry concentration of assets. However the risk in the asset quality is partially mitigated owing to the facts that the geographical concentration is in Bahrain which is rated A+ on an international scale, and the industry exposure is mostly to the low risk banking industry.

BIsB balance sheet is highly liquid. More than 100% of bank borrowings are invested in short term placements. Maximum net cash outflow on a cumulative basis (after adjusting for stickiness of demand deposits) showed ample liquidity to fund the upcoming obligations. Islamic financing to deposit ratio remained low indicating strong liquidity but at the same time under-utilization of resources. Marketable assets to liquid liabilities ratio also remained on the higher side indicating good liquidity.

By 2006 return on average asset (ROAA) and return on average equity (ROAE) improved to 3.4% and 17.8% from 1.9% and 11.9% in 2005. Increase in profitability is represented by increase in yield of earnings assets, improvement in efficiency ratios, increase in investment income, and partly by gain on offloading of equity investment. This trend continued in first quarter of 2007 and earnings further increased by 37% compared to first quarter in 2006. As evidenced by improved profitability, utilization of available resources has improved; however, there is room for further improvement.

The ratings are constrained by relative small size of the bank forcing it to assume a price taker status in the market. BIsB advances constitute 2.8% of the retail banking industry advances. The management is taking initiatives to increase the market share by focusing on new product development and extending the market reach.

IIRA will continue to monitor progress on capital expansion, utilization of additional funds and indigenous growth (ability of the bank to fund expansion through retained earnings) since these factors have substantial bearing on credit standing of the BIsB.

Challenges include overcoming staffing issues, ensuring full implementation of new MIS system and strategic repositioning of the balance sheet to increase market share in advances and deposits.

For further information on this rating announcement, please contact Mr. J. M. McMullen (Senior Vice President-Ratings) or Mr. Umer Zuberi (Senior Financial Analyst) at +973-17211606 or fax no +973 17211605.

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