

Pillar III Disclosures - Basel II

31 December 2009

DISCLOSURE 1. CAPITAL STRUCTURE

(Unconsolidated - based on Prudential Information Return classifications)

	US\$ '000	
	Tier 1	Tier 2
A. Net Available Capital		
Paid-up share capital	81,222	
Reserves		
Share premium	42,111	
Capital reserve	–	
Statutory reserve	3,649	
Others	215	
Retained earnings	(27,655)	
Minority interest in the equity of subsidiaries	–	
Less : Goodwill	–	
Less : Unrealized gross losses arising from fair valuing equities	–	
Asset revaluation reserves- property, plant and equipment (45% only)		–
Unrealized (losses)/ gains arising from fair valuing equities (45% only)	(575)	375
Total Capital before regulatory deductions	98,967	375
Less : Regulatory deductions :		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	2,888	2,888
Excess amount over maximum permitted large exposure limit	28,813	28,813
	67,266	(31,326)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(31,326)	
Net available capital	35,940	–
Total eligible capital base (Tier 1 + Tier 2)		35,940

B. Capital Adequacy Ratio

As at 31 December 2009, the capital adequacy ratio of the Group was:

Tier 1 - Capital Adequacy Ratio (Tier 1 Capital / risk weighted assets)	15.31%
Total - Capital Adequacy Ratio (Total Capital / risk weighted assets)	15.31%

C. Credit Concentration greater than 15% individual obligor limit

Total credit exposure in excess of 15% individual obligor limit (US\$ 000)	
Counterparty 1	17,000
Counterparty 2	70,428
Total exposure	87,428

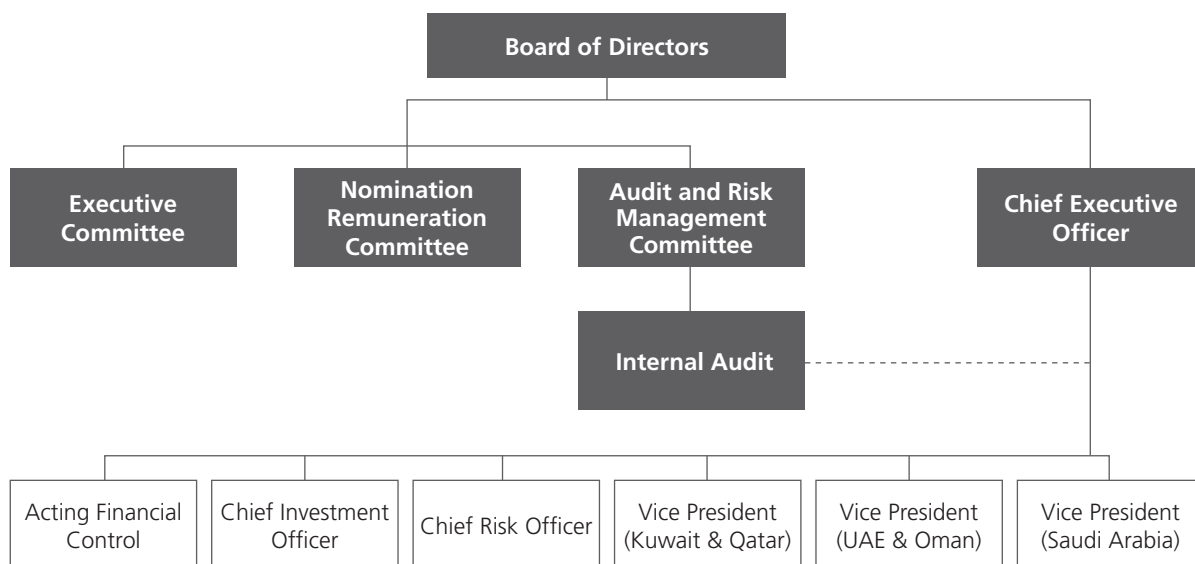
DISCLOSURE 2. RISK GOVERNANCE STRUCTURE

Risk Governance

The Board of Directors of the Bank approves the risk appetite and the Audit and Risk Management committees monitor the risk profile against this appetite.

Risk management is an integral part of the Group’s decision-making process and is ensured through an ongoing process of risk identification, measurement and monitoring subject to risk limits and other controls.

The risk management structure of the Bank is shown below:



Executive Committee

The Executive Committee is a sub-committee of the Board of Directors responsible for reviewing the Bank’s investment policies, strategies and performance, and overseeing the Bank’s capital and financial resources. The Executive Committee consists of four Board members. This committee is responsible for formulating the overall investment policies of the Bank, which are periodically reviewed and approved by the Board of Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Bank consists of two Board members. The primary function of this is to assist the Board in formulating and reviewing the related bank’s policies and rules, including the administrative policy. NR Committee will handle the nomination and remuneration process including nomination, remuneration and compensation of the Board and Executive Management. The Committee will regularly review the Bank’s succession plan as modified from time to time.

Audit and Risk Management Committee

The Audit and Risk Management committee of the Bank consists of four Board members. This committee is responsible for overseeing the Bank’s policies and procedures relating to asset and liability management, and overseeing and collecting information regarding credit, market and operational risk. The committee carries out its responsibility by assessing and monitoring all risks associated with the activities of the Bank, approving risk policies, developing and implementing internal compliance and control systems, reviewing and recommending strategies in relation to the overall risk environment of the Bank and reporting to the Board any material changes in the risk profile of the Bank.

Internal Audit is responsible for the independent review of risk management and the Bank’s risk control environment.

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DISCLOSURE 3. GROSS CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

(Consolidated - based on IFRS classifications)

	US\$ '000	
	31 December 2008	Average monthly balance
Balances with banks	8,925	20,299
Loans and advances	1,983	2,116
Other assets	10,246	3,859
Gross credit risk exposure	21,154	26,274

Refer note 18 (a) in the notes to the consolidated financial statements of the Bank at 31 December 2009.

** The Bank did not have any unfunded credit exposures at 31 December 2009.

The gross credit exposures reported above are as per the consolidated balance sheet as reduced by exposures which do not carry credit risk.

DISCLOSURE 4. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

(Unconsolidated - based on Prudential Information Return classifications)

	US\$ '000	
	Credit Risk Weighted Assets	Capital Requirement
Claims on banks	1,722	207
Equity investments	64,165	7,700
Investments in funds	6,696	804
Other exposures	120,703	14,484
Total Credit Risk Capital Requirement (Standardised approach)	193,286	23,195
Total Market Risk Capital Requirement (Standardised Approach)	–	–
Total Operational Risk Capital Requirement (Basic Indicator Approach)	41,437	4,972
Total Capital requirement for Credit, Market and Operational risks	234,723	28,167

DISCLOSURE 5. GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

(Consolidated - based on IFRS classifications)

	US\$ '000				
	GCC *	United Kingdom	United States of America	Asia (excluding GCC countries)	Total
Balances with banks	8,753	–	172	–	8,925
Loans and advances	1,937	–	–	46	1,983
Other assets	7,645	–	2,601	–	10,246
Total funded credit risk exposures**	18,335	–	2,773	46	21,154
	87%	0%	13%	0%	100%

* GCC countries are countries which are part of the Gulf Co-operation Council comprising Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

** The Bank did not have any unfunded credit exposures at 31 December 2009.

DISCLOSURE 6. SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES**(Consolidated - based on IFRS classifications)**

	US\$ '000
Banks and other financial institutions	8,925
Government/public sector	1,590
Others	10,639
Total funded credit risk exposures*	<u>21,154</u>

* The Bank did not have any unfunded credit exposures at 31 December 2009.

DISCLOSURE 7. RESIDUAL CONTRACTUAL MATURITY**(Consolidated - based on IFRS classifications)**

	US\$ '000							
	Up to one month	One month to three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	Over twenty years	Total
Cash and balances with banks	8,927	–	–	–	–	–	–	8,927
Loans and advances	1,937	–	46	–	–	–	–	1,983
Other assets	15	7,762	369	2,100	–	–	–	10,246
Total funded exposures*	<u>10,879</u>	<u>7,762</u>	<u>415</u>	<u>2,100</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,156</u>

* The Bank did not have any unfunded credit exposures at 31 December 2009.

DISCLOSURE 8. RELATED PARTY TRANSACTIONS**(Consolidated - based on IFRS classifications)**

Related parties represent associated companies, shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

The balances with related parties at 31 December were as follows:

	2009
	<u>US\$ '000</u>
Assets	
Receivable from an associate	186
Loan to an associate	1,937
Liabilities	
	<u>US\$ '000</u>
Loan from a shareholder	14,000
Other liabilities - Interest payable	824

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DISCLOSURE 8. RELATED PARTY TRANSACTIONS (continued)

The income and expense with respect to related parties for the year ended 31 December 2009 were as follows:

	2008
	US\$ '000
Income/ (Expense)	
Interest income on loan to an associate	159
Interest expense on loan from a shareholder (Waha Capital)	(824)
Compensation of the Directors and key management personnel:	2008
	US\$ '000
Short term employee benefits	2,425
End of service benefits	215

NB: All transactions with related parties have been made on an arm's length basis.

DISCLOSURE 9. CAPITAL REQUIREMENT FOR COMPONENTS OF MARKET RISK

(Unconsolidated - based on Prudential Information Return classifications)

	US\$ '000		
	Capital requirement	Maximum value	Minimum value
Equity position risk	–	–	–
Foreign exchange risk	–	410	–
Total Market Risk Capital requirement (Standardised approach)	–	410	–

DISCLOSURE 10. SENSITIVITY ANALYSIS - INTEREST RATE RISK

(Consolidated - based on IFRS classifications)

	US\$ '000	
	Increase in basis points	Impact on net interest income
US Dollar	10	14
Bahraini Dinar	10	7
UAE Dirham	10	3

The impact of a 100 basis point decrease in interest rates will be approximately opposite to the impact disclosed above.

DISCLOSURE 11. INTEREST RATE RISK
(Consolidated - based on IFRS classifications)

	US\$ '000				Total
	Less than three months	Three months to one year	Over one year	Non-Interest Sensitive	
ASSETS					
Cash and balances with bank	8,927	–	–	–	8,927
Loans and advances	1,937	–	–	46	1,983
Other assets				10,246	10,246
	<u>10,864</u>	<u>–</u>	<u>–</u>	<u>10,292</u>	<u>21,156</u>
LIABILITIES					
Term debt	1,151	3,587	49,040	–	53,778
Transitory balances	15,541	–	–	–	15,541
Other liabilities				24,373	24,373
	<u>16,692</u>	<u>3,587</u>	<u>49,040</u>	<u>24,373</u>	<u>93,692</u>
Total interest sensitivity gap	<u>(5,828)</u>	<u>(3,587)</u>	<u>(49,040)</u>	<u>(14,081)</u>	
Cumulative interest sensitivity gap	<u>(5,828)</u>	<u>(9,415)</u>	<u>(58,455)</u>	<u>(72,536)</u>	

DISCLOSURE 12. EQUITY POSITION IN BANKING BOOK
(Unconsolidated - based on Prudential Information Return classifications)

	US\$ '000	
	Gross risk-weighted exposures	Capital requirement
Listed	–	–
Unlisted	42,777	7,700
TOTAL	<u>42,777</u>	<u>7,700</u>

DISCLOSURE 13. GAINS ON EQUITY INSTRUMENTS
(Unconsolidated - based on Prudential Information Return classifications)

	US\$ '000
Realised losses recognised in the income statement	(5,428)
Unrealised gains (losses) recognised in the balance sheet:	
- Tier one (eligible portion)	(575)
- Tier two (eligible portion)	375