

# Basel II Pillar III Disclosure

## EXECUTIVE SUMMARY

This report was prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain (CBB).

The CBB Basel II guidelines became effective on 1 January 2008 as part of the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2008, presented in accordance with the International Financial Reporting Standards (IFRS).

## INTRODUCTION TO THE BASEL II FRAMEWORK

The CBB's Basel II framework is based on three Pillars, consistent with the Basel II framework developed by the Basel Committee, as follows:

- Pillar I: calculation of the risk weighted amounts (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

### Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

The resultant ratio is to be maintained above a predetermined and communicated level. Under the previously applied Basel I Capital Accord, the minimum capital adequacy ratio for banks incorporated in Bahrain was 12 per cent compared to the Basel Committee's minimum ratio of 8 per cent.

The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires BBK to maintain an effective minimum capital adequacy ratio of 12.5 per cent. No separate minimum Tier One ratio is required to be maintained under the CBB's Basel II capital adequacy framework.

Under the CBB's Basel II capital adequacy framework, the RWAs are calculated using more sophisticated and risk sensitive methods than under the previous Basel I regulations. Credit risk and market risk are two essential risk types that were included under Basel I, while operational risk has been introduced as a new risk type in the CBB's Basel II capital adequacy framework. The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel II capital adequacy framework:

### Approaches for determining regulatory capital requirements as per CBB guidelines

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
Foundation Internal Ratings Based Approach (FIRB)	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

#### i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. The standardised approach is similar to the basis under the previous Basel I capital adequacy regulations, except for the use of external ratings to derive RWAs and the ability to use a wider range of financial collateral. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

#### ii) Market Risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on a Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB.

#### iii) Operational Risk

Under the CBB's Basel II capital adequacy framework, all banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's Basel II guidelines do not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach. Under the Basic Indicator Approach, the regulatory capital requirement is calculated by applying an alpha co-efficient of 15 per cent to the average gross income for the preceding three financial years.

## Basel II Pillar III Disclosure continued

### Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank. The CBB is currently assessing financial strength and risk management practices of institutions, which will allow them to set minimum capital ratios in excess of 8 per cent. Pending finalisation of the assessment process, all banks incorporated in Bahrain are required to continue to maintain a 12 per cent minimum capital adequacy ratio as under the previous Basel I framework.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed an ICAAP document to address all components of BBK's risk management, from the daily management of material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk. These are covered either by capital, risk management or mitigation processes under Pillar II.

### Pillar III

In the CBB's Basel II framework, the Pillar III prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas fuller disclosure is required to coincide with the financial year-end reporting.

### Group Structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, associate and joint venture and their basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
<b>Subsidiaries:</b>			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100 per cent	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100 per cent	Full Consolidation
Capinnova Investment Bank B.S.C. (c) (formerly Al Khaleej Islamic Investment Bank)	Kingdom of Bahrain	100 per cent	Aggregation
<b>Associate:</b>			
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23 per cent	Aggregation
<b>Joint Venture:</b>			
Sakana Holistic Housing Solutions B.S.C. (c)	Kingdom of Bahrain	50 per cent	Aggregation

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory capital. There are no restrictions on the transfer of funds or regulatory capital within the Group.

## 1 Capital Structure – Qualitative Disclosures

Tier One capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves include general reserve, statutory reserve, and unrealised losses arising from revaluation of equities classified as available-for-sale, and excludes unrealised losses arising from revaluation of debt securities classified as available-for-sale.

Tier Two capital comprises profits, qualifying subordinated term finance, collective impairment provisions, and unrealised gains arising from revaluation of equities classified as available-for-sale, though limited to 45 per cent. It excludes unrealised gains arising from the revaluation of debt securities classified as available-for-sale.

The subordinated term financing facilities, amounting to US\$ 249 million (initial amount raised US\$ 275 million), are part of its US\$ 1 billion Euro Medium Term Deposits Notes Programme. These are issued for 10 years with a call option which can only be exercised after 5 years. The subordinated financing facilities have been approved for inclusion in Tier Two capital for regulatory capital adequacy purposes by the CBB. The Bank has redeemed BD 9.802 million (US\$ 26 million) of its own subordinated debt during the year.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative Tier One securities cannot exceed 15 per cent of total Tier One capital; qualifying Tier Two capital cannot exceed Tier One capital; and qualifying subordinated term finance cannot exceed 50 per cent of Tier One capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of Tier Two capital.

In accordance with the CBB's Basel II capital adequacy framework, certain assets are required to be deducted from regulatory capital rather than included in RWAs. At 31 December 2008, BD 2.09 million was deducted from regulatory capital in relation to securitisation exposures that were rated below BB- or were unrated. In accordance with the CBB's Basel II capital adequacy framework, the deductions are applied 50 per cent from Tier One and 50 per cent from Tier Two capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

## 1 Capital Structure – Quantitative Disclosures

### 1.1 Capital Components – Consolidated

	Tier One BD '000	Tier Two BD '000	Total BD '000
Issued and fully paid ordinary shares and perpetual non-cumulative preference shares	79,724	-	79,724
Less: Employee stock incentive program funded by the bank (outstanding)	-	-	-
	<b>79,724</b>	<b>-</b>	<b>79,724</b>
General reserves	20,000	-	20,000
Legal / statutory reserves	32,792	-	32,792
Share premium	39,919	-	39,919
Others	3,692	-	3,692
<b>Disclosed reserves</b>	<b>96,403</b>	<b>-</b>	<b>96,403</b>
Retained profit brought forward	14,858	-	14,858
Minority interest in consolidated subsidiaries	107	-	107
<b>Tier One Capital before PCD deductions</b>	<b>191,092</b>	<b>-</b>	<b>191,092</b>
Current profit	-	27,081	27,081
unrealised gains arising from fair valuing equities (45% only)	-	6,046	6,046
Excess of total eligible provisions over total expected loss	-	3,710	3,710
Subordinated term debt	-	93,873	93,873
<b>Tier Two Capital before PCD deductions</b>	<b>-</b>	<b>130,710</b>	<b>130,710</b>
<b>Total Available Capital</b>	<b>191,092</b>	<b>130,710</b>	<b>321,802</b>
<b>Regulatory deductions</b>			
Unconsolidated majority-owned or controlled banking, securities, financial, or other entities	13,504	13,503	27,007
Deduction of unconsolidated financial subsidiaries where ownership is > 50%	2,022	2,022	4,044
securitisation exposures subject to deduction	1,043	1,043	2,086
<b>Total Deductions</b>	<b>16,569</b>	<b>16,568</b>	<b>33,137</b>
<b>Net Available Capital (Tier Two up to 100% of Tier One)</b>	<b>174,523</b>	<b>114,141</b>	<b>288,664</b>
<b>Aggregation</b>	<b>31,778</b>	<b>-</b>	<b>31,778</b>
<b>Total Eligible Capital Base</b>	<b>206,301</b>	<b>114,141</b>	<b>320,442</b>

## Basel II Pillar III Disclosure continued

### **Capital Adequacy**

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, and subordinated term finance.

BBK aims to maintain a minimum total capital adequacy ratio in excess of 15 per cent. The CBB's current minimum total capital adequacy ratio for banks incorporated in Bahrain is set at 12 per cent. The capital adequacy ratio of the Group at 31 December 2008 was 20.06 per cent.

### **Strategies and methods for maintaining a strong capital adequacy ratio**

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short term capital requirements and a forecast of longer-term capital resources.

The evaluation of the strategic planning projections have historically given rise to capital injections. The capital planning process triggered the raising of additional Tier Two capital through a US\$ 275 million subordinated debt issue in 2007 to enhance the total regulatory capital adequacy ratio, and a BD 50 million capital increase in October 2007 to provide additional Tier One capital to support planned medium term asset growth.

### **CREDIT RISK – PILLAR III DISCLOSURES**

This section describes the BBK's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel II framework in relation to Pillar III disclosure requirements.

#### **Definition of exposure classes**

BBK has a diversified on and off balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel II capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel II capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

#### ***Sovereign Portfolio***

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 per cent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings. Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0 per cent risk weighting.

#### ***Public Sector Entities (PSE) Portfolio***

Claims on Bahraini PSEs, and claims on PSEs on domestic currency – which are assigned a 0 per cent risk weight by their respective country regulator, can be assigned a 0 per cent risk weight. All other PSEs are risk weighted according to their external ratings.

#### ***Banks Portfolio***

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Banks portfolio also includes claims on investment firms, which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

#### ***Corporate Portfolio***

Claims on corporates are risk weighted based on their external credit ratings. A 100 per cent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0 per cent risk weight.

#### ***Regulatory Retail Portfolio***

Claims on retail portfolio are risk weighted at 75 per cent, except for past due portfolio. Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 per cent.

### **Commercial Mortgage Portfolio**

Claims secured mortgages on commercial real estate are subject to a minimum of 100 per cent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

### **Equities Portfolio**

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. A 100 per cent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 per cent. Investments in rated funds are risk weighted according to the external credit rating. Equity investments in securitisations are deducted from the regulatory capital base.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

### **Investments in Funds Portfolio**

The risk weight for claims on Corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100 per cent if listed, and 150 per cent if not listed.

### **Past due exposures**

This includes claims, for which the repayment is overdue for more than 90 days. The risk weighting for such loans is either 100 per cent or 150 per cent is applied depending on the level of provisions maintained against the loan.

### **Other assets and holdings of securitisation tranches**

Other assets are risk weighted at 100 per cent. Securitisation tranches are risk weighted based on their external credit ratings. Risk weightings range from 20 per cent to 350 per cent. Exposures to securitisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight. All BBK's holding of securitisations is part of the bank's investment portfolio.

### **External rating agencies**

BBK uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

### **Credit risk presentation under Basel II**

The credit risk exposures presented in much of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel II framework, off balance sheet exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off balance sheet exposure is multiplied by the relevant CCF applicable to the off balance sheet exposure category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report in the same manner as on balance sheet exposures.
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Banks standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel II capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel II guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements, e.g. unrated securitisation tranches.

## Basel II Pillar III Disclosure continued

	Gross Credit Exposures (before Risk Mitigation) BD '000	Credit Risk Weighted Asset BD '000	Regulatory Capital Required BD '000	Eligible Financial Collateral BD '000	2008 Quarterly Average BD '000	Total Funded Credit Exposure BD '000	Total non Funded Credit Exposure BD '000
<b>2.1 Total gross credit exposures</b>							
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	372,541	20,641	2,477	-	458,013	301,999	70,542
B) Public Sector Entities (PSEs) Portfolio	251,728	1,839	221	-	278,951	214,923	36,805
C) Banks Portfolio	574,849	176,575	21,189	406	637,177	415,148	159,701
D) Corporate Portfolio	1,014,550	917,651	110,118	86,502	869,357	856,370	158,180
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	198,795	125,212	15,025	31,846	203,441	196,746	2,049
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	6,656	-	-
G) Equity portfolio (contains all equities held in the banking book)	42,285	52,038	6,245	-	35,538	42,285	-
H) Investment in Funds portfolio	5,805	8,708	1,045	-	6,673	5,523	282
I) Past Due Portfolio	10,144	10,157	1,219	3	18,984	10,144	-
J) All other holdings of Real Estate	7,609	15,218	1,826	-	7,666	7,609	-
K) Holdings of securitisation Tranches	3,672	3,672	441	-	5,228	3,672	-
L) Other assets	92,871	81,212	9,745	11,658	148,471	68,844	24,027
M) Cash Items	10,096	132	16	-	9,732	10,096	-
<b>Total</b>	<b>2,584,945</b>	<b>1,413,055</b>	<b>169,567</b>	<b>130,415</b>	<b>2,685,887</b>	<b>2,133,359</b>	<b>451,586</b>
Aggregation	49,593	49,593	5,951	-	42,743	-	-
<b>Total Credit Risk</b>	<b>2,634,538</b>	<b>1,462,648</b>	<b>175,518</b>	<b>130,415</b>	<b>2,728,630</b>	<b>2,133,359</b>	<b>451,586</b>

### Collateral valuation policy

The Bank has detailed policies and procedures for valuing collateral / securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually based on the type of security. More frequent valuations are also considered if warranted by market volatility and declining trend in valuations are observed. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

	Market Risk Weighted Exposure BD '000	Capital Required BD '000
<b>2.2 Capital Requirements for Market Risk</b>		
Market Risk Weighted Exposures	14,338	1,721

	Operational Risk Weighted Exposure (BD '000)	Capital Required (BD '000)
<b>2.3 Capital Requirements for Operational Risk - Basic Indicator Approach</b>		
Operational Risk Weighted Exposures	120,533	14,464

	Total Risk Weighted Assets BD '000	Total Capital BD '000	Tier One Capital BD '000	Total Capital Ratio BD '000	Tier One Capital Ratio BD '000
<b>2.4 Capital Ratios - Consolidated &amp; Subsidiaries Above 5% of Group Capital</b>					
BBK - Group	1,597,519	320,442	206,301	20.06%	12.91%
CrediMax	26,489	3,361	14,509	12.69%	54.77%
Capinnova Investment Bank B.S.C.	1,170	3,765	3,765	321.79%	321.79%

2.5 Geographical distribution of Gross Credit Exposures	Gross Credit Exposures (before Risk Mitigation) BD '000	Gulf Co-operation Council Countries BD '000	North America BD '000	Europe BD '000	Asia BD '000	Rest of the world BD '000
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	372,541	346,411	-	-	26,130	-
B) Public Sector Entities (PSEs) Portfolio	251,728	235,677	-	2,506	3,388	10,157
C) Banks Portfolio	574,849	337,763	26,959	97,167	87,152	25,808
D) Corporate Portfolio	1,014,550	908,882	30	134	69,711	35,793
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	198,795	134,754	118	1,040	5,277	57,606
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	-	-
G) Equity portfolio (contains all equities held in the banking book)	42,285	39,626	2,275	-	384	-
H) Investment in Funds portfolio	5,806	5,227	579	-	-	-
I) Past Due Portfolio	10,144	10,001	-	-	143	-
J) All other holdings of Real Estate	7,609	2,235	4,841	533	-	-
K) Holdings of securitisation Tranches	3,672	-	-	2,186	543	943
L) Other assets	92,870	82,908	1	162	5,480	4,319
M) Cash Items	10,096	10,018	-	-	78	-
<b>Total</b>	<b>2,584,945</b>	<b>2,113,502</b>	<b>34,803</b>	<b>103,728</b>	<b>198,286</b>	<b>134,626</b>
Aggregation	49,593	49,593	-	-	-	-
<b>Total Credit Risk</b>	<b>2,634,538</b>	<b>2,163,095</b>	<b>34,803</b>	<b>103,728</b>	<b>198,286</b>	<b>134,626</b>

2.6 Sectoral classification of Gross Credit Exposures	Gross Credit Exposures (before Risk Mitigation) BD '000	Trading and manufacturing BD '000	Banks & Other Financial Institutions BD '000	Construction & Real Estate BD '000	Government & Public Sector BD '000	Individuals BD '000	Others BD '000
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	372,541	-	176,776	-	195,658	-	107
B) Public Sector Entities (PSEs) Portfolio	251,728	177,544	4,877	730	9,541	-	59,036
C) Banks Portfolio	574,849	82	568,345	2,639	-	-	3,783
D) Corporate Portfolio	1,014,550	358,582	116,265	304,164	62,412	53,035	120,092
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	198,795	3,991	8,492	42,668	-	142,783	861
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	-	-	-
G) Equity portfolio (contains all equities held in the banking book)	42,285	-	21,796	442	19,947	-	100
H) Investment in Funds portfolio	5,806	-	5,806	-	-	-	-
I) Past Due Portfolio	10,144	137	4,430	217	-	679	4,681
J) All other holdings of Real Estate	7,609	-	1,481	6,128	-	-	-
K) Holdings of securitisation Tranches	3,672	-	3,672	-	-	-	-
L) Other assets	92,870	4,154	24,576	18,981	-	38,779	6,380
M) Cash Items	10,096	-	-	-	-	-	10,096
<b>Total</b>	<b>2,584,945</b>	<b>544,490</b>	<b>936,516</b>	<b>375,969</b>	<b>287,558</b>	<b>235,276</b>	<b>205,136</b>
Aggregation	49,593	-	49,593	-	-	-	-
<b>Total Credit Risk</b>	<b>2,634,538</b>	<b>544,490</b>	<b>986,109</b>	<b>375,969</b>	<b>287,558</b>	<b>235,276</b>	<b>205,136</b>

## Basel II Pillar III Disclosure continued

2.7 Residual contractual maturity breakdown of the whole credit portfolio, broken down by standard portfolio	Gross Credit Exposures (before Risk Mitigation) BD '000	Less than 1 Month BD '000	Over 1 Month to 3 Months BD '000	Over 3 Months to 6 Months BD '000	Over 6 Months to 1 Year BD '000	Over 1 Year to 5 Years BD '000	Over 5 Years to 10 Years BD '000	Over 10 Years to 20 Years BD '000	Over 20 Years BD '000
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	372,541	235,874	37,610	15,012	18,901	42,251	22,785	-	108
B) Public Sector Entities (PSEs) Portfolio	251,728	6,713	5,033	5,015	78,702	10,986	105,024	40,255	-
C) Banks Portfolio	574,849	261,773	62,374	19,809	42,384	126,803	61,706	-	-
D) Corporate Portfolio	1,014,550	220,517	76,284	67,126	113,184	379,123	96,559	22,466	39,291
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	198,795	16,746	714	1,512	2,089	49,466	93,732	28,743	5,793
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	-	-	-	-	-
G) Equity portfolio (contains all equities held in the banking book)	42,285	2,961	-	1,533	-	-	-	-	37,791
H) Investment in Funds portfolio	5,806	-	-	-	-	-	-	-	5,806
I) Past Due Portfolio	10,144	9,387	-	2	2	597	156	-	-
J) All other holdings of Real Estate	7,609	-	-	1,612	-	-	-	-	5,997
K) Holdings of securitisation Tranches	3,672	1,644	-	-	-	529	1,499	-	-
L) Other assets	92,870	47,469	10,710	3,718	12,394	5,113	11,444	5	2,017
M) Cash Items	10,096	10,096	-	-	-	-	-	-	-
<b>Total</b>	<b>2,584,945</b>	<b>813,180</b>	<b>192,725</b>	<b>115,339</b>	<b>267,656</b>	<b>614,868</b>	<b>392,905</b>	<b>91,469</b>	<b>96,803</b>
Aggregation	49,593	-	-	-	-	-	-	-	49,593
<b>Total Credit Risk</b>	<b>2,634,538</b>	<b>813,180</b>	<b>192,725</b>	<b>115,339</b>	<b>267,656</b>	<b>614,868</b>	<b>392,905</b>	<b>91,469</b>	<b>146,396</b>

2.8 Impaired Loans, Provisions - Specific & Collective, Balances & Charges to Profit & Loss	Impaired & Past Due Loans / Facilities BD '000	Specific Impairment Provisions BD '000	Collective Impairment Provisions BD '000	Specific Impairment Recoveries/ Write Back BD '000	Write Offs BD '000
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	-	-	-	-	-
B) Public Sector Entities (PSEs) Portfolio	-	-	-	-	-
C) Banks Portfolio	4,408	4,408	-	-	-
D) Corporate Portfolio	54,233	35,260	-	770	(884)
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	12,875	12,517	3,710	2,577	(2,189)
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	-
G) Equity portfolio (contains all equities held in the banking book)	-	-	-	-	-
H) Investment in Funds portfolio	-	-	-	-	-
I) Past Due Portfolio	-	-	-	-	-
J) All other holdings of Real Estate	-	-	-	-	-
K) Holdings of securitisation Tranches	-	-	-	-	-
L) Other assets	-	-	-	-	-
M) Cash Items	-	-	-	-	-
<b>Total</b>	<b>71,516</b>	<b>52,185</b>	<b>3,710</b>	<b>3,347</b>	<b>(3,073)</b>

	Specific Impairment Provision BD '000	Collective Impairment Provision BD '000
<b>Reconciliation of Changes in Provisions for Loan Impairment</b>		
At beginning of the year	47,748	2,546
Amounts written off	(3,073)	-
Write backs / cancellation due to improvement	(2,129)	-
Additional provisions made	8,484	1,196
Exchange and other movements	556	(32)
Interest suspended during the year	1,831	-
Notional interest on impaired assets	(1,232)	-
<b>Balance at 31 December 2008</b>	<b>52,185</b>	<b>3,710</b>

2.9 Geographical distribution of Past Due Loans	Total BD '000	Gulf Co-operation Council Countries BD '000	North America BD '000	Europe BD '000	Asia BD '000	Rest of the world BD '000
Past Due Loans	71,516	66,078	-	-	5,438	-
Specific Impairment Provisions	52,185	46,890	-	-	5,295	-
Collective Impairment Provisions	3,710	3,388	-	-	322	-
Past Due Loans: Ageing Schedule	Total BD '000	3 months up to 1 year BD '000	Over 1 year to 3 years BD '000	Over 3 years BD '000		
Retail Loans	66,061	15,161	4,906	45,994		
Corporate Loans	5,454	111	370	4,973		
<b>Past Due Loans</b>	<b>71,516</b>	<b>15,272</b>	<b>5,276</b>	<b>50,968</b>		

2.10 Restructures Facilities	Balance of Restructured Credit Facilities BD '000	Magnitude of Restructured Credit Facilities BD '000	The Impact on Provisions BD '000	The Impact on Present Earnings BD '000	The Impact on Future Earnings BD '000	The Basic Nature of Concessions
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	-	-	-	-	-	
B) Public Sector Entities (PSEs) Portfolio	-	-	-	-	-	
C) Banks Portfolio	-	-	-	-	-	
D) Corporate Portfolio	5,677	5,677	-	-	-	Increase of monthly instalment, decrease in tenor of loan
E) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight)	2,706	2,706	-	-	-	Restructure of OD and Other facilities into Term loans
F) Commercial Mortgage eligible for 100% RW	-	-	-	-	-	
G) Equity portfolio (contains all equities held in the banking book)	-	-	-	-	-	
H) Investment in Funds portfolio	-	-	-	-	-	
I) Past Due Portfolio	-	-	-	-	-	
J) All other holdings of Real Estate	-	-	-	-	-	
K) Holdings of securitisation Tranches	-	-	-	-	-	
L) Other assets	-	-	-	-	-	
M) Cash Items	-	-	-	-	-	
<b>Total</b>	<b>8,383</b>	<b>8,383</b>	<b>-</b>	<b>-</b>	<b>-</b>	

## Basel II Pillar III Disclosure continued

### 3 Concentration Risk to Individuals Where the Exposure is in Excess of individual Obligor Limit of 15%

	BD '000
A) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs))	453
B) Public Sector Entities (PSEs) Portfolio	123
C) Banks Portfolio	-
D) Corporate Portfolio	165
<b>Total</b>	<b>741</b>

### 4 Derivatives

Credit derivative transactions which create exposures to CCR (notional value) are as follows:	BD '000
Credit default swaps (basket)	7,540
Credit default swaps (single name)	182,468
<b>Credit Derivatives Products Sold</b>	<b>190,008</b>

### 5 Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios

VaR Results for the Year 2008 (10 day holding period, 99% confidence interval)					
Asset Class	Limit	VaR 31/12/2008	High VaR	Low VaR	Average VaR
1 January - 31 December 2008					
Global (BAHRAIN & KUWAIT)					
	BD '000	BD '000	BD '000	BD '000	BD '000
Foreign Exchange	1,700	638	1,012	328	524
Interest Rate	200	114	161	47	106
<b>Total</b>	<b>1,900</b>	<b>752</b>	<b>1,108</b>	<b>429</b>	<b>630</b>

### 6 Equity Positions in the Banking Book

	Fair Value BD '000	Publicly Traded Equity Shares BD '000	Privately Held Equity Shares BD '000	Cumulative Realised Gains/ Losses 2008 BD '000	Unrealised Gains/ Losses in Equity BD '000	Included in Tier Two Capital BD '000	Capital Required BD '000
Equity Investments	57,358	37,575	19,783	24,155	13,122	5,905	7,040