Basel II Pillar III Disclosures

For the year ended 31 December 2009

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with the Pillar III disclosure requirements prescribed by the Central Bank of Bahrain [CBB].

CBB Basel II guidelines became effective on 1st January 2008 as the common framework for implementing the Basel accord.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2009 presented in accordance with the International Financial Reporting Standards [IFRS].

2 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 Assets (RWAs) and capital requirement. The capital requirement has to be covered by own regulatory framework.
- 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% compared to the Basel Committee's minimum ratio of 8 %.

The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5% above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 % 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 %. No separate minimum tier 1 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 are 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 the 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 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 % to the average gross income for the preceding three financial years.

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. The CBB is assessing financial strength and risk management practices of the institution, which will allow their setting of minimum capital ratios in excess of 8 %. Pending finalisation of the assessment process all banks incorporated in Bahrain are required to continue to maintain a 12 % 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 ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to strategical capital management.

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, or risk management and mitigation processes under Pillar II.

Pillar III

In the CBB's Basel II framework, the third pillar prescribes how, when, and at what level information should be 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, 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.

3 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, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:-

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Capinnova Investment Bank B.S.C. (c)	Kingdom of Bahrain	100%	Aggregation
Associate			
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23%	Aggregation
The Benefit Company B.S.C. (c)	Kingdom of Bahrain	22%	Aggregation
Joint Venture			
Sakana Holistic Housing Solutions B.S.C. (c)	Kingdom of Bahrain	50%	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.

4 CAPITAL COMPONENTS - CONSOLIDATED

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 unrealized 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 interim profits, qualifying subordinated term finance, collective impairment provisions, and unrealized gains arising from revaluation of equities classified as available-for-sale, though limited to 45%. It excludes unrealized gains arising from valuing debt securities classified as available-for-sale.

The subordinated term financing facilities, amounting to US$186 million (initial amount raised USD 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 two years. The subordinated financing facilities have been approved for inclusion in tier two capital for regulatory capital adequacy purposes by the CBB.

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 31st December 2009, BD 4.21 million (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.

	December 2009 BD '000	December 2008 BD '000
Tier 1 Capital		
Share capital	**82,290**	79,725
General reserves	**20,000**	20,000
Statutory reserves	**35,500**	32,792
Share premium	**39,919**	39,919
Retained earnings and others	**17,349**	18,655
Unrealized losses arising from fair valuing equities	**(2,790)**	-
Deductions from Tier 1 capital	**(38,933)**	(16,569)
Total Tier 1 Capital	**153,335**	174,522
Tier 2 Capital		
Current year profit	**35,013**	27,081
45% of unrealized gains arising from fair valuing equities	**6,203**	6,046
Collective impairement provisions	**6,248**	3,710
Subordinated term debt	**70,207**	93,873
Deductions from Tier 2 capital	**(38,933)**	(16,569)
Total Tier 2 Capital	**78,738**	114,141
Total Available Capital (Tier 1 + Tier 2)	**232,073**	288,663
Aggregation	**71,796**	31,778
Total Eligible Capital	**303,869**	320,441

Basel II Pillar III Disclosures continued

For the year ended 31 December 2009

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 recognized 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 %. The CBB's current minimum total capital adequacy ratio for banks incorporated in Bahrain is set at 12 %. The Capital Adequacy Ratio of the Group at 31 December 2009 was 17.51 % (2008: 20.06 %)

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 2 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 1 capital to support planned medium term asset growth.

Capital Ratios - Consolidated & Subsidiaries Above 5% of Group regulatory Capital

	December 2009		December 2008	
	Total Capital Ratio	**Tier 1 Capital Ratio**	Total Capital Ratio	Tier 1 Capital Ratio
BBK - Group	**17.51%**	**12.97%**	20.06%	12.91%
CrediMax	**72.86%**	**53.18%**	89.04%	53.51%
Capinnova Investment Bank	**269.50%**	**269.50%**	143.43%	143.40%

5 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:-

Sovereigns Portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 % 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 sovereigns portfolio and treated as exposures with a 0 % risk weighting.

Public Sector Entities (PSE) Portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a 0 % risk weight by their respective country regulator, can be assigned a 0 % 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.

Corporates Portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 % 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 % risk weight.

Regulatory Retail Portfolio
Claims on retail portfolio are risk weighted at 75%, 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%.

Commercial Mortgage Portfolio
Claims secured mortgages on commercial real estate are subject to a minimum of 100% 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 % risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 %. 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% if listed, and 150% 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 % or 150 % is applied depending on the level of provisions maintained against the loan.

All other Holding of Real Estate
All holding of real estate by banks (owned directly or by the way of investments in Real Estate Companies, subsidiaries or associate companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200%. Premises occupied by the bank are weighted at 100%.

Other assets and holdings of securitisation tranches
Other assets are risk weighted at 100 %. Securitisation tranches are risk weighted based on their external credit ratings. Risk weightings range from 20 % to 350 %. 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 securitizations 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.

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6 CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

31 December 2009	Gross Credit Exposures (before Risk Mitigation) BD '000	Eligible Financial Collateral BD '000	Credit Risk after Risk Mitigation BD '000	Risk Weighted Asset BD '000	Regulatory Capital Required 12% BD '000
Total Gross Credit Exposures					
Sovereign	**417,103**	**-**	**45,240**	**23,374**	**2,805**
Public Sector Entities	**197,338**	**-**	**11,586**	**3,209**	**385**
Banks	**605,428**	**1,630**	**543,551**	**282,642**	**33,917**
Corporates	**972,085**	**104,038**	**861,585**	**847,276**	**101,673**
Regulatory retail	**149,659**	**18,554**	**131,105**	**98,329**	**11,799**
Mortgage	**52,043**	**2,707**	**49,336**	**37,233**	**4,468**
Equity	**52,232**	**-**	**-**	**58,120**	**6,974**
Investment in funds	**4,532**	**-**	**4,532**	**6,798**	**816**
Past due	**226**	**3**	**223**	**223**	**27**
Real estate	**24,130**	**-**	**-**	**48,260**	**5,791**
Securitisation	**5,190**	**-**	**5,190**	**5,190**	**623**
Other assets	**118,907**	**7,123**	**111,785**	**111,785**	**13,414**
Cash items	**14,010**	**-**	**-**	**267**	**32**
Total	**2,612,883**	**134,055**	**1,764,133**	**1,522,706**	**182,724**
Aggregation	**56,677**	**-**	**56,677**	**56,677**	**6,801**
Total Credit Risk	**2,669,560**	**134,055**	**1,820,810**	**1,579,383**	**189,525**
Market Risk	**-**	**-**	**-**	**14,372**	**1,725**
Operational Risk	**-**	**-**	**-**	**142,073**	**17,049**
Total Risk Weighted Exposure	**2,669,560**	**134,055**	**1,820,810**	**1,735,828**	**208,299**

31 December 2008	Gross Credit Exposures (before Risk Mitigation) BD '000	Eligible Financial Collateral BD '000	Credit Risk after Risk Mitigation BD '000	Risk Weighted Asset BD '000	Regulatory Capital Required 12% BD '000
Total gross Credit Exposures					
Sovereign	372,541	-	48,539	20,641	2,477
Public Sector Entities	251,728	-	9,194	1,839	221
Banks	574,849	406	532,145	176,575	21,189
Corporates	1,014,550	86,502	922,710	917,651	110,118
Regulatory retail	198,795	31,846	124,818	125,212	15,025
Mortgage	-	-	-	-	-
Equity	42,285	-	42,131	52,038	6,245
Investment in funds	5,805	-	6,686	8,708	1,045
Past due	10,144	3	5,141	10,157	1,219
Real estate	7,609	-	-	15,218	1,826
Securitisation	3,672	-	3,672	3,672	441
Other assets	92,871	11,658	65,675	81,212	9,745
Cash items	10,096	-	-	132	16
Total	2,584,945	130,415	1,760,711	1,413,055	169,567
Aggregation	49,593	-	49,593	49,593	5,951
Total Credit Risk	2,634,538	130,415	1,810,304	1,462,648	175,518
Market Risk	-	-	-	14,338	1,721
Operational Risk	-	-	-	120,533	14,464
Total Risk Weighted Exposure	2,634,538	130,415	1,810,304	1,597,519	191,702

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.

7 FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

	2009		2008	
Total gross Credit Exposures	**Total Funded Credit Exposure BD '000**	**Total Un-Funded Credit Exposure BD '000**	Total Funded Credit Exposure BD '000	Total Un-Funded Credit Exposure BD '000
Sovereign	**371,851**	**45,252**	301,999	70,542
Public Sector Entities	**174,885**	**22,453**	214,923	36,805
Banks	**434,202**	**171,226**	415,148	159,701
Corporates	**823,538**	**148,547**	856,370	158,180
Regulatory retail	**146,611**	**3,048**	196,746	2,049
Mortgage	**52,043**	**-**	-	-
Equity	**52,232**	**-**	42,285	-
Investment in funds	**4,278**	**254**	5,523	282
Past due	**226**	**-**	10,144	-
Real estate	**24,130**	**-**	7,609	-
Securitisation	**5,190**	**-**	3,672	-
Other assets	**105,952**	**12,955**	68,844	24,027
Cash items	**14,010**	**-**	10,096	-
Total	**2,209,148**	**403,735**	2,133,359	451,586
Aggregation	**56,677**	**-**	49,593	-
Total Credit Risk at 31 December	**2,265,825**	**403,735**	2,182,952	451,586

8 AVERAGE CREDIT EXPOSURE

	2009 Quarterly Average BD '000	2008 Quarterly Average BD '000
Sovereign	**343,001**	458,013
Public Sector Entities	**220,255**	278,951
Banks	**426,766**	637,177
Corporates	**989,614**	869,357
Regulatory retail	**146,782**	203,441
Mortgage	**48,495**	6,656
Equity	**46,123**	35,538
Investment in funds	**6,722**	6,673
Past due	**3,265**	18,984
Real estate	**24,839**	7,666
Securitisation	**5,968**	5,228
Other assets	**113,899**	148,471
Cash items	**11,558**	9,732
Total	**2,387,287**	2,685,887
Aggregation	**60,067**	42,743
Total Credit Risk	**2,447,354**	2,728,630

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9 CONCENTRATION OF CREDIT RISK BY REGION

	GCC BD '000	North America BD '000	Europe BD '000	Asia BD '000	Others BD '000	Total BD '000
Cash and balances with central banks	159,795	2	-	2,611	-	162,408
Treasury bills	61,655	-	-	-	-	61,655
Deposits in banks & other financial institutions	182,407	61,566	60,792	6,403	9,429	320,598
Loans & advances to customers	1,213,902	349	1,711	47,358	5,242	1,268,562
Investment securities	266,337	30,273	33,673	18,112	8,756	357,151
Other assets	36,501	-	-	2,271	-	38,772
Total funded exposure	1,920,596	92,190	96,177	76,756	23,427	2,209,146
Unfunded commitments & contingents	277,373	2,339	47,584	76,440	-	403,737
Aggregation	56,677	-	-	-	-	56,677
Total Credit Risk at 31 December 2009	2,254,646	94,529	143,761	153,196	23,427	2,669,560
Total Credit Risk at 31 December 2008	2,163,095	34,803	103,728	198,287	134,626	2,634,538

10 CONCENTRATION OF CREDIT RISK BY INDUSTRY

	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	Total BD '000
Cash and balances with central banks	-	4,518	-	2,567	-	155,324	162,408
Treasury bills	-	-	-	61,655	-	-	61,655
Deposits in banks & other financial institutions	-	320,565	-	-	-	32	320,598
Loans & advances to customers	334,890	148,645	309,461	85,264	220,099	170,204	1,268,562
Investment securities	51,328	167,757	36,459	90,330	-	11,277	357,151
Other assets	155	244	-	198	7	38,168	38,772
Total funded exposure	386,374	641,729	345,919	240,013	220,106	375,006	2,209,146
Unfunded commitments & contingents	94,362	186,687	87,157	5,752	6,697	23,081	403,737
Aggregation		56,677					56,677
Total Credit Risk at 31 December 2009	480,736	885,093	433,076	245,765	226,803	398,086	2,669,560
Total Credit Risk at 31 December 2008	544,490	986,108	375,969	287,558	235,276	205,138	2,634,538

11 CONCENTRATION OF CREDIT RISK BY MATURITY

	Less than 1 Month BD '000	1 Month to 3 Months BD '000	3 Months to 6 Months BD '000	6 Months to 1 Year BD '000	1 to 5 Years BD '000	5 to 10 Years BD '000	10 to 20 Years BD '000	More than 20 Years BD '000	Total BD '000
Cash and balances with central banks	**160,078**	**270**	**677**	**587**	**796**	**-**	**-**	**-**	**162,408**
Treasury bills	**20,707**	**24,960**	**5,635**	**10,353**	**-**	**-**	**-**	**-**	**61,655**
Deposits in banks & other financial institutions	**251,583**	**69,015**	**-**	**-**	**-**	**-**	**-**	**-**	**320,598**
Loans & advances to customers	**76,706**	**67,874**	**117,242**	**115,660**	**484,380**	**274,294**	**96,279**	**36,126**	**1,268,562**
Investment securities	**9,339**	**37,771**	**38,423**	**38,194**	**106,867**	**49,574**	**-**	**76,983**	**357,151**
Other assets	**1,531**	**282**	**94**	**26**	**550**	**-**	**-**	**36,289**	**38,772**
Total funded exposure	**519,942**	**200,172**	**162,072**	**164,821**	**592,594**	**323,868**	**96,279**	**149,398**	**2,209,146**
Unfunded commitments & contingents	**50,418**	**80,502**	**144,012**	**126,759**	**1,655**	**35**	**154**	**202**	**403,737**
Aggregation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,677**	**56,677**
Total Credit Risk at 31 December 2009	**570,360**	**280,674**	**306,084**	**291,580**	**594,249**	**323,903**	**96,433**	**206,277**	**2,669,560**
Total Credit Risk at 31 December 2008	813,180	192,725	115,339	267,656	614,868	392,906	91,468	146,392	2,634,538

12 IMPAIRED LOANS AND PROVISIONS

	2009			2008		
	Principal & Interest Outstanding BD '000	**Impaired Loans BD '000**	**Specific provisions BD '000**	Principal & Interest Outstanding BD '000	Impaired Loans BD '000	Specific provisions BD '000
Manufacturing	**225,932**	**20,671**	**14,371**	251,823	24,994	17,472
Mining and quarrying	**2,064**	**-**	**-**	37,939	-	-
Agriculture, fishing and forestry	**692**	**149**	**150**	766	133	133
Construction	**145,851**	**17,373**	**3,833**	144,928	11,930	8,520
Financial	**139,615**	**45,984**	**17,687**	158,461	4,408	4,408
Trade	**118,367**	**7,544**	**2,959**	141,324	8,501	2,236
Personal / Consumer finance	**118,400**	**15,914**	**12,479**	151,527	12,754	12,513
Commercial real estate financing	**269,348**	**25,172**	**1,036**	280,295	2,592	1,404
Mortgage	**53,375**	**1,423**	**104**	43,829	121	4
Government	**86,114**	**-**	**-**	65,994	-	-
Technology, media and telecommunications	**60,513**	**509**	**357**	57,009	493	345
Transport	**42,043**	**4,894**	**4,893**	30,270	5,158	4,812
Other sectors	**70,619**	**249**	**253**	44,004	432	339
Total at 31 December	**1,332,933**	**139,882**	**58,122**	1,408,169	71,516	52,186

13 RECONCILIATION OF CHANGES IN PROVISIONS

	2009		2008	
	Specific Impairment Provisions BD '000	Collective Impairment Provisions BD '000	Specific Impairment Provisions BD '000	Collective Impairment Provisions BD '000
At beginning of the year	**52,185**	**3,710**	47,748	2,546
Amounts written off	**(5,664)**	**-**	(3,073)	-
Write backs / cancellation due to improvement	**(1,655)**	**-**	(2,137)	-
Additional provisions	**12,368**	**2,446**	8,495	1,196
Exchange adjustment and other movements	**1,587**	**91**	2,363	(32)
Notional interest on impaired loans	**(699)**	**-**	(1,210)	-
Balance at reporting date	**58,122**	**6,247**	52,186	3,710

14 PAST DUE LOANS BY REGION

2009	GCC BD '000	Asia BD '000	Total BD '000
Past Due Loans	**139,008**	**874**	**139,882**
Specific Impairment Provisions	**57,261**	**861**	**58,122**
Collective Impairment Provisions	**5,924**	**324**	**6,248**

2008	GCC BD '000	Asia BD '000	Total BD '000
Past Due Loans	66,078	5,438	71,516
Specific Impairment Provisions	46,891	5,295	52,186
Collective Impairment Provisions	3,388	322	3,710

15 AGING OF PAST DUE LOANS

2009	3 months up to 1 year BD '000	1 up to 3 years BD '000	Over 3 years BD '000	Total BD '000
Gross Impaired Loans	**73,219**	**13,544**	**53,120**	**139,883**
Less: Specific Provisions	**14,289**	**774**	**28,172**	**43,235**
Less: Interest in Suspense	**1,649**	**221**	**13,017**	**14,887**
Net Outstanding	**57,281**	**12,549**	**11,931**	**81,761**
Market value of collateral	**34,550**	**6,788**	**30,844**	**72,182**

2008	3 months up to 1 year BD '000	1 up to 3 years BD '000	Over 3 years BD '000	Total BD '000
Gross Impaired Loans	15,272	5,276	50,968	71,516
Less: Specific Provisions	408	3,767	32,410	36,585
Less: Interest in Suspense	191	480	14,928	15,599
Net Outstanding	14,673	1,029	3,630	19,332
Market value of collateral	4,780	1,733	57,112	63,625

16 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

VaR Results for the December 31st 2009 (10 day 99%) Global (BAHRAIN & KUWAIT) January 1, -December 31, 2009					
Asset Class	**Limit BD '000**	**VaR 31/12/2009 BD '000**	**High VaR BD '000**	**Low VaR BD '000**	**Average VaR BD '000**
Foreign Exchange	**1,700**	**589**	**997**	**516**	**681**
Interest Rate	**200**	**122**	**131**	**1**	**28**
Total	**1,900**	**712**	**1,119**	**524**	**709**

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

17 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	2009 BD '000	2008 BD '000
Sovereign	**59,420**	37,700
Corporate	**-**	-
Total	**59,420**	37,700

18 CREDIT DERIVATIVES EXPOSURE

	2009 BD '000	2008 BD '000
FTD	**11,310**	7,540
CDS	**142,506**	182,468
Credit Derivatives Products sold	**153,816**	190,008

19 EQUITY POSITIONS IN THE BANKING BOOK

	2009 BD '000	2008 BD '000
Publicly Traded Equity Shares	**27,632**	26,399
Privately Held Equity Shares	**40,963**	24,853
Total	**68,595**	51,252
Realised Gains/ Losses	**-**	-
Unrealised Gains/ Losses in Equity	**10,995**	13,092
Included in Tier Two Capital *(45% of Cumulative change in fair value)*	**6,203**	6,046
Capital Required	**8,231**	6,150

20 LIQUIDITY RISK

As of 31 December 2009	Less than 1 month BD'000	1 month to 3 months BD'000	3 months to 6 months BD'000	6 months to 1 year BD'000	1 to 5 years BD'000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
LIABILITIES									
Deposits and due to banks and other financial institutions	**257,974**	**46,009**	**7,597**	**2,017**	**-**	**-**	**4**	**32**	**313,633**
Term borrowings	**-**	**506**	**510**	**1,031**	**190,145**	**71,983**	**93**	**-**	**264,269**
Customers' current, savings and other deposits	**1,264,554**	**183,950**	**47,535**	**16,374**	**12,967**	**5**	**9**	**-**	**1,525,394**
Total undiscounted financial liabilities 2009	**1,522,528**	**230,465**	**55,642**	**19,422**	**203,112**	**71,988**	**106**	**32**	**2,103,296**
Derivative financial instruments									
-Contractual amounts payable	**(26,728)**	**(5,366)**	**(1,583)**	**(2,107)**	**-**	**-**	**-**	**-**	**(35,784)**
-Contractual amounts receivable	**26,886**	**5,370**	**1,585**	**1,561**	**129**	**18**	**-**	**-**	**35,549**
	158	**4**	**2**	**(546)**	**129**	**18**	**-**	**-**	**(235)**

As of 31 December 2008	Less than 1 month BD'000	1 month to 3 months BD'000	3 months to 6 months BD'000	6 months to 1 year BD'000	1 to 5 years BD'000	5 - 10 years BD '000	10 - 20 years BD '000	More than 20 years BD '000	Total BD '000
LIABILITIES									
Deposits and due to banks and other financial institutions	217,811	29,399	73	480	4,065	-	-	-	251,828
Term borrowings	187	1,815	2,002	50,639	202,539	101,274	-	-	358,456
Customers' current, savings and other deposits	1,215,029	45,966	51,295	21,820	11,428	7	9	-	1,345,554
Total undiscounted financial liabilities 2008	1,433,027	77,180	53,370	72,939	218,032	101,281	9	-	1,955,838
Derivative financial instruments									
- Contractual amounts payable	(57,904)	(72)	-	(1,581)	(98)	(30)	-	-	(59,685)
- Contractual amounts receivable	56,211	74	-	1,090	351	4	-	-	57,730
	(1,693)	1	-	(491)	253	(26)	-	-	(1,955)