

TAIB Bank B.S.C (c)

Pillar 3 - Disclosures

31 December 2010

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1. Introduction

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. This report consists of the Basel Committee's Pillar 3 disclosure requirements in accordance with the Public Disclosures Module of the CBB's rule book. The objective of Pillar 3 is to improve market discipline through effective public disclosures.

Under the CBB's Basel II framework, all banks incorporated in Bahrain are currently required to maintain 12% minimum capital adequacy on a group wide consolidated basis. 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% as applicable, 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 the Group to maintain an effective minimum capital adequacy ratio of 12.5% on consolidated basis.

The Bank has adopted the standardized approach for Credit Risk, Market Risk and Operational Risk to determine the capital requirement.

As at 31 December 2010, the Group's total risk weighted assets amounted to US\$ 259.26 million and total regulatory capital amounted to US\$ 33.32 million. Accordingly, total Capital Adequacy Ratio on a consolidated basis for the group as at 31 December 2010 was 12.85%. This ratio exceeds the minimum capital requirements under the CBB's Basel II framework.

The Bank views the Basel II Pillar 3 disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

This report should be read in conjunction with the Bank's consolidated Financial Statements including notes to the consolidated Financial Statements and Annual Report for the year ended 31 December 2010. There is a growing convergence of disclosures under International Financial Reporting Standards (IFRS) and the Basel II Pillar 3 disclosure requirements, which are in addition to or in some cases, serve to clarify the disclosure requirements of IFRS.

All figures presented in this report are in thousands of United States Dollars as at 31 December 2010 unless otherwise stated.

2. Pillar 3 Disclosures

2.1 Scope of Application

The Pillar 3 disclosures apply to TAIB Bank B.S.C (c) and its subsidiaries on a full consolidation basis in accordance with IFRS. The subsidiaries, their place of domicile and the Bank's ownership thereof are as under:

Table 1 – Group Structure

Subsidiary	Domicile	Ownership
TAIB Yatirim Bank A.S.	Turkey	100%
TAIB Yatirim A.S.*	Turkey	100%
PDF Kurusmal Finasman Danismanlik Hizmetleri A.S.*	Turkey	100%
TAIB Kazak Bank	Kazakhstan	100%
TAIB Securities W.L.L.	Kingdom of Bahrain	100%
TAIB Securities LLC **	United Arab Emirates	80%
TAIB Capital Corporation Limited	India	74%
TAIB Securities (India) Limited***	India	74%
TAIB Asset Management Company E.C.	Kingdom of Bahrain	100%
TAIB Securities Mauritius Limited	Mauritius	100%
TAIB Investments N.V.	Netherlands Antilles	100%
TAM Holdings Inc.****	USA	100%
Delray Property Investments Inc.****	USA	100%
SOSQ Property Investments Inc. ****	USA	100%
TAM Management Services Inc.****	USA	100%
TAIB Securities Inc.****	USA	100%
TAIB Securities Limited	United Kingdom	100%
TAIB (Suisse) S.A.	Switzerland	100%
TAIB Asia Limited	Hong Kong	100%
TAIB Invest Inc. *****	Cayman Islands	100%
TAIB Investment Company Ltd	Mauritius	100%
TAIB Funds Company	Kingdom of Bahrain	100%
TAIB GCC Blue Chip Fund *****	Kingdom of Bahrain	79%
TAIB Bank Qatar LLC *****	Qatar	100%
TB Directors Limited	British Virgin Islands	100%

* TAIB Yatirim A.S. and PDF Kurusmal Finasman are a 100% subsidiary of TAIB Yatirim Bank A.S

** TAIB Securities LLC. is a 80% subsidiary of TAIB Securities W.L.L.

*** TAIB Securities (India) Limited is a 100% subsidiary of TAIB Capital Corporation Limited.

**** TAM Holdings Inc. is a 100% subsidiary of TAIB Investments NV, TAM Management, Delray, SOSQ and TAIB Securities Inc. are 100% subsidiaries of TAM Holdings Inc.

***** Currently in the process of Liquidation

***** TAIB Bank Qatar LLC was liquidated during the year.

2.2 Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholders' equity is also considered while maintaining a balance between the higher return that might be possible with leveraging and security afforded by sound capital position to absorb risks. The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalized status under regulatory requirements. The Bank has Internal Capital Allocation Assessment Process (ICAAP) with the supporting Risk Management Framework and Risk Management Policies and Procedures to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include strategic risk, reputation and legal risk, concentration risk, liquidity risk, interest rate risk in the banking book etc. The ICAAP also keeps in perspective the Bank's strategic plans and credit growth expectations and the impact of all these on maintaining adequate capital levels. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank's subsidiaries operate. The Bank has complied with regulatory capital requirements at 31 December 2010.

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights. The Bank does not have any other type of capital instruments. The Bank's Tier 1 capital comprises of share capital, share premium, eligible reserves and adjusted for retained profit or losses. The eligible reserves in Tier 1 exclude gains arising on asset revaluation reserve and re-measurement to fair value of available-for-sale financial assets. Further, the following items are adjusted from Tier 1 capital as per CBB guidelines:

- Unrealized losses on available-for-sale financial assets and goodwill are deducted.
- Losses for the year 2010 pursuant to external audit are also deducted.

The Bank's Tier 2 capital comprises 45% of asset revaluation reserve and unrealized gains arising on the re-measurement to fair value of available-for-sale financial assets.

Deductions relating to exposures in excess of 15% threshold of available capital have also been made from the Tier 1 and Tier 2 capital of the Bank as required by the CBB guidelines. The Bank does not have Tier 3 capital as at 31 December 2010.

The Bank has neither any subsidiary engaged in insurance business nor investments in insurance companies.

Table 2 – Capital Structure and Capital Adequacy

	Tier 1	Tier 2	Total
Share capital	106,858	-	106,858
Share premium	1,510	-	1,510
Statutory reserve	22,432	-	22,432
General reserve	7,427	-	7,427
Retained profit brought forward	(47,327)	-	(47,327)
Minority interest in consolidated subsidiaries	614	-	614
Goodwill on acquisition	(3,607)	-	(3,607)
Current cumulative net losses	(38,613)	-	(38,613)
Unrealised gross losses arising from fair valuing equity securities	(62)	-	(62)
Asset revaluation reserve - property, plant and equipment	-	1,904	1,904
Unrealised gains arising from fair valuing equities	-	630	630
Total Available Capital	49,232	2,534	51,766
Less: Deduction relating to exposures individually in excess of 15% of available capital	(15,914)	(2,534)	(18,448)
Total Eligible Capital	33,318	-	33,318
Risk weighted exposures:			
- Credit risk			163,181
- Operational risk			46,496
- Market risk			49,586
Total Risk weighted exposure			259,263
Consolidated Capital Adequacy Ratio (%) :			
Tier 1 & Total			12.85%

The Bank does not have Tier 3 capital as at 31 December 2010.

Table 3 – Capital Adequacy of the Bank’s significant bank subsidiaries.

<i>Under Basel II</i>	Subsidiaries	
	TAIB Kazak Bank JSE, Kazakhstan	TAIB Yatirim Bank A.S, Turkey
Tier 1 – Capital Adequacy Ratio (%)	148.77	65.15
Total – Capital Adequacy Ratio (%)	226.60	65.15

2.3 Credit Risk

As a private bank, the Bank is not engaged in commercial or retail banking activities in the normal course of business except for its commercial bank licensed subsidiary in Kazakhstan, and loans for margin trading activities and portfolio investments to selected high net worth clients. However, credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities both on and off balance sheet.

The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB’s Basel II capital adequacy framework for the standardized approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets (“RWA”) are as follows:

Sovereigns

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are zero per cent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. 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 zero per cent risk weighting.

Banks

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

Corporates

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 zero per cent risk weight.

Equities Investments

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale financial assets portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

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.

Real Estates Investments

Holdings of real estates, owned directly or indirectly by the Bank other than own premises, are risk weighted at 200% and premises occupied by the Bank are risk weighted at 100% as per CBB guidelines.

In addition to the standard portfolios, other exposures are risk weighted as under:

Past due exposures

In accordance with the Bank's policy and CBB guidelines, loans on which payment of interest or repayment of principal are 90 days past due are defined as non-performing. All past due loan exposures, irrespective of the categorization of the exposure, are classified separately under the past due exposures asset class. A risk weighting of either 100% or 150% is applied depending on the level of specific provision maintained against the exposure.

Other assets are risk weighted at 100%.

External Credit Assessment Institutions (ECAI)

The Bank uses ratings issued by Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures.

Table 4 – Capital requirement for credit risk

Basel II Asset Classification	Rated	Unrated	Total exposure (*)	Average risk weight	RWA	Capital charge
Cash Items	-	850	850	0%	-	-
Cash items in the process of collection	-	-	-	0%	-	-
Claims on sovereigns	31,588	-	31,588	16%	5,016	602
Claims on banks	72,580	11,045	83,625	45%	37,645	4,517
Claims on corporates	-	16,059	16,059	100%	16,059	1,927
Past due exposures	-	4,786	4,786	147%	7,018	842
Investment in equity portfolio	138	6,455	6,593	149%	9,820	1,178
Investment in funds	-	702	702	150%	1,053	126
Holding of Real Estate including premises occupied by the bank	-	41,055	41,055	182%	74,524	8,943
Others Assets	-	12,046	12,046	100%	12,046	1,446
Total Credit Risk under the Standardized Approach	104,306	92,998	197,304	83%	163,181	19,581

(*) Exposure post credit risk mitigation and credit conversion.

Table 5 – Gross credit exposure

Balance sheet Items:	Gross credit exposure	Average gross credit exposure
Cash and balances with central banks	72,717	69,206
Placements with banks	42,240	77,932
Loans and advances	16,591	21,343
Available-for-sale financial assets	30,036	42,176
Investment in associate	7,765	14,443
Investment property	17,186	22,156
Property and equipment	13,429	16,010
Other assets	5,376	9,111
Total on balance sheet credit exposure	205,340	272,377
Off balance sheet items:		
Direct credit substitutes	8,045	15,119
Notes issuance and revolving underwriting facilities	300	316
Derivatives - foreign exchange contracts	185	452
Total off balance sheet credit exposure	8,530	15,887
Total credit exposure (*)	213,870	288,264

(*) Exposure before credit risk mitigation.

The average gross credit exposure is calculated based on balances as at 31 December 2009, 30 June 2010 and 31 December 2010.

Table 6 – Credit exposure by geographical segments

Credit exposure	North America	Europe	Middle East	Rest of Asia	Total
Cash and balances with central banks	733	1,972	9,797	60,215	72,717
Placements with banks	7,830	1,159	30,460	2,791	42,240
Loans and advances	-	-	11,030	5,561	16,591
Available-for-sale financial assets	1,707	8,890	68	19,371	30,036
Investment in associate	-	3,078	4,687	-	7,765
Investment property	11,075	-	5,269	842	17,186
Property and equipment	9	1,865	10,095	1,460	13,429
Other assets	2,216	384	1,058	1,718	5,376
Off balance sheet items	-	80	5,636	2,814	8,530
Total	23,570	17,428	78,100	94,772	213,870

Exposure to Europe comprises of United Kingdom, France and Turkey

Exposure to North America comprises United States of America

Exposure to Middle East comprise of Bahrain, UAE, Saudi Arabia, Oman, Kuwait and Qatar.

Exposure to Rest of Asia comprises of China, India and the Far East.

Table 7 – Credit exposure by sectoral segments

	Cash, balances with central Banks and placements	Loans and advances	Investment	Others	Off-balance sheet items	Total
Financial services	114,904	-	-	3,395	5,336	123,635
Government	53	-	-	-	-	53
Structured finance	-	-	2,009	-	-	2,009
Trade and transport	-	1,286	-	-	1,119	2,405
Real estate	-	-	32,679	-	-	32,679
Equity funds	-	-	20,274	53	-	20,327
Others	-	15,305	25	15,357	2,075	32,762
Total	114,957	16,591	54,987	18,805	8,530	213,870

Table 8 – Related party transaction

	Associates	Directors and senior management	Total
<u>Income Statement :</u>			
Interest income	-	3	3
Interest expense	3,925	184	4,109
Reimbursement of Directors expenses	-	48	48
Key management compensation	-	980	980
<u>Balance Sheet :</u>			
Deposits from customers	59,020	24,277	83,297

The Bank carries out transactions with related parties, defined as shareholders and directors of the Bank and its subsidiaries, and businesses in which shareholders and directors, individually or combined, have control or significant influence, in the normal course of business.

Table 9 - Discussion on lending to highly leveraged and other high risk counterparties:

The Group does not have any exposure to highly leveraged counterparties.

Table 10 – Credit concentration greater than 15% of individual obligor limit.

	Amount
Bank	-
Non bank	33,978

Table 11 – Counterparty credit risk in derivative transaction

	Notional amount	Credit exposure	Capital requirement
Direct credit substitutes	8,045	8,045	965
Notes issuance and revolving underwriting facilities	600	300	36
Foreign exchange contracts	11,858	185	22
Total	20,503	8,530	1,023

Table 12 – Credit exposure by maturity

	Below 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 to 10 years	Total
Exposures						
Cash and balances with central banks	72,717	-	-	-	-	72,717
Placements with banks	33,989	-	8,251	-	-	42,240
Loans and advances	10,047	1,973	1,710	2,861	-	16,591
Available-for-sale financial assets	471	2,197	2,877	18,544	5,947	30,036
Investment in associate	-	-	-	7,765	-	7,765
Investment property	-	-	-	17,186	-	17,186
Property and equipment	958	-	503	10,940	1,028	13,429
Other assets	4,391	2	329	441	213	5,376
Total on balance sheet	122,573	4,172	13,670	57,737	7,188	205,340
Off balance sheet	904	650	6,752	224	0	8,530
Total	123,477	4,822	20,422	57,961	7,188	213,870

Table 13 – Provision for investments - sectoral segments

	Property interest held for sale - equity	Private equity	Funds	Total
At 1 January 2010	28,624	8,246	2,506	39,376
Charge for the year	3,138	744	-	3,882
Amounts utilized		(739)	-	(739)
Exchange rate movement		(4)	-	(4)
At 31 December 2010	31,762	8,247	2,506	42,515

Table 14 – Provision for investments and related exposures

	Gross exposure	Provisions	Net exposure
Property interests held for sale - equity	36,740	31,762	4,978
Private equity investments	8,247	8,247	-
Funds	2,506	2,506	-
Total	47,493	42,515	4,978

During 2010, fair value loss relating to available-for-sale financial assets amounting to US\$ 0.2 million (2009: 1.1 million) was charged directly to the income statement.

Table 15 – Provision for investments and related exposure - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	22,587	21,321	355	3,230	47,494
Specific impairment provision	(22,587)	(16,400)	(355)	(3,173)	(42,515)

The Bank does not have any significant collective impairment provision at 31 December 2010.

Table 16 – Provision for loans and advances - sectoral segments

	Gross Exposure	Specific Provision
Financial Services	1,535	(1,535)
Trade	18,618	(4,295)
Technology	568	(568)
Other Sectors	9,760	(7,914)
Total	30,481	(14,312)

No provision has been made on impaired loans amounting to US\$ 3.1 million as the Bank holds collateral in the form of shares and cash. Impaired loans are past due over 3 years.

Table 17 – Provisions for loans and advances - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	1,537	4,604	14,764	9,576	30,481
Specific impairment provision	(1,537)	(4,605)	(4,155)	(4,015)	(14,312)

Table 18 – Provision movement for loans and advances - sectoral segments

	Financial Institutions	Corporate	Retail	Total
At 1 January 2010	4,649	5,920	2,403	12,972
Charge for the year	-	292	1,225	1,517
Reversals & Other Movements	-	(1)	(176)	(177)
At 31 December 2010	4,649	6,211	3,452	14,312

2.4 Credit Risk Mitigation

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

Adjusted exposure amount: The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

Collateral and valuations principles

The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered in one of the subsidiaries (Kazakhstan) include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collaterals recognized under Basel II are taken into consideration and there are no significant concentrations in such eligible collaterals taken for credit risk mitigation.

The Bank's credit policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuers as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the credit worthiness and financial standing and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

Table 19 – Eligible financial collateral

Basel II Asset Classification	Gross credit exposure	Eligible Credit Risk Mitigant (CRM)	Net exposure
Cash items	850	-	850
Claims on sovereigns	31,588	-	31,588
Claims on banks	95,533	(11,908)	83,625
Claims on corporates	20,717	(4,658)	16,059
Past due exposures	4,786	-	4,786
Investment in equity portfolio	6,593	-	6,593
Investment in funds	702	-	702
Holding of Real Estate including premises occupied by the Bank	41,055	-	41,055
Others Assets	12,046	-	12,046
Total Credit Risk under the Standardized Approach	213,870	(16,566)	197,304

On and off-balance sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

2.5 Market Risk

The Bank uses the Standardized Approach for assessing the capital charge for market risk to cover interest rate risk, equity risk and foreign exchange risk. Total risk weighted assets are determined by multiplying the capital charge by 12.5.

The Bank has documented policies and procedures for the management of the trading portfolio. The Group seeks to manage the market risks it faces through diversification of exposures across dissimilar markets and the establishment of hedges in related securities, wherever necessary. To manage the Group's exposures, in addition to exercising business judgment and management experience, the Group utilizes limit structures, including those relating to positions, portfolios, maturities and maximum allowable stop loss and book profit limits.

The back office in the Corporate Services Division, which is independent of the front office, is responsible for valuation which is done on an ongoing basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

The Bank does not have any exposures to commodity risk.

Table 20 – Capital requirement for components of market risk

	RWA	Capital requirement	Minimum value	Maximum value
Interest rate position risk	50	4	4	44
Equities position risk	9,950	796	761	869
Foreign exchange risk	39,286	3,143	2,430	3,143
Total general market risk	49,286	3,943	3,195	4,056
Total specific market risk	300	24	24	620
Total	49,586	3,967	3,219	4,676

2.6 Operational Risk

The Bank constantly strives to minimize operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organization and enhanced where necessary. A rigid internal check system is in place by the separation of front office and back office functions, internal audit and a higher degree of automation of mid-office and back office functions.

The Bank has in place an Operational Risk Management Framework (ORMF) supported by process for Risk and Control Self-Assessment (RCSA) and Operational Procedure guidelines. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Bank uses the standardized approach for calculating operational risk capital charges. In this approach, the Bank's activities are divided into eight business lines according to Basel II guidelines. The capital charge for each business line is calculated by multiplying gross income by a factor (denoted by beta) assigned to that business line. Total risk weighted assets are determined by multiplying the capital charge by 12.5.

Table 21 – Capital requirement for Operational Risk

	2009	2008	2007
Gross income	7,101	5,214	39,884
Capital charge	1,431	3,750	5,978
Average of capital charges for 3 years			3,720
Operational Risk Weighted Exposure			46,496

2.7 Equity Position in Banking Book

The Bank holds certain investments in equity securities with the objective of gaining strategic advantage as well as capital appreciation on sale thereof. All equity positions in the Banking book are classified as “Available-for-Sale”. The accounting policies for “Available-for-Sale” instruments are described in detail in the Financial Statements under “Significant Accounting Policies”.

Table 22 – Equity position in banking book

	Gross risk-weighted exposures	Capital requirement
Listed	138	11
Unlisted	6,455	516
Total	6,593	527

Table 23 – Unrealized gains and losses

	Amount	
Total unrealized gains and losses recognized on the balance sheet but not through the income statement		
Fair value reserve (net)		1,337
Unrealized gains and losses included in Tier One and Tier Two capital		
	Tier 1	Tier 2
Fair value reserve:		
Unrealized gross losses arising from fair valuing equity securities	62	
Unrealized gains arising from fair valuing equity securities		630
Asset revaluation reserve:		
Property, plant and equipment		1,904

2.8 Interest Rate Risk in Banking Book

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilized to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels. Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, the Asset Liability Committee ("ALCO") regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket.

Table 24 – Interest rate risk in banking book

Assets	Less than 3 months	3 months to 1 year	Over 1 year	Non- Interest bearing	Total
Cash and balances with central banks	-	-	-	72,560	72,560
Placements with banks	33,989	8,251	-	-	42,240
Financial Assets at fair value through profit or loss	-	-	302	4,976	5,278
Loans and advances	11,598	1,710	2,860	-	16,169
Available-for-sale financial assets	1,572	2,744	10,012	51,977	66,305
Investment in associate	-	-	-	19,334	19,334
Investment property	-	-	-	24,065	24,065
Property and equipment	-	-	-	14,768	14,768
Intangible assets	-	-	-	989	989
Goodwill	-	-	-	3,607	3,607
Other assets	-	-	-	5,376	5,376
Total	47,159	12,706	13,174	197,653	270,691
Liabilities					
Deposits from banks	20,000	-	-	778	20,778
Deposit from customers	75,251	15,532	715	62,940	154,438
Other liabilities	-	-	-	29,162	29,162
Long term debt	-	7,407	-	-	7,407
Non-controlling interests - Funds	-	-	-	434	434
Total	95,251	22,939	715	93,314	212,219
Interest rate sensitivity gap	(48,092)	(10,233)	12,459	-	-
Cumulative Interest rate sensitivity gap	(48,092)	(58,326)	(45,866)	-	-

There are no interest rate sensitive off-balance sheet exposures at 31 December 2010.

Table 25 – Sensitivity analysis – Interest rate risk

Annualized	Up to 3 Months	3 Months to 1 Year	Over 1 Year	Total
at 50 bps increase	(240)	(51)	62	(229)
at 100 bps increase	(481)	(102)	125	(458)
at 200 bps increase	(962)	(204)	249	(917)

2.9 Discussion on impact of acquisition:

No acquisition has taken place during the year 2010.

2.10 Discussion on changes in the capital structure:

At the Board meeting held on 20 January 2011, it was resolved to take such steps as may be necessary in order to prepare plans for increasing the paid up capital of the Bank by raising additional capital through a rights issue subject to obtaining the necessary regulatory approvals.