

Capinnova Investment Bank B.S.C. (c)
Pillar III Disclosures, Basel II
30 June 2010
(Unaudited)

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1 Background

1.1 Incorporation and activities

Capinnova Investment Bank B.S.C. (c) [the Bank] started its operations effective 14 January 2009. The Bank took the commercial registration of Al Khaleej Islamic Investment Bank which was registered on 6 June 1999 in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 43137. The name of Bank was changed to Capinnova Investment Bank B.S.C. (c) as approved through a resolution of Board of Directors dated 8 September 2008. The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain [the CBB].

The Bank's registered office is West Tower, Floor 38, Bahrain Financial Harbour, P.O. Box 5507, Kingdom of Bahrain.

The principal activities of the Bank include providing investment banking services in conformity with Islamic Shari'a. The Bank is a wholly owned subsidiary of BBK B.S.C. (the "Parent").

1.2 Introduction of Pillar III Disclosures, Basel II

The Central Bank of Bahrain Basel II Guidelines, based upon the BIS Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', were introduced on 1 January 2008. Basel II is structured around three 'pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Assessment Process (ICAAP); and Pillar III - Market Discipline.

The public disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD Module"), section PD-1: Annual Disclosure requirements, the CBB Rulebook, Volume II for Islamic banks. The disclosures under this section are applicable to Capinnova Investment Bank B.S.C (c) ("the Bank") being a locally incorporated bank with an Islamic wholesale banking license.

2 Capital Adequacy

The primary objectives of the Bank's capital management framework are to ensure that the Bank complies with externally imposed capital requirements, and that the Bank maintains healthy capital ratios in order to support its business and to maximise the shareholders' value.

The Bank manages a strong capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The Bank's capital structure is primarily made up of its paid-up capital and reserves. From a regulatory perspective, a significant amount of the Bank's capital is in the form of Tier 1 capital as defined by the CBB, i.e. most of the capital is of permanent nature.

To assess its capital adequacy in accordance with the CBB requirements, the Bank has adopted the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk.

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2 Capital Adequacy (continued)

Table – 1. Capital Structure

The following table summarises the eligible capital after deductions as at 30 June 2010 for purposes of Capital Adequacy Ratio (CAR) calculation:

	<i>Total US\$ '000</i>
Components of capital	
<i>Tier 1 capital</i>	
Issued and fully paid ordinary shares	151,525
Legal / statutory reserves	92
Foreign currency translation reserve	17
Retained profit brought forward	(7,070)
Total PCD deductions from Tier 1	(26,927)
Tier 1 Capital after PCD deductions	117,637
<i>Tier 2 capital</i>	
Current interim profits	1,617
Total PCD deductions from Tier 2	(1,617)
Tier 2 Capital after PCD deductions	-
TOTAL ELIGIBLE CAPITAL	117,637
Risk weighted assets	
Credit risk	69,218
Market risk	19,545
Operational risk	2,540
TOTAL RISK WEIGHTED ASSETS	91,303
Capital Adequacy Ratio (CAR)	
The following are capital adequacy ratios as of 30 June 2010 for Tier 1 capital and Total capital:	
Tier 1 capital ratio	128.84%
Total capital adequacy ratio	128.84%

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3 Risk Management

3.1 Capital Requirement

Table – 2. Capital requirement by type of Islamic financing contracts

The following table summarises the amount of exposures as at 30 June 2010 subject to the standardised approach of credit risk and related capital requirements by the type of Islamic financing contracts:

Type of Islamic Financing Contracts	Amount of exposure US\$ '000	Risk weighted assets US\$ '000	Minimum capital requirement US\$ '000
Murabaha receivables	67,190	16,753	2,010
Due from Islamic Bank	10,003	2,001	240
Mudaraba investment	5,000	2,500	300
Istisna'a contract	14,176	14,176	1,701
Investments in Associate and Joint Venture	48,092	29,322	3,519
Others	2,529	1,623	195
Unfunded exposure	5,686	2,843	341
	152,676	69,218	8,306

3.2 Market Risk

Table – 3. Capital requirement for market risk

The Bank has an exposure of USD 19,545,445 in Kuwait through the direct investment in EBLA. The disclosures for minimum capital requirement for market risk are as follows:

	Risk weighted exposure US\$ '000	Minimum capital requirement US\$ '000
Total Market risk	19,545	2,345
Minimum Value	-	-
Maximum Value	20,000	2,400

3.3 Operational Risk

Table – 4. Capital requirements for operational risk

The following table summarises the amount of exposures as at 30 June 2010 subject to the application of the basic indicator approach for operational risk and related capital requirements:

	Risk weighted exposure US\$ '000	Minimum capital requirement US\$ '000
Total exposure to operational risk	2,540	305

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3 Risk Management (continued)

3.4 Credit Risk

Table – 5. Credit Risk Exposure

The following table summarises the amount of gross funded and unfunded credit exposure as at 30 June 2010 and average gross exposures over the period from 1 January 2010 to 30 June 2010:

	<i>Total gross credit exposure US\$ '000</i>	<i>*Average gross exposure over the period US\$ '000</i>
Bank balances	1,112	3,366
Murabaha receivables	67,190	75,348
Due from Islamic Bank	10,003	10,003
Istisna'a contract	14,176	11,382
Mudaraba investments	5,000	5,000
Investments in Associate and Joint Venture	48,092	46,617
Other assets	1,417	2,047
Off-balance sheet items	5,686	8,105
Total	152,676	161,868

*Average balances are computed based on month end balances.

Table – 6. Credit Risk – geographic breakdown

The following table summarises the geographic distribution of net exposures as at 30 June 2010, broken down into significant areas by major types of credit exposure:

	<i>Middle East US\$ '000</i>	<i>Europe US\$ '000</i>	<i>Total US\$ '000</i>
Bank balances	1,112	-	1,112
Murabaha receivables	1,491	65,699	67,190
Due from Islamic Bank	10,003	-	10,003
Istisna'a contract	14,176	-	14,176
Mudaraba investments	5,000	-	5,000
Investments in Associate and Joint Venture	48,092	-	48,092
Other assets	1,417	-	1,417
Off-balance sheet items	5,686	-	5,686
Total	86,977	65,699	152,676

* Geographical distribution of exposure into significant areas by major type of credit exposure is based on country of incorporation of the counterparty.

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3 Risk Management (continued)

3.4 Credit Risk (continued)

Table – 7. Credit Risk – Industry Sector Breakdown

The following table summarises the distribution of exposures as at 30 June 2010 by industry, broken down into main sources of credit exposure:

	<i>Trade</i>	<i>Financial</i>	<i>Real</i>	<i>Technology</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>Institutions</i>	<i>Estate</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Bank balances	-	1,112	-	-	-	1,112
Murabaha receivables	63,046	-	-	-	4,144	67,190
Due from Islamic Bank	-	10,003	-	-	-	10,003
Istisna'a contract	-	-	14,176	-	-	14,176
Mudaraba investments	-	5,000	-	-	-	5,000
Investments in Associate and Joint Venture	-	-	28,544	19,548	-	48,092
Other assets	-	-	-	-	1,417	1,417
Off-balance sheet items	-	-	5,686	-	-	5,686
Total	63,046	16,115	48,406	19,548	5,561	152,676

Table – 8. Credit Risk – Concentration of Risk

The following balances represent the concentration of risk to individual counterparties (in excess of the 15% individual obligor limit) as at 30 June 2010:

Counterparties	<i>US\$ '000</i>
Counterparty # 1	63,046
Counterparty # 2	28,544

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3 Risk Management (continued)

3.4 Credit Risk (continued)

Table – 9. Credit Risk – Residual Contractual Maturity Breakdown

The following table summarises the residual contractual maturity of own capital, liabilities and the whole credit portfolio broken down by main sources of credit exposure as at 30 June 2010:

	<i>Own capital and current account maturity breakdown</i>					<i>Total USD'000</i>
	<i>Up to one month USD'000</i>	<i>1-3 months USD'000</i>	<i>3-12 months USD'000</i>	<i>1-5 years USD'000</i>	<i>No fixed maturity USD'000</i>	
<u>Assets</u>						
Bank balances	1,112	-	-	-	-	1,112
Murabaha receivables	63,046	2,653	1,491	-	-	67,190
Due from Islamic Bank	10,003	-	-	-	-	10,003
Istisna'a contract	-	-	-	14,176	-	14,176
Mudaraba investments	5,000	-	-	-	-	5,000
Investments in Associate and Joint Venture	-	-	-	48,092	-	48,092
Other assets	210	75	39	-	1,093	1,417
Total Assets	79,371	2,728	1,530	62,268	1,093	146,990
<u>Liabilities and equity</u>						
Other liabilities	732	77	-	-	-	809
Total liabilities	732	77	-	-	-	809
Equity	-	-	-	-	146,181	146,181
Total liabilities and equity	732	77	-	-	146,181	146,990
Commitments	-	-	-	5,686	-	5,686

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3 Risk Management (continued)

3.4 Credit Risk (continued)

3.4.1 Credit Risk Mitigation CRM

The Bank has a murabaha receivables amounting to US\$ 63,045,794 which have been guaranteed by the Parent (BBK B.S.C.). The parent has a rating of A2 by Moody. The risk weight applicable for this exposure is 20%.

3.5 Liquidity Risk

Table – 10. Liquidity Ratios

The following table summarises the liquidity ratios:

	<i>June 2010</i>	<i>June 2009</i>
Short term assets to total assets	55.85%	94.71%
Liquid assets to total assets	55.66%	94.63%

Formulas are as follows:

Short term assets to total assets = Assets with up to one year maturity/ total assets

Liquid assets to total assets = (Cash and bank balances + murabaha receivables with original maturity of 90 days or less + mudaraba)/total assets

3.6 Profit Rate Risk

Table – 11. Profit Rate Risk in Banking Book

The following table summarises the effect on the value of assets and economic capital for a benchmark change of 200bp in profit rates as at 30 June 2010:

	<i>Effect on value of asset USD'000</i>	<i>Effect on value of economic capital USD'000</i>
Upward / downward rate shocks	<u>866</u>	<u>866</u>