

**Capinnova Investment Bank B.S.C. (c)
Pillar III Disclosures, Basel II**

30 June 2011

(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 number 43137. The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain [the CBB].

The Bank's registered office is Floor 38, West Tower, 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

The public disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD Module"), 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 2011 for purpose of Capital Adequacy Ratio (CAR) calculation:

	<i>Total</i> <i>US\$ '000</i>
Components of capital	
<i>Tier 1 capital</i>	
Issued and fully paid ordinary shares	151,525
Legal / statutory reserves	92
Other disclosed reserves	535
Retained profit brought forward	(7,273)
Total PCD deductions from Tier 1	(26,268)
Tier 1 Capital after PCD deductions	118,611
<i>Tier 2 capital</i>	
Current interim profits	2,011
Total PCD deductions from Tier 2	(2,011)
Tier 2 Capital after PCD deductions	-
TOTAL ELIGIBLE CAPITAL	118,611
Risk weighted assets	
Credit risk	75,937
Market risk	18,098
Operational risk	6,445
TOTAL RISK WEIGHTED ASSETS	100,480
Capital Adequacy Ratio (CAR)	
The following are capital adequacy ratios as of 30 June 2011 for Tier 1 capital and Total capital:	
Tier 1 capital ratio	118.04%
Total capital adequacy ratio	118.04%

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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 2011 subject to the standardised approach of credit risk and related capital requirements by the type of Islamic financing contracts:

Type of Islamic Financing Contracts	Total exposure US\$ '000	Risk weighted assets US\$ '000	Minimum capital US\$ '000
Murabaha receivables	71,171	27,394	3,287
Due from Bank (Wakala contract)	10,000	2,000	240
Istisna'a contract	19,493	18,098	2,172
	100,664	47,492	5,699

3.2 Market Risk

Table – 3. Capital requirement for market risk

Foreign Exchange Risk	Risk weighted exposure US\$ '000	Minimum capital requirement US\$ '000
Minimum Value	17,750	2,130
Maximum Value	18,098	2,172
Total Market risk	18,098	2,172

3.3 Operational Risk

Table – 4. Capital requirements for operational risk

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

	Gross income		
	2010 US\$ '000	2009 US\$ '000	2008 US\$ '000
Total Gross Income	6,916	3,000	396
Indicators of operational risk			
Average Gross income (US\$ '000)			3,437
Multiplier			12.5
			42,964
Eligible Portion for the purpose of the calculation			15%
Total Operational Risk Weighted Exposure (US\$ '000)			6,445
Minimum capital Requirement (US\$ '000)			773

The Group has no material legal contingencies including pending legal action.

No penalties were imposed on the Bank by the Central Bank of Bahrain during the period ended 30 June 2011

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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 2011 and average gross exposures over the period from 1 January 2011 to 30 June 2011:

	<i>Total gross credit exposure US\$ '000</i>	<i>*Average gross exposure over the period US\$ '000</i>
Funded		
Bank balances	950	963
Murabaha receivables	71,171	70,742
Due from Bank	10,000	10,010
Istisna'a contract	19,493	18,257
Investments in Associate and Joint Venture	44,982	45,499
Other assets	1,161	1,547
Unfunded		
Off-balance sheet items	-	2,847
Total	147,757	149,865

*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 2011, 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	950	-	950
Murabaha receivables **	54,721	16,450	71,171
Due from Bank	10,000	-	10,000
Istisna'a contract	19,493	-	19,493
Investments in Associate and Joint Venture	44,982	-	44,982
Other	1,161	-	1,161
Total	131,307	16,450	147,757

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

** Murabaha receivable exposure to a Cayman Islands company (Europe) is collateralised by a real estate investment in Makkah, Kingdom of Saudi Arabia.

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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 2011 by industry, broken down into main sources of credit exposure:

	<i>Financial Institution</i> US\$ '000	<i>Servicing</i> US\$ '000	<i>Realestate</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Bank balances	950	-	-	-	950
Due from Bank	10,000	-	-	-	10,000
Murabaha receivables	54,721	-	16,450	-	71,171
Istisna'a contract	-	-	19,493	-	19,493
Investments in Associate and Joint Venture	26,236	18,746	-	-	44,982
Other assets	-	-	-	1,161	1,161
Total	91,907	18,746	35,943	1,161	147,757

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 2011:

	US\$ '000
Counterparties	
Counterparty # 1 *	55,671
Counterparty # 2 **	26,236
Counterparty # 3 **	18,746
Counterparty # 4 **	19,493

* This exposure is an exempt for capital adequacy purpose.

** These exposures are deducted from capital base of the Bank for capital adequacy purpose.

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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 2011:

	<i>Up to 1 month US\$ '000</i>	<i>1 month to 3 months US\$ '000</i>	<i>3 months to 6 months US\$ '000</i>	<i>6 months to 1 year US\$ '000</i>	<i>Less than 1 year US\$ '000</i>	<i>1 year to 5 years US\$ '000</i>	<i>5 year to 10 years US\$ '000</i>	<i>No fixed maturity US\$ '000</i>	<i>Total USD'000</i>
Assets									
Bank balances	950	-	-	-	950	-	-	-	950
Due from bank	10,000	-	-	-	10,000	-	-	-	10,000
Murabaha receivables	9,050	62,121	-	-	71,171	-	-	-	71,171
Istisna'a contract	-	78	80	5,142	5,300	2,947	11,246	-	19,493
Investment in associate and joint venture	-	-	-	-	-	-	-	44,982	44,982
Equipment	-	-	-	-	-	-	-	663	663
Other assets	57	48	55	207	367	-	-	131	498
	20,057	62,247	135	5,349	87,788	2,947	11,246	45,776	147,757
Liabilities									
Other liabilities	175	164	209	320	868	-	-	-	868
	175	164.00	209	320	868	-	-	-	868
Net	19,882	62,083	(74)	5,029	86,920	2,947	11,246	45,776	146,889
Cumulative net gap	19,882	81,965	81,891	86,920		89,867	101,113	146,889	

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3 Risk Management (continued)

3.4 Credit Risk (continued)

3.4.1 Credit Risk Mitigation CRM

The Bank has murabaha receivables amounting to US\$ 54,721 thousand which have been guaranteed by the Parent (BBK B.S.C.). The parent has a rating of A3 by Moody. The risk weight applicable for this exposure is 20%.

3.4.2 Equity Risk in Banking book

The Bank has an equity stake of 36.36% in EBLA Computer Consultancy K.S.C.C. [EBLA], a company incorporated in Kuwait and engaged in computer consultancy and trading activities.

The Bank has an equity stake of 50% in Sakana Holistic Housing Solutions B.S.C. (c) [Sakana]. Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing.

	<i>Gross Exposure</i> <i>US\$ '000</i>	<i>*Average gross exposure over the period</i> <i>US\$ '000</i>	<i>Risk weighted assets</i> <i>US\$ '000</i>	<i>Minimum capital</i> <i>US\$ '000</i>
<i>Unquoted / Privately held</i>				
Investments in Associate and Joint Venture	44,982	45,499	27,147	3,258

3.5 Liquidity Risk

Table – 10. Liquidity Ratios

The following table summarises the liquidity ratios:

	30 June 2011	<i>30 June 2010</i>	<i>30 June 2009</i>
Short term assets to total assets	55.83%	55.85%	94.71%
Liquid assets to total assets	55.58%	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 2011:

	<i>Effect on value of asset</i> <i>USD'000</i>	<i>Effect on value of economic capital</i> <i>USD'000</i>
Upward rate shocks	1,034	1,034
Downward rate shocks	(915)	(915)

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3 Risk Management (continued)

3.7 Financial Performance Ratios

Table – 12. Quantitative Indicators of Financial Performance and Position

The following table summarises the basic quantitative indicators of financial performance for the six-month period ended 30 June 2011:

	<i>June</i> <i>2011</i>	<i>June</i> <i>2010</i>	<i>June</i> <i>2009</i>
ROAE	1.38%	1.11%	-3.79%
ROAA	1.37%	1.10%	-3.76%
Staff cost to operating income ratio	0.44	0.54	1.83

Formulas are as follows:

ROAE= Net profit/Average equity *100

ROAA= Net profit/ Average assets *100