

TAIB Bank B.S.C (c)

Pillar 3 - Disclosures

30 June 2011

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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 1st January 2008. This report consists of the Basel Committee's Pillar 3 disclosure requirements in accordance with Public Disclosure 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 standardized approach for Credit Risk, Market Risk and Operational Risk to determine the capital requirement.

As at 30th June 2011, the Group's total risk weighted assets amounted to US\$ 238.5 million and total regulatory capital amounted to US\$ 33.8 million. Accordingly, total Capital Adequacy Ratio on a consolidated basis for the group was 14.19%. This ratio exceeds the minimum capital requirements under the CBB's Basel II framework. The Bank endeavors to keep the ratio about the regulatory requirement at all times.

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.

All figures presented in this report are in thousands of United States Dollars as at 30 June 2011 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 Bank Qatar LLC ****	Qatar	100%
TB Directors Limited	British Virgin Island	100%

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

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

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

**** TAIB Bank Qatar LLC was liquidated during the year 2010.

***** TAM Holding Inc. is a 100% subsidiary of TAIB Investment N.V. TAM Management, Delray, SOSQ and TAIB Securities are 100% subsidiaries of TAM Holding Inc.

2.2 Risk and Capital Management

The Bank is exposed to the following types of risks:

- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Interest Rate Risk

The Composition of the Bank's capital and capital adequacy position are given in the following three tables.

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	22,911	-	22,911
General reserve	6,966	-	6,966
Retained profit brought forward	(86,035)	-	(86,035)
Minority interest in consolidated subsidiaries	577	-	577
Goodwill on acquisition	(3,436)	-	(3,436)
Current cumulative net losses	(5,669)	-	(5,669)
Unrealised gross losses arising from fair valuing equity securities	(54)	-	(54)
Asset revaluation reserve - property, plant and equipment	-	1,904	1,904
Unrealised gains arising from fair valuing equities	-	624	624
Total Available Capital	43,628	2,528	46,156
Less: Deduction relating to exposures individually in excess of 15% of available capital	(9,782)	(2,528)	(12,310)
Total Eligible Capital	33,846	-	33,846
Risk weighted exposures:			
- Credit risk			173,450
- Operational risk			25,351
- Market risk			39,703
Total Risk weighted exposure			238,504
Consolidated Capital Adequacy Ratio (%) : Tier 1 & Total			14.19 %

The Bank does not have Tier 3 capital as at 30 June 2011.

Table 3 – Top Consolidated group in Bahrain

	Tier 1	Tier 2	Total
Share capital	109,345	-	109,345
Share premium	1,510	-	1,510
Statutory reserve	21,016	-	21,016
General reserve	6,043	-	6,043
Retained profit brought forward	(88,883)	-	(88,883)
Current cumulative net losses	(3,835)	-	(3,835)
Unrealised gross losses arising from fair valuing equity securities	(49)	-	(49)
Asset revaluation reserve - property, plant and equipment	-	1,885	1,885
Unrealised gains arising from fair valuing equities	-	538	538
Total Available capital	45,147	2,423	47,570
Less: Deductions from Capital			
- Relating to investment in subsidiaries and funds			(66,954)
Total Eligible Capital			-
Total Risk Weighted Assets			203,078
Capital Adequacy Ratio (stand alone) (%)			-

Table 4 – Capital Adequacy of the Bank's significant bank subsidiaries.

	Subsidiaries	
	TAIB Kazak Bank JSE, Kazakhstan	TAIB Yatirim Bank A.S, Turkey
<i>Under Basel II</i>		
Tier 1 – Capital Adequacy Ratio (%)	94.65	28.85
Total – Capital Adequacy Ratio (%)	61.84	28.85

2.3 Credit Risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations, thus causing the Group to suffer a loss in terms of cash flow or market value. As a private bank, the Bank is not engaged in commercial or retail banking activities in the normal course except for its commercial bank licensed subsidiary in Kazakhstan, and loans for margin trading activities and portfolio investments to selected high net worth clients. The Bank also extends bridge loans under underwriting commitments in respect of real estate investments that are intended to be placed down to the prospective investors within a short period. 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.

Table 5 – Capital requirement for credit risk

Basel II Asset Classification	Rated	Unrated	Total exposure (*)	Average risk weight	RWA	Capital charge
Cash Items	-	648	648	0%	-	-
Cash items in the process of collection	-	202	202	20%	40	5
Sovereigns - Relevant Domestic Currency	19,542	-	19,542	0%	-	-
Sovereigns - Non Relevant Domestic Currency	9,102	-	9,102	50%	4,553	546
Standard Risk Weights on Banks	76,592	24,308	100,900	46%	46,283	5,554
Claims on Corporates	-	9,262	9,262	100%	9,262	1,111
Past due exposures	-	4,109	4,109	150%	6,164	740
Investment in equity portfolio	-	6,058	6,058	150%	9,087	1,090
Investment in funds	-	553	553	150%	829	99
Holding of Real Estate including premises occupied by the bank	-	7,490	7,490	100%	7,490	899
All other holdings of real estate	-	39,459	39,459	200%	78,920	9,471
Others Assets	-	10,822	10,822	100%	10,822	1,299
Total Credit Risk under the Standardized Approach	105,236	102,911	208,147		173,450	20,814

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

Table 6 – Gross credit exposure (*)

Balance sheet Items:	Gross credit exposure	Average gross credit exposure
Cash and balances with central banks	56,879	65,388
Placements with banks	69,585	70,251
Loans and advances	16,865	18,503
Available-for-sale financial assets	28,470	34,695
Investment in associate	6,853	10,244
Investment property	24,075	21,422
Property and equipment	11,585	13,915
Other assets	7,478	9,699
Total on balance sheet credit exposure	221,790	244,117
Off balance sheet items:		
Direct credit substitutes	2,171	9,376
Notes issuance and revolving underwriting facilities	78	262
Derivatives - foreign exchange contracts	360	413
Total off balance sheet credit exposure	2,609	10,051
Total credit exposure	224,399	254,168

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

The average gross credit exposure is calculated based on balances as at 30 June 2011, 31 December 2010 and 30 June 2010.

Table 7 – Credit exposure by geographical segments

Credit exposure	North America	Europe	Middle East	Rest of Asia	Total
Cash and balances with central banks	1,309	2,973	13,024	39,573	56,879
Placements with banks	8,066	7,001	51,463	3,056	69,586
Loans and advances	-	186	7,765	8,914	16,865
Available-for-sale financial assets	1,333	8,316	-	18,821	28,470
Investment in associate	-	-	6,853	-	6,853
Investment property	17,964	-	5,269	842	24,075
Property and equipment	8	855	9,321	1,403	11,587
Other assets	2,651	503	3,444	877	7,475
Off balance sheet items		78	286	2,245	2,609
Total	31,331	19,912	97,425	75,731	224,399

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, Kazakhstan and the Far East.

Table 8 – Credit exposure by sectoral segments

	Cash, balances with central Banks and placements	Loans and advances	Investment	Others	Off- balance sheet items	Total
Financial services	126,410	-	-	3,998	360	130,769
Government	53	-	-	-	-	53
Structured finance	-	-	4,275	0	-	4,275
Trade and transport	-	1,286	-	1,219	813	3,318
Real estate	-	-	39,389	-	-	39,389
Equity funds	-	-	15,711	57	-	15,768
Others	-	15,580	25	13,786	1,435	30,827
Total	126,463	16,866	59,399	19,061	2,609	224,399

Table 9 – Related party transaction

	Associates	Directors and senior management	Total
Balance sheet :			
Deposits with the banks/ companies	84,882	-	84,882
Deposits received from Customers	-	19,573	19,573
Income statement :			
Interest expense	1,203	-	1,203
Reimbursement of Directors expenses	-	34	34
Key management compensation	-	250	250

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, at arms length, in the normal course of business.

Table 10 - Discussion on lending to highly leveraged and other high risk counterparties:

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

Table 11 – Credit concentration greater than 15% of individual obligor limit.

	Amount
Bank	79,297
Non bank	33,473

Table 12 – Counterparty credit risk in derivative transaction

	Notional amount	Credit exposure	Capital requirement
Direct credit substitutes	2,171	2,171	261
Notes issuance and revolving underwriting facilities	180	78	9
Foreign exchange contracts	19,181	360	43
Total	21,508	2,609	313

Table 13 – 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	56,879	-	-	-	-	56,879
Placements with banks	37,526	29,486	2,574	-	-	69,586
Loans and advances	11,626	-	1,780	1,785	1,674	16,865
Available-for-sale financial assets	4,077	111	5,421	12,360	6,501	28,470
Investment in associate	-	-	-	6,853	-	6,853
Investment property	-	-	-	18,806	5,269	24,075
Property and equipment	807	-	334	9,448	998	11,587
Other assets	4,409	1,719	378	583	386	7,475
Total on balance sheet	115,324	31,316	10,487	49,835	14,828	221,790
Off balance sheet	826	4	1,774	5	-	2,609
Total	116,150	31,320	12,261	49,840	14,828	224,399

Table 14 – Provision for investments - sectoral segments

	Available for Sale – Investments	Equity	Funds	Total
At 1 January 2011	31,762	8,247	2,506	42,515
Amount written off	-	(355)	-	(355)
Charge for the year	(25)	-	-	(25)
At 30 June 2011	31,737	7,892	2,506	42,135

Table 15 – Provision for investments and related exposures

	Gross exposure	Provisions	Net exposure
Available for Sale – Investments	36,658	31,737	4,921
Equity investments	7,892	7,892	-
Funds	2,506	2,506	-
Total	47,056	42,135	4,921

Table 16 – Provision for investments and related exposure - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	22,587	21,321	-	3,148	47,056
Specific impairment provision	(22,587)	(16,400)	-	(3,148)	(42,135)

The Bank does not have any significant collective impairment provision at 30 June 2011.

Table 17 – Provision for loans and advances - sectoral segments

	Gross Exposure	Specific Provision
Financial Services	1,535	(1,535)
Trade	7,972	(4,407)
Technology	566	(566)
Other Sector	8,523	(8,001)
Total	18,596	(14,509)

No provision has been made on an impaired loans amounting to US\$ 4 million as the Bank holds cash collateral of US\$ 1.3 million and securities of US\$ 2.7 million. Impaired loans are past due over 3 years.

Table 18 – Provisions for loans and advances - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	1,537	4,640	6,753	5,666	18,596
Specific impairment provision	(1,537)	(4,604)	(4,155)	(4,213)	(14,509)

Table 19 – Provision movement for loans and advances - sectoral segments

	Financial Institutions	Corporate	Retail	Total
At 1 January 2011	4,649	6,211	3,452	14,312
Charge for the year	(9)	203	-	194
Reversals / Other Movement	-	3	-	3
At 30 June 2011	4,640	6,417	3,452	14,509

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.

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

Table 20 – Eligible financial collateral

Basel II Asset Classification	Gross credit exposure	Eligible Credit Risk Mitigant CRM	Net exposure
Cash items	648	-	648
Cash items in the process of collection	202	-	202
Claims on Sovereigns	28,644	-	28,644
Claims on Banks	109,181	8,281	100,900
Claims on Corporates	17,233	7,971	9,262
Past Due exposures	4,109	-	4,109
Investment in Equity portfolio	6,058	-	6,058
Investment in Funds	553	-	553
Holding of Real Estate including premises occupied by the bank	46,949	-	46,949
Others Assets	10,822	-	10,822
Total Credit Risk under the Standardised Approach	224,399	16,252	208,147

2.5 Market Risk

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, exchange rates, credit spreads and other asset prices. The Bank's exposure to market risk is a function of our trading and asset-liability management activities and our role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimize the impact of losses on earnings and equity capital due to 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 does not have any exposures to commodity risk.

Table 21 – Capital requirement for components of market risk

	RWA	Capital requirement	Maximum value	Minimum value
Interest rate position risk	4,500	360	360	4
Equities position risk	2,700	216	796	216
Foreign exchange risk	32,216	2,577	3,143	2,430
Total general market risk	39,416	3,153	4,299	2,650
Total specific market risk	275	22	414	22
Total	39,691	3,175	4,713	2,672

2.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank constantly strives to minimise operational risks inherent in the Bank's activities, processes and systems by ensuring that a strong control infrastructure is in place throughout the organisation 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 22 – Capital requirement for Operational Risk

	2010	2009	2008
Gross income	5,755	7,101	5,215
Capital charge	904	1,431	3,750
Average of capital charges for 3 years			2,028
Operational Risk Weighted Exposure			25,351

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 23 – Equity position in banking books

	Gross risk-weighted exposures	Capital requirement
Listed	-	-
Unlisted	9,087	1,090
Total	9,087	1,090

Table 24 – Unrealized gains and losses

	Amount	
	Tier 1	Tier 2
Total unrealized gains and losses recognized in the balance sheet but not through the income statement		
Fair value reserve net		1,333
Unrealized gains and losses included in Tier One and Tier Two capital		
Fair value reserve:		
Unrealized gross losses arising from fair valuing equity securities	54	
Unrealized gains arising from fair valuing equities		624
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, 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 25 – 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	1,043	-	-	55,836	56,879
Placements with banks	67,012	2,574	-	-	69,586
Financial Assets at fair value through profit or loss	-	-	-	-	-
Loans and advances	11,627	1,779	3,459	-	16,865
Available-for-sale financial assets	3,109	500	9,896	14,965	28,470
Investment in associate	-	-	-	6,853	6,853
Investment property	-	-	-	24,075	24,075
Property and equipment	-	-	-	10,904	10,904
Intangible assets	-	-	-	681	681
Goodwill	-	-	-	-	-
Other assets	-	-	-	7,477	7,477
Total	82,791	4,853	13,355	120,791	221,790
Liabilities					
Deposits from banks	22,000	-	-	181	22,181
Deposit from customers	106,010	3,342	412	40,800	150,564
Other liabilities	-	-	-	11,604	11,604
Long term debt	-	-	7,365	-	7,365
Total	128,010	3,342	7,777	52,585	191,714
Interest rate sensitivity gap	(42,716)	1,511	5,578		
Cumulative Interest rate sensitivity gap	(42,716)	(41,206)	(35,628)		

There are no interest rate sensitive off-balance sheet exposures at 30 June 2011.

Table 26 – Sensitivity analysis – Interest rate risk

Annualized	Up to 3 Months	3 Months to 1 Year	Over 1 Year	Total
at 50 bps increase	(214)	8	28	(178)
at 100 bps increase	(427)	15	56	(356)
at 200 bps increase	(854)	30	111	(713)

2.9 Discussion on impact of acquisition:

No acquisition has been made during the period ended 30 June 2011.

2.10 Discussion on changes in the capital structure:

At the Board meeting held on 20 January 2011, it was resolved to take up 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.