

RISK AND CAPITAL MANAGEMENT DISCLOSURES (BASEL II - PILLAR III)

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These disclosures have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Report under Volume II of the Rule Book issued by CBB for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

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1. INTRODUCTION

Global Banking Corporation B.S.C. (c) (the "Bank") was incorporated on 25th June 2007 under the commercial registration number 65708 in the Kingdom of Bahrain and licensed by the Central Bank of Bahrain ("CBB") as an Islamic whole sale bank. The Bank's business model enables the Bank to offer a comprehensive range of investment banking products and services to high net worth individuals, corporate entities, and financial institutions in compliance with Shari'a principles.

CBB Basel II guidelines are effective from 1st January 2008 as the common framework for the implementation of Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The new framework intends to strengthen the risk management practices and processes within financial institutions. The Bank has accordingly taken steps to comply with these requirements. The CBB's capital management framework, consistent with the Basel II accord, is built on three pillars:

- Pillar I: calculation of the risk weighted amounts and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process.
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

The Public Disclosure (PD) module Section 1.3 of Volume 2 of the CBB rule book governs the disclosure requirements to be made by Islamic banks in their annual report. In April 2008, the Central Bank revised the PD module to cover the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar 3 of Basel II and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks. Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2008, presented in accordance with the Financial Accounting Standards (FAS) issues by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual report has not been produced in these disclosures.

2. EXECUTIVE SUMMARY

The Bank maintains an adequate capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the regulations and ratio established by the CBB in accordance with Basel II capital adequacy framework. Since incorporation, the Bank had complied with all the prescribed capital requirements.

The Bank's capital adequacy ratio is well above the minimum capital requirement of 12% required by the CBB. The Bank's capital adequacy ratio as at 31 December 2008 was 30.29% compared with 34.10% as at 31 December 2007. The Bank ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits.

The prime objective of the Bank's capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders' value. To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk. The Bank intends to adopt more sophisticated methods of capital allocation after building up the required internal systems and models.

3. GROUP STRUCTURE

The Group's consolidated financial statements comprises the financial statements of the Bank and its wholly owned subsidiaries (together the "Group") prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organization for Islamic Financial Institutions ('AAOIFI') and International Financial Reporting Standards ('IFRS'). However, under the CBB prudential consolidation and deduction requirements non-

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financial subsidiaries are not required to be consolidated and different treatments are prescribed for regulatory capital computation purposes.

Following is the structure of the Group for prudential consolidation purposes:

Entities	Ownership	Consolidation basis
Global Energy Financial Services SPC	100%	Full consolidation
Global Real Estate Development Company SPC	100%	Risk weighted

All the above entities are incorporated in the Kingdom of Bahrain and there are no restrictions on the transfer of funds or regulatory capital within the Group.

4. RISK MANAGEMENT FRAMEWORK

The Bank perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice.

The Risk Management Department (RMD) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is also independent of both operations and the Bank's investments units, also assists in the risk management process. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The Bank is exposed to various types of risk, such as credit, market, operational, liquidity risk etc., all of which require comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports include periodic risk reviews, monthly reports, quarterly risk reports etc.

These reports aim to provide the Bank's senior management with an up-to-date view of the risk profile of the Bank. Moreover, external consultants are also engaged to enhance and improve the risk management standard procedures.

4.1. Risks In Pillar I

Basel II Pillar I prescribed three specific risks which are:

4.1.1. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from its bank balances, investment securities, placements with financial institutions, receivable from investment banking services and other receivables from project companies.

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from its own short term liquidity related to placements with other financial institutions, receivable from its investment banking services and in respect of investment related funding made (in the form short-term liquidity facility) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

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The Bank has a strong internal process for assessing credit risk. This process takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business, the adequacy and quality of the cash flow available for repayment etc. The availability of collateral security by way of physical assets or guarantees to mitigate the credit risk is also taken into consideration.

The Bank's internal rating system for exposures to banks and financial institutions is based on a 10-point scale (ranging from A (Strong) to F (unrated)) which takes into account the financial strength as well as qualitative aspects of the obligor. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

4.1.2. Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, equity prices, profit rates and credit spreads will reduce the Bank's income or the value of its portfolios. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its FX open positions, maximum loss limits, currency mismatch limits and maturity limits.

The different types of risks with exposures, objectives, policies and processes to manage the risk have been detailed hereunder:

4.1.2.1. Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's major exposure is in GCC currencies, which are primarily pegged to the US Dollars.

The Bank does not engage in any foreign exchange trading operations. The open position limits also take into account structural positions arising out of currency mismatch in assets and liabilities. Risk Management periodically performs sensitivity analysis on the open positions to assess the risk of loss from exchange rate movements to ensure that the risk is well under control.

4.1.2.2. Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Bank's trading activities. The Bank manages and monitors the positions using sensitivity analysis.

4.1.2.3. Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank's profit rate sensitive assets are mainly placements with financial institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands.

4.1.3. Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences.

Though operational risk cannot be entirely eliminated, however the Bank aims to minimise the risk by strengthening its internal control environment, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank. The material operational risks of the Bank are:

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- Inappropriate design of processes for the appraisal of credit and investment projects
- Shortcomings in documentation and processes for monitoring and control of credit and investment exposures
- Absence of an efficient process to capture internal losses and near misses
- Inadequacies in the process for execution of projects including selection of consultants and contractors as well as monitoring time and cost overruns.
- Legal risks arising from product documentation and faulty execution of transactions.
- Loss from staff negligence or fraudulent transactions perpetrated by employees or customers.
- Delay in updating records and misreporting

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, effective training of staff, appropriate controls to safeguard assets, monitoring of various risk limits, periodic accounts reconciliations, financial management and reporting, including internal audit and compliance functions. In addition to these controls the Bank has developed a Business Continuity Plan based on risk review of the Bank's activities and insurance is also in place to complement the associated controls.

Moreover, The Bank has established a risk control and self assessment process necessary for identifying and measuring its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks. The process of identification and implementation is expected to be completed by the end of 2009.

4.2. Risks In Pillar II

Pillar II covers key principles of supervisory review and evaluation process which intends not only to ensure that the Bank has adequate capital to support all the associated risks, but also requires Bank to develop an Internal Capital Adequacy Assessment Plan (ICAAP) and setting internal capital targets that commensurate with the Bank's risk profile and control environment. ICAAP requires assurance that the Bank has adequate capital to support its risks beyond the core minimum requirements which must not be limited to credit, market and operational risk charges.

4.2.1. Liquidity Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

As an investment bank, the Bank's operating model has insignificant reliance on short-term liabilities to fund its medium and long-term assets. This ensures against a sudden and unanticipated liquidity crisis.

The Bank as a matter of policy regularly reviews and monitors policy limits for its key liquidity ratios, future contractual cash flows and any mismatches between the cash flows of assets and liabilities, diversification of funding resources and available bank lines, cross currency cash flows requirements and strategy, availability of sufficient liquid assets in case of any unforeseeable event, monitoring of receivables and late payments etc. These all factors are strictly monitored by Risk Management Department and being further reviewed and discussed regularly by the Assets and liability committee of the Bank.

For maturity profile of assets and liabilities and key measures used for management of liquidity risk, refer note 26 of the consolidated financial statements.

4.2.2. Concentration Risk

Concentration risk is the credit risk arising from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

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In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

For sectoral classification of assets and liabilities, refer note 27 of the consolidated financial statements.

4.2.3. Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not enter into any trading positions in foreign exchange contracts and also does not engage in proprietary trading of foreign exchange or profit rate derivatives. For other credit markets transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks by counterparties. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

4.2.4. Profit Rate Risk In Banking Book

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Currently Bank's assets and liabilities are benchmarked to floating rate indices. The Bank has set policy limits for such risk. Quarterly repricing gap analysis are being performed on the portfolio to ensure that the extent of such risk is measured and monitored.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide.

An analysis of the Group's sensitivity to an increase or decrease in market financing rates is provided in note 30 of the consolidated financial statements.

4.2.5. Equity Risk In Banking Book

The equity risk in the banking book primarily arises from the banks unquoted available-for-sale investments. These investments comprise unquoted equity stake in the projects promoted by the Bank and are carried at cost and tested for impairment on a regular basis. The intent of such investments is a later stage exit along with the investors principally by means of strategic buy outs at the project level. The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A quarterly investment update report is presented to the Board of Directors by the Investment Department.

4.2.6. Displaced Commercial Risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

Currently the Bank is not exposed to any displaced commercial risk.

4.2.7. Regulatory and Shari'a compliance risk

Regulatory and Shari'a compliance risk is the risk arising from non-compliance with the regulatory guidelines issued by the Central Bank Bahrain or the Shari'a principles prescribed by the Bank's Shari'a Board or other eminent scholars.

The Bank is taking due care to comply with all the regulations. The Bank has adequate internal controls in place which include but not limited to adequate training to staff, engagement of third party consultant wherever required, pre-approval from regulator wherever necessary, independent internal reviews by risk management department, compliance department and internal audit department etc.

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The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal shari'a reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with shari'a rules and principles.

4.2.8. Legal Risk

Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly. The Bank has a dedicated in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. As on the reporting date, the Bank had no material legal contingencies including pending legal actions.

4.2.9. Other Risks

Other risks include reputational, strategic, fiduciary risks etc. which are inherent in all business and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank.

The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory development and its potential impact on the Bank's business, best corporate governance practices and implementation etc.

4.3. Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management etc. 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.

In April 2008, the Central Bank published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II frame work.

5. CAPITAL MANAGEMENT AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PLAN (ICAAP)

5.1. Capital Management

The Bank's policy is to maintain a strong capital base and also the minimum capital requirements imposed by the regulator CBB, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises 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 allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

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The Bank ensures that the capital adequacy requirements are met and complied with regulatory capital requirements throughout the period. A prior approval of the CBB is obtained by the Bank before submitting a proposal for distribution of profits i.e. dividend for shareholders approval.

5.2. Internal Capital Adequacy Assessment Plan (ICAAP)

The Internal Capital Adequacy Assessment Process ("ICAAP") is a requirement under Pillar II of Basel II for capital management. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business. The Bank's ICAAP identifies risks that are material to the Bank's business and the regulatory capital that is required to be set aside for such risks. The Bank is in the process of implementation of ICAAP which is expected to be completed by 2009.

The Bank recognises that earnings are the first line of defense against losses arising from business risks and that capital is one of the tools to address such risks; also important are establishing and implementing documented procedures, defining and monitoring internal limits of the Bank's activities/exposures, strong risk management, compliance and internal control processes as well as adequate provisions for credit, market and operational losses. However since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirements is available to meet risks arising from fluctuations in asset values, business cycles, expansion and future requirements.

The Bank seeks to achieve the following goals through the implementation of its ICAAP framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer
- Generate sufficient capital to support overall business strategy
- Integrate capital allocation decisions with the strategic and financial planning process
- Enhance Board and senior management's ability to understand how much capital flexibility exists to support the overall business strategy
- Enhance the Bank's understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital and align performance to these.

As an internal target ratio, the Bank will seek to maintain its internal capital adequacy computed under ICAAP (after considering all identified material risks, including those not considered under Pillar 1) at a minimum level of 100% of the minimum Basel II Pillar 1 regulatory capital adequacy ratio stipulated by the CBB. Currently, the CBB has fixed a minimum Capital Adequacy Ratio of 12% and a trigger ratio of 12.5% for all locally incorporated banks in Bahrain. The Bank will monitor the ICAAP capital adequacy ratio against an internal trigger ratio which will be higher than the minimum prescribed ratio based on additional risk charges for risks not addressed in Pillar I. If the ICAAP capital adequacy ratio reaches the internal trigger ratio, the Bank will initiate action to reduce its risk or increase capital before the target ratio is breached.

6. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL BASE

6.1 Capital Adequacy Computations

The prime objective of the Bank's capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders' value.

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio.

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As at 31 December 2008 and throughout the year, the Bank complied with the capital requirements that were in force as set out by the CBB. The Bank's capital adequacy ratio as at 31 December 2008 was:

	Total eligible capital USD'000'
Credit risk weighted assets	329,321
Market risk weighted assets	14,546
Operational risk weighted assets	253,940
Total risk weighted assets	597,807
Eligible capital	181,060
Capital adequacy ratio	30.29%

6.2. Capital Base

The following table shows the breakdown of the total available capital for the as of 31 December 2008:

	Tier 1 capital USD'000'	Tier 2 capital USD'000'	Total eligible capital USD'000'
Share capital	156,250	-	156,250
Statutory reserves	5,801	-	5,801
Retained earnings	19,009	-	19,009
Current interim profits	-	-	-
	181,060	-	181,060

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, retained earnings, statutory reserves and minority interests less goodwill. Tier 2 capital includes current interim profits and assets revaluation reserves. The Bank's capital base was not subject to any requirements of prudential deductions.

6.3. Regulatory Capital Requirements For Credit Risk

To assess its capital adequacy requirements in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Credit Risk. The Bank intends to adopt more sophisticated methods of capital allocation after building up the required internal systems and models.

According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available. The Bank uses the ratings of Standard & Poor's, Fitch and Moody's ratings for such counterparties. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

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Following is the analysis for credit risk:

	Funded exposure USD'000'	Unfunded exposure USD'000'	Gross exposure USD'000'	Risk weighted Assets USD'000'	Capital requirement USD'000'
Cash	5	-	5	-	-
Claims on banks	287,789	-	287,789	63,657	7,639
Claims on Corporates including Takaful Companies & Category 3 Investment Firms	53,995	-	53,995	53,995	6,479
Investments in Securities and Sukuk	133	-	133	200	24
Holding of Real Estate (indirect holding)	23,779	10,500	34,279	68,558	8,227
Holding of Real Estate (direct holding)	67,467	-	67,467	120,170	14,420
Other Assets and Specialized Financing	22,741	-	22,741	22,741	2,729
	455,909	10,500	466,409	329,321	38,518

The classification of assets is in accordance with the Capital Adequacy Module of the CBB.

The Bank does not finance its assets using unrestricted investment accounts and hence all credit exposures are self-financed exposures.

The Bank's concentration of funded and unfunded exposures is limited to GCC countries.

6.4. Regulatory Capital Requirements For Market Risk

To assess its capital adequacy requirements in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Market Risk.

Market risk charge consists of equity position risk and foreign exchange risk charges. Specific market equity risk charge is computed at the rate of 8% on gross equity positions for each country or market. General market equity risk charge is computed based on 8% of the overall net position in each equity market.

Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

The market risk charge and foreign exchange risk charge is multiplied by 12.5 to evaluate market risk weighted assets.

Following is the computation of market risk charge:

	Risk weighted assets			Capital requirement		
	Maximum USD'000'	Minimum USD'000'	Closing USD'000'	Maximum USD'000'	Minimum USD'000'	Closing USD'000'
Foreign Exchange Risk Charge	14,142	12,000	14,142	1,697	1,440	1,697
Market Risk Charge						
Specific	404	-	202	48	-	24
General	404	-	202	48	-	24
	14,950	12,000	14,546	1,794	1,440	1,746

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6.5. Regulatory Capital Requirements For Operational Risk

The Bank adopts the Basic Indicator Approach to evaluate Operational Risk Charge in accordance with the CBB capital adequacy module for Islamic Banks. According to this approach, Bank's average gross income for three past financial years is multiplied by a fixed coefficient alpha which is 15% set by CBB. Since the Bank was incorporated on 25 June 2007, the Bank has calculated the operational risk charge based on the annualized audited income for the year 2007 and projected income data from its approved business plan for the year 2008 and 2009.

Operational risk weighted assets and operation capital requirement as at 31 December 2008 was:

	USD'000'
Gross income (average of three years)	135,435
Operational Risk Weighted Assets	253,940
Capital Requirement	30,473

7. QUANTITATIVE DISCLOSURES FOR CREDIT RISK

7.1. Gross Credit Exposures

The gross and average gross credit exposure are as follow:

	Gross credit exposure USD'000'	Average Gross credit exposure USD'000'
On balance sheet items:		
Cash and bank balances	936	4,151
Placements with financial institutions	297,872	261,649
Receivable from investment banking services	42,975	20,371
Other assets	1,663	5,678
	343,446	291,849
Off balance sheet items:		
Commitment to invest	21,000	1,750
	364,446	293,599

The average balances are based on month end average balances during the year 2008.

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7.2. Industry Concentration

The industry concentration of credit exposures are as follows:

	Financial institutions USD'000'	Real estate and construction USD'000'	Total USD'000'
On balance sheet items:			
Cash and bank balances	936	-	936
Placements with financial institutions	297,872	-	297,872
Receivable from investment banking services	-	42,975	42,975
Other assets	-	1,663	1,663
	298,808	44,638	343,446
Off balance sheet items:			
Commitment to invest	-	21,000	21,000
	298,808	65,638	364,446

7.3. Geographic Concentration

The Bank's concentration exposure as at 31 December 2008 is limited to GCC countries.

7.4. Credit Exposure By Internal Rating

The analysis of credit exposures by internal rating is as follows:

	Rating A to B USD'000'	Rating C to E USD'000'	Rating F (Unrated) USD'000'	Total USD'000'
On balance sheet items:				
Financial institutions	277,574	10,201	11,033	298,808
Corporates	-	-	44,627	44,627
Others	-	-	11	11
	277,574	10,201	55,671	343,446
Off balance sheet items:				
Corporates	-	-	21,000	21,000
	277,574	10,201	76,671	364,446

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7.5. Credit Exposure by Residual Maturity

The analysis of credit exposures by residual maturity is as follows:

	Upto 3 months USD'000'	Over 3 months to 6 months USD'000'	Over 6 months to 1 year USD'000'	Over 1 year to 3 years USD'000'	Over 3 years USD'000'	Total USD'000'
On balance sheet items:						
Cash and bank balances	936	-	-	-	-	936
Placements with financial institutions	297,872	-	-	-	-	297,872
Receivable from investment banking services	-	1,000	39,370	2,605	-	42,975
Other assets	1,663	-	-	-	-	1,663
	300,471	1,000	39,370	2,605	-	343,446
Off balance sheet items:						
Commitment to invest	21,000	-	-	-	-	21,000
	321,471	1,000	39,370	2,605	-	364,446

7.6. Restructured/ Renegotiated Exposures

The Bank did not restructure or renegotiate any exposures as at 31 December 2008.

7.7. Exposure On Highly Leveraged Counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

7.8. Related Party Transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties, and all such transactions have been done on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related parties, the Bank follows the guidelines issued by Central Bank of Bahrain. For details on related party transactions and balances, refer note 21 to the consolidated financial statements.

7.9. Exposure in excess of 15% Of Capital Base

Single exposures in excess of 15% of the Bank's capital base on individual counterparties require prior approval of CBB and are subject to prudential deduction treatment unless considered as exempt. As on date of balance sheet the Bank has certain exposures with banks which are exempt as per CBB rules hence the Bank does not have any such 'large exposures' that need prior approval of CBB. Exposure exceeding single exposure limit as of 31 December 2008 to a financial institution was USD235.3 Million and to a corporate was USD40.0 Million. In addition to this, bank has restricted investment account exposure amounting to USD 190 Million; this restricted investment account is specific in relation to a project promoted by the bank and was part of the overall investment structure.

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8. OTHER DISCLOSURES

8.1. External Communication

The Bank communicates with its customers and stakeholders through various channels. Information on developments, financial results, new products or any updates of existing products are placed on the Bank's website www.gbcorponline.com and/or published in the media as well. Product details are also disseminated to customers and other interested parties through prospectus, brochures, and/or periodic investment updates.

8.2. Complaint Handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

8.3. Unrestricted Investment accounts

Currently, the Bank does not offer any unrestricted investment accounts.

8.4. Restricted Investment accounts

The Bank does not currently offer Restricted Investment Accounts ("RIAs") as normal product offering. The RIA as at the balance sheet date is specific in relation to a project promoted by the Bank and was part of the overall investment structure. The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. For further details on RIA balances and policies refer to the consolidated financial statements.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)