



BANK OF BAHRAIN & KUWAIT B.S.C.

(Incorporated in Bahrain with Limited Liability)

INDIAN BRANCHES

| <i>BALANCE SHEET AS ON 31ST MARCH 2010</i> | | | <i>PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2010</i> | | |
|--|------------------------------------|------------------------------------|---|--|--|
| Schedule | As on 31.03.2010 Rs. (000's) | As on 31.03.2009 Rs. (000's) | Schedule | Year Ended 31.03.2010 Rs. (000's) | Year Ended 31.03.2009 Rs. (000's) |
| CAPITAL AND LIABILITIES | | | 1 INCOME | | |
| Capital | 1 | 584,044 | Interest earned | 13 | 405,341 |
| Reserves & surplus | 2 | 418,270 | Other income | 14 | 101,766 |
| Deposits | 3 | 5,149,893 | TOTAL: | 507,107 | 634,072 |
| Borrowings | 4 | 499,000 | | | |
| Other liabilities and provisions | 5 | 272,101 | 2 EXPENDITURE | | |
| TOTAL: | 6,923,308 | 6,097,989 | Interest expended | 15 | 265,103 |
| | | | Operating expenses | 16 | 168,233 |
| ASSETS | | | Provisions and contingencies | | 49,626 |
| Cash and balances with | | | TOTAL: | 482,962 | 460,000 |
| Reserve Bank of India | 6 | 418,863 | | | |
| Balances with Banks and Money | | | 3 PROFIT | | |
| at Call and Short Notice | 7 | 148,699 | Net profit for the year | 24,145 | 174,072 |
| Investments | 8 | 2,201,491 | TOTAL: | 24,145 | 174,072 |
| Advances | 9 | 3,866,130 | | | |
| Fixed assets | 10 | 54,562 | 4 APPROPRIATIONS | | |
| Other assets | 11 | 233,563 | Transfer to Statutory Reserve | 6,036 | 43,518 |
| TOTAL: | 6,923,308 | 6,097,989 | Balance carried over to Balance Sheet | 18,109 | 130,554 |
| Contingent Liabilities | 12 | 3,226,968 | TOTAL: | 24,145 | 174,072 |
| Bills for Collection | | 415,809 | | | |
| Significant Accounting Policies and Notes to Accounts | 17 & 18 | 4,687,304 | Significant Accounting Policies and Notes to Accounts | 17 & 18 | |
| | | 475,375 | | | |

Schedules referred to herein form an integral part of the Balance Sheet.

As per our attached report of even date

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

Sd/-
per Surekha Gracias
Partner
Membership No. 105488

Mumbai
Dated: June 24, 2010

Schedules referred to herein form an integral part of the Profit and Loss Account.

For Bank of Bahrain & Kuwait B.S.C.
Indian Branches

Sd/-
V. Sankaran
General Manager &
Chief Executive Officer – India

Sd/-
Mehjabeen Saifi
Financial Controller – India



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CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010

(Rs. in 000's)

| Particulars | 2009-2010 | 2008-2009 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Net profit before taxation | 63,625 | 222,460 |
| Adjustments for: | | |
| Depreciation on Fixed Assets | 17,127 | 12,056 |
| (Profit)/Loss on sale of fixed assets | 197 | 415 |
| Premium amortised on Held to Maturity category | 4,676 | 3,428 |
| Provision in respect of Non performing advances | 10,479 | 42,508 |
| Provision in respect of Non performing advances written back | (107,316) | (138,628) |
| Provision for investments written back | - | (94,346) |
| Bad Debts written off | 93,090 | 123,859 |
| Bad Debts written off -Investments | - | 55,875 |
| Other Provisions | 1,055 | 355 |
| Provision on Restructured Assets | (3,005) | 3,005 |
| Provision on Standard Assets | - | 2,670 |
| Provision on other assets | (2) | (1,497) |
| Provision on Investments | 15,845 | - |
| Operating profit before working capital changes | 95,771 | 232,160 |
| (Increase)/Decrease in Investments | (731,843) | (222,634) |
| (Increase)/Decrease in Advances | (994,162) | (92,712) |
| (Increase)/Decrease in Other Assets | 30,733 | (40,746) |
| Increase/(Decrease) in Deposits | 430,854 | 765,075 |
| Increase/(Decrease) in Other Liabilities & Provisions | (78,621) | 138,175 |
| Increase/(Decrease) in Borrowings | 469,000 | (170,600) |
| Income taxes (paid)/received | (6,994) | (20,278) |
| Net Cash Flow generated from/(used in) Operating Activities | (785,262) | 588,440 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (12,074) | (21,918) |
| Proceeds from sale of fixed assets | 1,143 | 57 |
| Net Cash Flow generated from/(used in) Investing Activities | (10,931) | (21,861) |
| Cash flows from financing activities | | |
| Injection of capital | - | - |
| Net increase/(decrease) in cash and cash equivalents | (796,193) | 566,579 |
| Cash and Cash equivalents at the beginning of the year | 1,363,755 | 797,176 |
| Cash and Cash equivalents at the end of the year | 567,562 | 1,363,755 |

As per our attached report of even date

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

Sd/-
per Surekha Gracias
Partner
Membership No. 105488

Mumbai
Dated: June 24, 2010

For Bank of Bahrain And Kuwait B.S.C.
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Sd/-
V. Sankaran
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SCHEDULES FORMING PART OF BALANCE SHEET

| | As on 31.03.2010 Rs. (000's) | As on 31.03.2009 Rs. (000's) | | As on 31.03.2010 Rs. (000's) | As on 31.03.2009 Rs. (000's) |
|--|------------------------------------|------------------------------------|--|------------------------------------|------------------------------------|
| Schedule 1 – Share Capital | | | Schedule 4 – Borrowings | | |
| (i) Amount of deposit kept with the Reserve Bank of India under section 11(2)(b) of the Banking Regulation Act, 1949 | 228,000 | 178,000 | I Borrowings in India from | | |
| (ii) Amount brought in by Bank by way of Capital | 584,044 | 584,044 | (i) Reserve Bank of India | – | 30,000 |
| Total | 584,044 | 584,044 | (ii) Other Banks | 50,000 | – |
| Schedule 2 – Reserves and Surplus | | | (iii) Other institutions and agencies | – | – |
| I Statutory Reserve | | | | 50,000 | 30,000 |
| As per Last Balance Sheet | 210,582 | 159,233 | II Borrowings outside India | 449,000 | – |
| Add: Transfer from Profit & Loss Account | 6,036 | 43,518 | Total (I+II) | 499,000 | 30,000 |
| Add: Transfer from Capital Reserve Account | – | 7,831 | | | |
| | 216,618 | 210,582 | Secured borrowings included in I & II above - Rs. Nil (Previous year Rs. Nil) | | |
| II Property Investment Reserve | 9,976 | 9,976 | Schedule 5 – Other Liabilities and Provisions | | |
| III Capital Reserve | | | I Bills Payable | 37,136 | 18,878 |
| As per Last Balance Sheet | 27,231 | 35,062 | II Interest Accrued | 36,401 | 50,159 |
| Add: Transfer from Profit & Loss Account | – | – | III Provision for standard assets | 19,626 | 19,626 |
| Less: Transfer to Statutory Reserve Account | – | 7,831 | IV Others (including provisions) | 178,938 | 264,009 |
| | 27,231 | 35,062 | Total | 272,101 | 352,672 |
| IV Surplus Retained for Capital Adequacy | 164,445 | 164,445 | Schedule 6 – Cash and Balance with Reserve Bank of India | | |
| Total | 418,270 | 412,234 | I Cash in hand (including foreign currency notes) | 4,309 | 7,525 |
| Schedule 3 – Deposits | | | II Balances with Reserve Bank of India | | |
| A I Demand Deposits | | | (i) In Current Account | 414,554 | 287,815 |
| (i) From Banks | 8,045 | 6,393 | (ii) In Other Account | – | – |
| (ii) From Others | 1,045,678 | 470,705 | Total (I+II) | 418,863 | 295,340 |
| | 1,053,723 | 477,098 | Schedule 7 – Balances with Banks & Money At Call & Short Notice | | |
| II Saving Bank Deposits | 590,336 | 462,748 | I In India | | |
| III Term Deposits | | | (i) Balances with Banks | | |
| (i) From Banks | – | – | (a) In Current Account | 4,842 | 1,615 |
| (ii) From Others | 3,505,834 | 3,779,193 | (b) In Other Deposit Account | – | – |
| | 3,505,834 | 3,779,193 | (ii) Money at Call and Short Notice | | |
| Total | 5,149,893 | 4,719,039 | (a) With Banks | – | 250,000 |
| B (i) Deposits of branches in India | 5,149,893 | 4,719,039 | (b) With Other Institutions | – | – |
| (ii) Deposits of branches outside India | – | – | | 4,842 | 251,615 |
| Total | 5,149,893 | 4,719,039 | II Outside India | | |
| | | | (i) In Current Account | 13,647 | 27,643 |
| | | | (ii) In Other Deposit Accounts | – | 23,558 |
| | | | (iii) Money at Call and Short Notice | 130,210 | 765,598 |
| | | | Total (I+II) | 143,857 | 816,799 |
| | | | | 148,699 | 1,068,414 |



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SCHEDULES FORMING PART OF BALANCE SHEET

| | As on 31.03.2010 Rs. (000's) | As on 31.03.2009 Rs. (000's) | | As on 31.03.2010 Rs. (000's) | As on 31.03.2009 Rs. (000's) |
|---|------------------------------------|------------------------------------|---|------------------------------------|------------------------------------|
| Schedule 8 – Investments | | | Schedule 10 – Fixed Assets | | |
| I Investments in India in | | | I Premises | | |
| (i) Government securities (*) | 1,563,408 | 1,490,168 | At cost as per last Balance Sheet | 24,988 | 24,988 |
| (ii) Other approved securities | – | – | Additions during the year | – | – |
| (iii) Shares | – | – | Deductions during the year | – | – |
| (iv) Debentures and bonds | – | – | Depreciation to date | (950) | (543) |
| (v) Others | 638,083 | – | | 24,038 | 24,445 |
| | 2,201,491 | 1,490,168 | | | |
| II Investments outside India | – | – | II Other fixed assets | | |
| | 2,201,491 | 1,490,168 | At cost as per last Balance Sheet | 146,333 | 122,452 |
| III Investments in India | | | Additions during the year | 11,761 | 26,328 |
| Gross Value | 2,230,785 | 1,503,617 | Deductions during the year | (4,212) | (2,447) |
| Less:- Provision on Investments | (29,294) | (13,449) | Depreciation to date | (123,718) | (109,870) |
| Net Value | 2,201,491 | 1,490,168 | | 30,164 | 36,463 |
| | | | III Capital work in progress (including capital advances) | 360 | 47 |
| | | | Total | 54,562 | 60,955 |
| * includes Securities of book value of Rs. 51,076 (FV Rs. 50,000) (Previous Year BV 51,338 FV 50,000) deposited with CCLL, securities of book value of Rs. 223,121 (FV Rs. 220,000) (Previous Year BV 223,200 FV 220,000) deposited with PDO-NDS and securities of FV of Rs. 2,500 (Previous Year Nil) as collateral under Liquidity Adjustment Facility (LAF) and excludes securities of FV of Rs. 50,000 (Previous Year Nil) under LAF. (Rs. in 000's). | | | Schedule 11 – Other Assets | | |
| Schedule 9 – Advances | | | I Interest accrued | 31,429 | 36,116 |
| A (i) Bills purchased and discounted | 2,033,388 | 1,445,318 | II Tax paid in advance/tax deducted at source (net of provisions) | 25,648 | 18,904 |
| (ii) Cash credits, Overdrafts & Loans | 1,177,296 | 748,440 | III Deferred Tax (net) (Refer Accounting Policy 10 & Notes to Accounts 36) | 19,000 | 58,230 |
| (iii) Term Loans | 655,446 | 674,462 | IV Stationary and stamps | 75 | 26 |
| Total | 3,866,130 | 2,868,220 | V Others (including debit balance in Profit and Loss Account of Rs. 84,583 for current year) (previous year Rs. 102,692) (Rs. in 000's) | 157,411 | 201,616 |
| | | | Total | 233,563 | 314,892 |
| B (i) Secured by tangible assets* | 1,711,610 | 1,342,836 | Schedule 12 – Contingent Liabilities | | |
| (ii) Covered by Bank/ Government Guarantees | 1,605,337 | 1,228,295 | I Claims against the bank not acknowledged as debts | 75,000 | – |
| (iii) Unsecured | 549,183 | 297,089 | II Liabilities on account of outstanding forward exchange contracts | 2,650,948 | 4,142,700 |
| *includes advances against book debts | | | III Guarantees given on behalf of constituents (a) In India | 399,919 | 468,528 |
| Total | 3,866,130 | 2,868,220 | (b) Outside India | – | – |
| | | | IV Acceptances, endorsements and other obligations | 51,101 | 68,358 |
| C I Advances in India | | | V Other items for which the Banks is not contingently liable (a) Repo Agreements | 50,000 | – |
| (i) Priority Sector | 1,197,588 | 700,035 | (b) Capital Commitments | – | 7,718 |
| (ii) Public Sector | – | – | Total | 3,226,968 | 4,687,304 |
| (iii) Banks | 1,438,117 | 1,061,590 | | | |
| (iv) Others | 1,230,425 | 1,106,595 | | | |
| Sub-total | 3,866,130 | 2,868,220 | | | |
| II Advances outside India | – | – | | | |
| Sub-total | – | – | | | |
| Total | 3,866,130 | 2,868,220 | | | |



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SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

| | Year Ended 31.03.2010 Rs. (000's) | Year Ended 31.03.2009 Rs. (000's) | | Year Ended 31.03.2010 Rs. (000's) | Year Ended 31.03.2009 Rs. (000's) |
|---|---|---|---|---|---|
| Schedule 13 – Interest Earned | | | Schedule 15 – Interest Expended | | |
| I Interest/Discount on Advances/Bills | 305,955 | 349,177 | I Interest on Deposits | 254,087 | 217,697 |
| II Income on Investments (includes premium amortised Rs. 4,676 in 000's) (Previous year Rs. 3,428 in 000's) | 94,611 | 113,057 | II Interest on RBI/Inter-bank borrowings | 1,948 | 13,524 |
| III Interest on balance with Reserve Bank of India and other inter-bank funds | 4,775 | 21,511 | III Others representing hedging cost | 9,068 | 18,442 |
| IV Others (includes interest on income tax refund of Rs. Nil) (Previous Year Rs. 1,880 in 000's) | – | 1,880 | Total | 265,103 | 249,663 |
| Total | 405,341 | 485,625 | Schedule 16 – Operating Expenses | | |
| Schedule 14 – Other Income | | | I Payment to and provisions for employees | 72,493 | 74,207 |
| I Commission, Exchange and Brokerage | 52,088 | 58,347 | II Rent, Taxes and Lighting | 38,105 | 45,188 |
| II Profit on sale of Investments (net) | 17,973 | 18,544 | III Printing and Stationary | 2,662 | 2,621 |
| III Profit/(Loss) on sale of assets (net) | (197) | (415) | IV Advertisement and Publicity | 418 | 860 |
| IV Profit on Exchange Transactions (net) | 22,530 | 26,605 | V Depreciation on Bank's Property | 17,127 | 12,056 |
| V Income earned by way of dividends, etc. from subsidiaries, companies, joint venture abroad/in India | 3 | 17,768 | VI Directors' Fees, Allowances and Expenses | – | – |
| VI Miscellaneous Income | 9,369 | 27,598 | VII Auditors' Fees and Expenses | 1,000 | 643 |
| Total | 101,766 | 148,447 | VIII Law Charges | 378 | 674 |
| | | | IX Postage, Telegrams, Telephones etc. | 7,741 | 5,563 |
| | | | X Repairs and Maintenance | 5,252 | 4,585 |
| | | | XI Insurance | 5,404 | 5,123 |
| | | | XII Other Expenditure | 17,653 | 16,628 |
| | | | Total | 168,233 | 168,148 |

SCHEDULE 17: SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

The accompanying financial statements have been prepared in accordance with historical cost convention on accrual basis except as otherwise stated and in accordance with the generally accepted accounting principles and statutory provisions prescribed under the Banking Regulations Act 1949, circulars and guidelines issued by the Reserve Bank of India (RBI), Notified accounting standards by Companies (Accounting Standards) Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.

2. Use of Estimates

The preparation of financial statements requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the Financial Statements are prudent and reasonable. Future results could differ from these estimates. Any revisions to accounting estimates are recognized prospectively in the current and future periods.

3. Transaction involving foreign exchange

- Monetary assets and liabilities denominated in foreign currencies and outstanding forward exchange contracts except foreign currency deposit swaps are revalued at the year end exchange rates notified by the Foreign Exchange Dealers' Association of India (FEDAI) and the resultant gains or losses are recognised in Profit and Loss Account.
- Income and expenditure in foreign currencies are translated at the rates prevailing on the date of the transaction.
- Acceptances, endorsements and other obligations in foreign currencies are stated at the year end exchange rates notified by FEDAI.



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- d) Foreign currency swaps are marked to market using respective discount rates for foreign currency cash flows. All transactions are then recorded at spot rates notified by FEDAI. The profit or loss on revaluation is recorded in the profit and loss account and is included in other assets/other liabilities. The notional values of these swaps are recorded as contingent liabilities. The premium or discount on swap contracts hedging the foreign currency risk is amortised over the period of the swap contract in accordance with FEDAI guidelines.

4. Investments

For presentation in the Balance sheet, investments (net of provisions) are classified under the following heads – Government securities, Other approved securities, Shares, Debentures and Bonds, Subsidiaries and Joint Ventures and Others, in accordance with Third Schedule to the Banking Regulation Act, 1949.

Accounting and Classification

As per the guidelines for investments laid down by the Reserve Bank of India, the investment portfolio of the Bank is classified under “Held to Maturity”, “Available for Sale” and “Held for Trading” categories.

Valuation

Investments classified under “Held to Maturity” are carried at acquisition cost unless it is more than the face value in which case, the premium is amortised over the period remaining to maturity and is disclosed in Schedule 13 after netting off from Interest Income on Investments.

Investments classified under “Available for Sale” and “Held for Trading” are valued at lower of cost or market value, in aggregate for each balance sheet classification and net depreciation in aggregate for each balance sheet classification is recognised in the Profit and Loss Account.

Treasury Bills are valued at carrying cost.

Market value, in case of Government and other approved securities, for which quotes are not available, is determined on the basis of the ‘yield to maturity’ rates indicated by Primary Dealers Association of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

Investments where interest/dividend is not serviced regularly are classified in accordance with prudential norms for classification, valuation and operation of Investment Portfolio by Banks prescribed by the Reserve Bank of India.

Transfer between categories

Reclassification of investments from one category to the other, if done, is in accordance with RBI guidelines and any such transfer is accounted for at the acquisition cost/book value/market value, whichever is lower, as at the date of transfer. Depreciation, if any, on such transfer is fully provided for.

Sale of Investments under Held to Maturity

Realized gains on investments under Held to Maturity (“HTM”) category are recognized in the profit and loss account and subsequently appropriated, from the profit available for appropriation, if any, to capital reserve account in accordance with RBI guidelines after adjusting for income tax and appropriations to the statutory reserve.

Accounting for repos/reverse repos

Repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted for on outright sale and outright purchase basis respectively in line with RBI guidelines. The difference between the clean price of first leg and the clean price of the second leg is recognized as interest income/expense over the period of the transaction in accordance with RBI guidelines.

5. Advances and Provisions

Advances are stated net of bills re-discounted, specific loan loss provisions and unrealised interest on non-performing advances. Specific provision for loan losses is made in respect of non-performing advances are in accordance with or higher than the prudential norms on income recognition, asset classification and provisioning pertaining to Advances laid down by the Reserve Bank of India.

Provision for standard advances is made at a rate not lesser than the rate prescribed by the Reserve Bank of India.

6. Fixed Assets and Depreciation

- a) Fixed Assets are stated at original cost of acquisition including taxes, duties, freight and the incidental expenses related to acquisition and installation less accumulated depreciation.

- b) Depreciation is provided on a straight line basis over the estimated useful life of the asset at the rates mentioned below:

| Assets | Rate |
|------------------------|--------------------------------------|
| Vehicle | 15.00% |
| Equipment | 7.50% |
| Furniture | 7.50% |
| Hardware & Software | 33.33% |
| Leasehold Improvements | Over the Primary period of the lease |

Assets individually costing Rs. 5,000/- and below are fully depreciated in the month they are put to commercial use.

- c) Assets purchased during the year are depreciated from the month that the asset has been put to use in the year. Assets disposed off during the year are depreciated upto the month before the date of disposal.



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d) The Bank considers fixed assets as corporate assets of the banking business (cash-generating unit) as a whole. The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired and provides for impairment loss, if any, in the profit and loss account.

7. Lease Transactions

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Lease payments for assets taken as non-cancelable lease are recognized as an expense in the Profit and Loss Account on a straight line basis over the lease term.

8. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

- a) Interest income on advances, other than on Non-Performing Advances, is recognised on accrual basis.
- b) Income from investments other than non performing investments is accounted for on accrual basis except dividend on shares of Corporates and Mutual Funds, if any, which is accounted for on cash basis.
- c) Interest income on Non-Performing Assets is recognised only on realisation in accordance with the norms prescribed by the Reserve Bank of India.
- d) Commission income on letters of credit is accounted on issuance of the letter of credit. Loan processing fees is recognised at inception of the loan. Guarantee commission exceeding Rs.1,00,000/- is accrued on a time proportion basis over the period of guarantee.

9. Employee Benefits

a) Gratuity

The Bank operates a Gratuity Fund Scheme and the contributions are remitted to a Trust established for this purpose. The Bank makes annual contributions to the Fund based on actuarial valuation carried out by an independent external actuary using the projected unit credit method. The annual contribution payable / paid is charged to the Profit and Loss Account.

b) Provident Fund

The Bank operates a Provident Fund Scheme to which it contributes an amount on monthly basis at a determined rate. The contribution is remitted to a Trust established by the Bank for this purpose and such contribution is charged to the Profit and Loss Account. All employees of the Bank are eligible to receive benefits under the Provident Fund. Interest is payable to the members of such trust at a rate which shall not be lower than the statutory rate of interest declared by the Central Government. Shortfall if any, between the interest earned by the trust and the minimum amount to be distributed is provided for in the year to which it relates.

c) Compensated Absences

The bank provides for long term compensated absences on the balance sheet date based on an actuarial valuation carried out by an independent external actuary.

Short term compensated absences are provided for without discounting the liability.

10. Taxation

The bank makes provision for Income-tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through deferred tax asset (DTA)/deferred tax liability (DTL).

Current Tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under.

Wealth Tax is determined in accordance with the provisions under the Wealth Tax Act, 1957.

Deferred tax asset is recognised only to the extent that sufficient future taxable income will be available against which deferred tax asset will be realised.

Deferred taxation is provided on timing differences, using the liability method between the accounting and tax statement on income and expenses.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Bank has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

At each balance sheet date the Bank re-assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Bank writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.



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11. Net Profit

The net profit disclosed in Profit and Loss Account is after:

- Provision for current taxes, wealth tax and deferred taxes on income in accordance with statutory requirements;
- Provision/write off for loan losses and Investments;
- Provision for contingency and other usual and necessary provisions.

12. Provisions, Contingent Assets And Contingent Liabilities

The Bank establishes provisions when it has a present obligation as a result of past event (s), it is probable that an outflow of resources embodying economic benefit to settle the obligation will be required and a reliable estimate can be made of such an obligation. Such provisions are not discounted to present value. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Contingent assets are not recognized in the Financial Statements. A disclosure of Contingent Liability is made when there is:

- A possible obligation, arising from a past event (s), the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank or
- Any present obligation that arises from past events but is not recognized because:
 - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
 - A reliable estimate of the amount of obligation cannot be made.

13. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India, balances with other banks/ institutions and money at call and short notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

SCHEDULE 18: NOTES TO ACCOUNTS

Disclosure requirements as per RBI guidelines

- The break up of "Provisions & Contingencies" as appearing in the Profit and Loss Account is as under :

(Rs. in crore)

| Particulars | Year ended 31.03.2010 | Year ended 31.03.2009 |
|---|--------------------------|--------------------------|
| Specific Provision for Non Performing Advances | 1.05 | 4.25 |
| Bad Debts written off | 9.31 | 17.97 |
| Provision for Non Performing Advances written back | (10.73) | (13.86) |
| Provision for Non Performing investments written back | - | (9.43) |
| Provision on other assets | - | (0.15) |
| Provision for depreciation on Investments | 1.59 | - |
| Other Provisions | 0.10 | 0.03 |
| Provision for Income tax | - | 2.43 |
| Provision for deferred tax | 3.92 | 2.38 |
| Provision for wealth tax | 0.02 | 0.03 |
| Provision for re-structured assets | (0.30) | 0.30 |
| Provision for standard assets | - | 0.27 |
| Total | 4.96 | 4.22 |

- The Capital to Risk Assets Ratio, as assessed by the Bank on the basis of the guidelines issued by the Reserve Bank of India is as under:

As per Basel II:

| Capital Adequacy Ratio | 31.03.2010 | 31.03.2009 |
|---|------------|------------|
| i) CRAR (%) | 25.01% | 25.52% |
| ii) CRAR - Tier I Capital (%) | 24.45% | 24.47% |
| iii) CRAR - Tier II Capital (%) | 0.56% | 1.05% |
| iv) Percentage of the shareholding of the Government of India in nationalized banks | N.A. | N.A. |
| v) Amount of subordinated debt raised as Tier-II capital | Nil | Nil |

3. Business Ratios:

| Particulars | 31.03.2010 | 31.03.2009 |
|--|----------------|---------------|
| a. Net NPAs to Net Advances | 1.95% | 0.09% |
| b. Interest income as a percentage to working funds (\$) | 6.79% | 8.98% |
| c. Non interest income as a percentage to working funds (\$) | 1.70% | 2.75% |
| d. Operating Profit as a percentage to working funds (\$) | 1.24% | 4.01% |
| e. Return on assets (@) | 0.38% | 3.14% |
| f. Business (Deposits plus Advances) per employee (#) | Rs. 8.50 Crore | Rs.6.16 Crore |
| g. Profit per employee (#) | Rs. 0.02 Crore | Rs.0.14 Crore |

(\$) Working funds are reckoned as average of total assets (excluding accumulated losses, if any) as reported to Reserve Bank of India in form X during the 12 months of the financial year.

(@) Assets are reckoned as average of total assets less accumulated losses as at beginning of the year and as at end of the year.

(#) Productivity ratios are based on year end employee numbers.



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4. Provision Coverage Ratio (PCR)

The provision coverage ratio of the Bank as on March 31, 2010 computed as per the RBI circular no. DBOD.No.BP.BC. 64 /21.04.048/2009-10 dated December 1, 2009 on 'Provision coverage for Advances' is 31.16%.

5. Miscellaneous income under Schedule 14 includes loan processing fees amounting to Rs. 0.90 crore (previous year Rs. 1.38 crore).

6. Maturity Profile:

As at March 31, 2010

(Rs. in crore)

| Maturity Profile | 1 day | 2-7 days | 8-14 days | 15-28 days | 29 days-3 months | 3-6 months | 6-12 months | 1-3 years | 3-5 years | Over 5 years | Total |
|------------------------------|-------|----------|-----------|------------|------------------|------------|-------------|-----------|-----------|--------------|--------|
| Deposits | 2.74 | 13.41 | 20.22 | 80.58 | 38.53 | 49.33 | 127.92 | 178.24 | 3.78 | 0.24 | 514.99 |
| Borrowings | - | 5.00 | - | - | 44.90 | - | - | - | - | - | 49.90 |
| Loans & Advances | 1.88 | 13.20 | 15.98 | 37.25 | 163.87 | 34.69 | 21.81 | 66.64 | 28.14 | 3.15 | 386.61 |
| Investments | - | - | 30.27 | 23.19 | 11.81 | 39.04 | 36.42 | 70.25 | 1.15 | 8.02 | 220.15 |
| Foreign currency assets | 14.47 | 0.32 | 0.25 | 3.46 | 14.48 | 24.91 | 14.76 | 10.54 | 10.45 | 3.67 | 97.31 |
| Foreign currency liabilities | 8.45 | 3.01 | 2.71 | 2.70 | 56.12 | 16.35 | 70.41 | 15.61 | 0.04 | - | 175.40 |

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

As at March 31, 2009

(Rs. in crore)

| Maturity Profile | 1 day | 2-7 days | 8-14 days | 15-28 days | 29 days-3 months | 3-6 months | 6-12 months | 1-3 years | 3-5 years | Over 5 years | Total |
|------------------------------|-------|----------|-----------|------------|------------------|------------|-------------|-----------|-----------|--------------|--------|
| Deposits | 0.92 | 5.38 | 6.29 | 0.01 | 39.17 | 65.08 | 159.54 | 193.77 | 1.74 | - | 471.90 |
| Borrowings | - | 3.00 | - | - | - | - | - | - | - | - | 3.00 |
| Loans & Advances | 4.53 | 3.29 | 7.78 | 34.98 | 98.86 | 52.21 | 27.36 | 41.59 | 9.32 | 6.90 | 286.82 |
| Investments | - | - | 3.63 | - | 10.31 | 17.72 | 42.20 | 51.36 | 0.46 | 23.34 | 149.02 |
| Foreign currency assets | 2.88 | 62.87 | 0.06 | 0.36 | 2.01 | 31.12 | 9.75 | 2.88 | 7.44 | 8.60 | 127.97 |
| Foreign currency liabilities | 15.93 | 0.19 | 0.21 | - | 13.11 | 27.58 | 92.40 | 8.87 | - | - | 158.29 |

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

7. Movement in Non-Performing Advances:

(Rs. in crore)

| Particulars | 2009-2010 | | | 2008-2009 | | |
|-------------------------|---|-------------|-------------|---|--------------|-------------|
| | Gross NPA (net of interest in suspense) | Provisions | Net NPA | Gross NPA (net of interest in suspense) | Provisions | Net NPA |
| Opening balance | 11.76 | 11.51 | 0.25 | 25.36 | 21.12 | 4.24 |
| (+) Additions | 19.09 | 1.05 | 18.04 | 0.64 | 4.25 | (3.61) |
| (+) Floating Provision* | - | 1.57 | (1.57) | - | - | - |
| (-) Recoveries | 3.66 | 1.42 | 2.24 | 1.86 | 1.48 | 0.38 |
| (-) Upgradations | 6.97 | - | 6.97 | - | - | - |
| (-) Write off | 9.31 | 9.31 | - | 12.38 | 12.38 | - |
| Closing balance | 10.91 | 3.40 | 7.51 | 11.76 | 11.51 | 0.25 |

* In accordance with RBI circular no. DBOD.NO.BP.BC. 89/21.04.048/2005-06 dated June 22, 2006 on 'Prudential norms on creation and utilization of floating provision' the Bank has two options being:

a) Deducting the existing floating provisions from gross NPAs to arrive at net NPAs or

b) Reckoning it as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

The bank had exercised the option of considering floating provisions as Tier II capital as at March 31, 2009. The bank is considering such floating provisions to arrive at net NPAs as at March 31, 2010.



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8. INVESTMENTS:

i. Details of Investments:

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|---|---------|---------|
| 1) Value of Investments | | |
| i) Gross Value of Investments | | |
| (a) In India | 223.08 | 150.36 |
| (b) Outside India | - | - |
| ii) Provision for Depreciation/Premium Charged | | |
| (a) In India | (2.93) | (1.34) |
| (b) Outside India | - | - |
| iii) Net Value of Investments | | |
| (a) In India | 220.15 | 149.02 |
| (b) Outside India | - | - |
| 2) Movement of provisions held towards depreciation/premium charged | | |
| i) Opening balance | 1.34 | 10.77 |
| ii) Add: Additions during the year | 1.59 | - |
| iii) Less: Write off/write back of excess provision during the year | - | 9.43 |
| iv) Closing balance | 2.93 | 1.34 |

ii. Classification of net Investments is as under:

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|---------------------------|---------------|---------------|
| Held for Trading | | |
| a) Approved Securities | 1.00 | - |
| b) Unapproved Securities | 19.89 | - |
| Available for Sale | | |
| a) Approved Securities | 64.66 | 67.73 |
| b) Unapproved Securities | 24.62 | - |
| Held for Maturity | | |
| a) Approved Securities | 90.69 | 81.29 |
| b) Unapproved Securities | 19.29 | - |
| Total | 220.15 | 149.02 |

9. i) Issuer composition of Non SLR investments

2009-2010

(Rs. in crore)

| No. | Issuer | Amount | Extent of private placement | Extent of 'below investment grade' securities | Extent of 'unrated' securities(*) | Extent of 'unlisted' securities(*) |
|-----|-------------------------------------|--------------|-----------------------------|---|-----------------------------------|------------------------------------|
| 1 | PSU's | - | - | - | - | - |
| 2 | FI's (SIDBI deposits) | 19.29 | 19.29 | - | - | - |
| 3 | Banks (certificate of deposits) | 44.52 | 44.52 | - | - | - |
| 4 | Private corporates | 1.34 | 1.34 | - | 1.34 | 1.34 |
| 5 | Subsidiaries/ Joint ventures | - | - | - | - | - |
| 6 | Others | - | - | - | - | - |
| 7 | Provision held towards depreciation | (1.34) | | | | |
| | Total | 63.81 | 65.15 | - | 1.34 | 1.34 |

(* does not include deposits with SIDBI and certificate of deposits)



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2008-2009

(Rs. in crore)

| No. | Issuer | Amount | Extent of private placement | Extent of 'below investment grade' securities | Extent of 'unrated' securities | Extent of 'unlisted' securities |
|-----|-------------------------------------|--------|-----------------------------|---|--------------------------------|---------------------------------|
| 1 | PSU's | - | - | - | - | - |
| 2 | FI's | - | - | - | - | - |
| 3 | Banks | - | - | - | - | - |
| 4 | Private corporates | 1.34 | 1.34 | - | 1.34 | 1.34 |
| 5 | Subsidiaries/ Joint ventures | - | - | - | - | - |
| 6 | Others | - | - | - | - | - |
| 7 | Provision held towards depreciation | (1.34) | - | - | - | - |
| | Total | - | 1.34 | - | 1.34 | 1.34 |

ii) Non-performing Non-SLR investments

(Rs. in crore)

| Particulars | 2009-2010 | 2008-2009 |
|---|-------------|-------------|
| Opening balance | 1.34 | 12.85 |
| Additions during the year since 1st April | - | - |
| Reductions during the above period | - | 11.51 |
| Closing balance | 1.34 | 1.34 |
| Total provisions held | 1.34 | 1.34 |

10. Provision for depreciation on Investments:

(Rs. in crore)

| Particulars | 2009-2010 | 2008-2009 |
|---|-------------|-------------|
| Opening Balance | 1.34 | 10.77 |
| Add: Provisions for depreciation made during the year | 1.59 | - |
| Less: Write back of provisions during the year | - | 9.43 |
| Closing balance | 2.93 | 1.34 |

11. Information on repos during the year (including Liquidity Adjustment facility with the Reserve Bank of India):

2009-2010

(Rs. in crore)

| | Minimum outstanding during the year (@) | Maximum outstanding during the year | Daily average outstanding during the year (#) | As on 31st March, 2010 |
|--|---|-------------------------------------|---|------------------------|
| Securities sold under repos | 5.00 | 5.00 | 0.01 | 5.00 |
| Securities purchased under reverse repos | 5.00 | 40.00 | 7.30 | Nil |

2008-2009

(Rs. in crore)

| | Minimum outstanding during the year (@) | Maximum outstanding during the year | Daily average outstanding during the year (#) | As on 31st March, 2009 |
|--|---|-------------------------------------|---|------------------------|
| Securities sold under repos | 5.00 | 10.00 | 0.32 | Nil |
| Securities purchased under reverse repos | 5.00 | 60.00 | 5.00 | Nil |

(@) Minimum outstanding is considered only for those days when such transactions were outstanding.

(#) Average consists of transactions outstanding divided by 365 days.



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12. Lending to Sensitive Sectors

(A) Exposure to Real Estate Sector

(Rs. in crore)

| Category | Current Year | Previous Year |
|--|--------------|---------------|
| a) Direct exposure (*) | | |
| (i) Residential Mortgages – | 0.66 | 1.45 |
| - Individual housing loans upto Rs. 20 Lacs | 0.66 | 0.82 |
| - Others | – | 0.63 |
| (ii) Commercial Real Estate – | 15.44 | 13.74 |
| - Fund Based | 15.44 | 13.74 |
| - Non Fund Based | – | – |
| (iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures – | – | – |
| a) Residential, | – | – |
| b) Commercial Real Estate. | – | – |
| b) Indirect Exposure | | |
| Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs). | – | – |
| Total Exposure to Real Estate Sector | 16.10 | 15.19 |

(*) In some cases the lending is based on collateral security which is in the nature of charge on real estate. However, these exposures are not considered as exposure to real estate sector since neither the borrowers are engaged in real estate development activity nor the credit facility used for real estate development.

(B) Exposure to Capital Market

(Rs. in crore)

| Sr. No. | Particulars | Current Year | Previous Year |
|---------|--|--------------|---------------|
| (i) | direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt; | - | - |
| (ii) | advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds; | - | - |
| (iii) | advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds are taken as primary security; | 0.20 | - |
| (iv) | advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity-oriented mutual funds does not fully cover the advances; | - | - |
| (v) | secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers; | - | - |
| (vi) | loans sanctioned to corporates against security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources; | - | - |
| (vii) | bridge loans to companies against expected equity flows / issues; | - | - |
| (viii) | underwriting commitments taken up by banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds; | - | - |
| (ix) | financing to stockbrokers for margin trading; | - | - |
| (x) | all exposures to Venture Capital Funds (both registered and unregistered) | - | - |
| | Total Exposure to Capital Market | 0.20 | - |

13. Letters of Comfort (LoCs):

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|---|---------|---------|
| No. of LoCs issued during the year | 1 | - |
| Financial impact of LoCs issued during the year | 0.32 | - |
| Cumulative financial obligation under the LoCs issued in the past and outstanding | - | - |



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14. Subordinated Debt raised during the year Rs. Nil (Previous year Rs. Nil)

15. Information with respect to loan assets subjected to restructuring:

2009-10

(Rs. in crore)

| Category | Particulars | CDR Mechanism | SME Debt Restructuring | Others |
|------------------------------------|---|---------------|------------------------|--------|
| Standard Advances Restructured | No. of Borrowers | – | – | – |
| | Amount Outstanding | – | – | – |
| | Sacrifice (diminution in the fair value) | – | – | – |
| Sub-Standard Advances Restructured | No. of Borrowers | 1 | – | – |
| | Amount Outstanding @ | 11.42 | – | – |
| | Sacrifice (diminution in the fair value) | 0.16 | – | – |
| Doubtful Advances Restructured | No. of Borrowers | – | – | – |
| | Amount Outstanding | – | – | – |
| | Sacrifice (diminution in the fair value) | – | – | – |
| Total | No. of Borrowers | 1 | – | – |
| | Amount Outstanding | 11.42 | – | – |
| | Sacrifice (diminution in the fair value) | 0.16 | – | – |

@ Classification and outstanding are as at the year ended March 31, 2010.

2008-09

(Rs. in crore)

| Category | Particulars | CDR Mechanism | SME Debt Restructuring | Others |
|------------------------------------|---|---------------|------------------------|--------|
| Standard Advances Restructured | No. of Borrowers | 1 | – | – |
| | Amount Outstanding | 6.01 | – | – |
| | Sacrifice (diminution in the fair value) | 0.30 | – | – |
| Sub-Standard Advances Restructured | No. of Borrowers | – | – | – |
| | Amount Outstanding | – | – | – |
| | Sacrifice (diminution in the fair value) | – | – | – |
| Doubtful Advances Restructured | No. of Borrowers | – | – | – |
| | Amount Outstanding | – | – | – |
| | Sacrifice (diminution in the fair value) | – | – | – |
| Total | No. of Borrowers | 1 | – | – |
| | Amount Outstanding | 6.01 | – | – |
| | Sacrifice (diminution in the fair value) | 0.30 | – | – |

16. The Bank has not extended any finance for margin trading during the year.

17. The Bank has/had exposure in excess of the single borrower prudential exposure ceiling (excluding non-performing advances) in the following cases:

Arch Pharma Ltd.
Bajaj Electricals Ltd.
Fedders Lloyd Corp Ltd.
Hanung Toys & Textiles Ltd.
Sew Infrastructure Ltd.

However the exposure in all the above cases is approved by the Risk Management Committee (RMC) and is within the enhanced prescribed ceiling of 20% and 25% (for infrastructure lending).

18. Details of financial assets sold to Securitisation/Reconstruction Company for Asset Reconstruction during the year:

(Rs. in crore)

| Item | 2009-2010 | 2008-2009 |
|--|-----------|-----------|
| (i) No. of accounts | Nil | 1 |
| (ii) Aggregate value (net of provisions) of accounts sold to SC/RC | Nil | Nil |
| (iii) Aggregate consideration | Nil | 1.48 |
| (iv) Additional consideration realized in respect of accounts transferred in earlier years | Nil | Nil |
| (v) Aggregate gain/loss over net book value. | Nil | 1.48 |



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19. Country Risk Management information:

(Rs. in crore)

| Risk category | As on March 31, 2010 | | As on March 31, 2009 | |
|---------------|----------------------|------------|----------------------|------------|
| | Exposures | Provisions | Exposures | Provisions |
| Insignificant | 17.19 | 0.01 | 49.84 | 0.03 |
| Low | 6.48 | – | 12.89 | – |
| Moderate | – | – | – | – |

20. Movement in Floating Provision:

(Rs. in crore)

| Particulars | 2009-2010 | 2008-2009 |
|---|-------------|-------------|
| Opening Balance | 1.57 | 1.57 |
| Add: Provisions made during the year | – | – |
| Less: Draw down for allocation to NPA account | – | – |
| Closing balance | 1.57 | 1.57 |

21 Details of non-performing financial assets purchased/sold:

A. Details of non-performing financial assets purchased

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|--|---------|---------|
| 1. (a) No. of accounts purchased during the year | Nil | Nil |
| (b) Aggregate outstanding | Nil | Nil |
| 2. (a) Of these, number of accounts restructured during the year | Nil | Nil |
| (b) Aggregate outstanding | Nil | Nil |

B. Details of non-performing financial assets sold

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|-------------------------------------|---------|---------|
| 1. No. of accounts sold | Nil | Nil |
| 2. Aggregate outstanding | Nil | Nil |
| 3. Aggregate consideration received | Nil | Nil |

22. Provision on Standard Asset (Rs. in crore)

As on 31.03.2010: Rs. 1.96

As on 31.03.2009: Rs. 1.96

23. Concentration of Deposits, Advances, Exposures and NPAs:

Concentration of Deposits

(Rs. in crore)

| Particulars | 2009-10 |
|--|---------|
| Total deposits of twenty largest depositors | 212.95 |
| % of deposits of twenty largest depositors to total deposits of the Bank | 41.35% |

Concentration of Advances (net)

(Rs. in crore)

| Particulars | 2009-10 |
|---|---------|
| Total Advances to twenty largest borrowers | 191.29 |
| % of Advances to twenty largest borrowers to total advances of the Bank | 68.36% |

*Advances are computed as per the definition of credit exposure including derivatives furnished in RBI master circular on exposure norms DBOD.No.Dir.BC. 15/13.03.00/2009-10 dated July 1, 2009.

Note:- Advances to borrowers exclude exposure to banks.



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Concentration of Exposures (net)

(Rs. in crore)

| Particulars | 2009-10 |
|---|---------|
| Total Exposure to twenty largest borrowers/customers | 191.29 |
| % of exposures to twenty largest borrowers/customers to total exposure of the Bank on borrowers/customers | 68.36% |

*Exposure is computed based on credit and investment exposure as prescribed in RBI circular on exposure norms DBOD. No.Dir. BC. 15/13.03.00/2009-10 dated July 1, 2009.

Note:- Exposure to borrowers/customers exclude exposure to banks.

Concentration of NPAs (net)

(Rs. in crore)

| Particulars | 2009-10 |
|---|---------|
| Total Exposure to top four NPA accounts | 7.45 |

Note:- (After netting of floating provisions)

24. Sector-wise NPAs (net):

| Sr. No. | Sector | % of NPAs to Total Advances in that Sector 2009-10 |
|---------|--|--|
| 1 | Agriculture & allied activities | Nil |
| 2 | Industry (Micro & small, medium and large) | Nil |
| 3 | Services | Nil |
| 4 | Personal Loans | 0.62 |
| 5 | Others | 31.10 |

*Above information is provided as per the internal classification by management.

25. Overseas Assets, NPAs and Revenue:

(Rs. in crore)

| Particulars | 2009-10 |
|---------------|---------|
| Total Assets | Nil |
| Total NPAs | Nil |
| Total Revenue | Nil |

26. Off-balance Sheet SPVs sponsored:

| Particulars | 2009-10 | 2008-09 |
|--|---------|---------|
| Domestic:- Name of the SPV sponsored | Nil | Nil |
| Overseas:- Name of the SPV sponsored | Nil | Nil |

27. Fee/remuneration received in respect of bancassurance business:

(Rs. in crore)

| Sr. No. | Nature of Income | 2009-10 |
|---------|---|---------|
| 1. | For selling life insurance policies | 0.09 |
| 2. | For selling non-life insurance policies | - |
| 3. | For selling mutual fund products | 0.86 |

28. Unsecured Advances:

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|---|---------|---------|
| Total amount of advances for which intangible securities such as charge over rights, licenses, authority etc has been taken | Nil | Nil |
| Estimated value of intangibles collaterals as stated above | Nil | Nil |



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29. Disclosure on derivatives

a. Qualitative Disclosure:

The Bank has very limited exposure to derivatives trading namely forward foreign exchange contracts.

1) The structure and organisation for management of risk in derivatives trading:

Treasury operation is segregated into three different departments viz. front office, mid-office and back office. The primary role of front office is to conduct business, that of mid-office is to ensure compliance in accordance with set norms and policies and that of back office is to process / settle the transactions.

The Bank has in place a Risk Management Committee (RMC) which reviews/approves policies and procedures and reviews adherence to various risk parameters and prudential limits.

2) The scope and nature of risk measurement, risk reporting and risk monitoring systems:

a) Risk Measurement:

For forward foreign exchange contracts, risk is measured through a daily report called Value at Risk (VaR), which computes VaR on the foreign exchange, gaps using FEDAI VaR factors (at 99% confidence level).

b) Risk Reporting and Risk monitoring systems:

The Bank has the following reports/systems in place which are reviewed by the top management:

- (i) VaR.
- (ii) Net open position
- (iii) AGL/IGL
- (iv) Dealer wise limits
- (v) Stop loss limits
- (vi) Bankline limits

3) Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants:

The Bank has the following two policy papers in place, approved at RMC:

- (i) Integrated Foreign Exchange policy and
- (ii) Asset-Liability Management (ALM) Policy

The Bank monitors the hedges/mitigants on a continuous basis through daily and monthly reports which are reviewed by the dealing room/top management.

4) Accounting policy for recording hedge and non-hedge transactions, recognition of income, premiums and discounts, valuation of outstanding contracts, provisioning and credit risk mitigation

As stated in Schedule 17: Principal accounting policies point no 2. (a) and (d). .

b. Quantitative Disclosure:

(Rs. in crore)

| Sr. No | Particular | Currency swaps (Forward Foreign exchange contracts) |
|--------|--|---|
| 1 | Derivatives (Notional Principal Amount) | |
| | a) For hedging | 68.92 |
| | b) For trading | 196.18 |
| 2 | Marked to Market Positions | |
| | a) Asset (+) | 3.92 |
| | b) Liability (-) | (4.94) |
| 3 | Credit Exposure | 9.52 |
| 4 | Likely impact of one percentage change in interest rate (100*PV01) | |
| | a) on hedging derivatives | - |
| | b) on trading derivatives | - |
| 5 | Maximum and Minimum of 100*PV01 observed during the year | |
| | a) on hedging | - |
| | b) on trading | - |

30. No penalties were levied by Reserve Bank of India under section 46 (4) of the Banking Regulation Act, 1949.

31. Draw down from Reserves:

The Bank has not drawn down any reserves during the year ended March 31, 2010 (previous year Nil).



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32. Analysis and Disclosure of complaints

A. Customer Complaints

| Sr No | Particulars | Current Year | Previous Year |
|-------|--|--------------|---------------|
| (a) | No. of complaints pending at the beginning of the year | Nil | Nil |
| (b) | No. of complaints received during the year | 16 | 8 |
| (c) | No. of complaints redressed during the year | 16 | 8 |
| (d) | No. of complaints pending at the end of the year | Nil | Nil |

*Data provided by management and relied upon by the auditors.

B. Awards passed by the Banking Ombudsman

| Sr No | Particulars | Current Year | Previous Year |
|-------|---|--------------|---------------|
| (a) | No. of unimplemented Awards at the beginning of the year | Nil | Nil |
| (b) | No. of Awards passed by the Banking Ombudsmen during the year | Nil | Nil |
| (c) | No. of Awards implemented during the year | Nil | Nil |
| (d) | No. of unimplemented Awards at the end of the year | Nil | Nil |

*Data provided by management and relied upon by the auditors.

Disclosure requirements as per Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI)

33. Employee Benefits (AS-15)

Gratuity

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amount recognised in the balance sheet for the respective plans.

Profit and Loss account: Net employee benefit expense (recognised in payment to and provision to employees)

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|--|--------------|---------------|
| Current service cost | 0.50 | 0.27 |
| Interest cost on benefit obligation | 0.06 | 0.05 |
| Expected return on plan assets | (0.06) | (0.06) |
| Net actuarial (gain)/loss recognised in the year | (0.82) | 0.03 |
| Past Service Cost | - | - |
| Cost of plan amendment | 0.50 | - |
| Net expenses | 0.18 | 0.29 |
| Actual return on plan assets | 0.06 | 0.08 |

Balance Sheet: Details of provision for gratuity

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|---|--------------|---------------|
| Fair value of plan assets | 0.66 | 0.75 |
| Present value of obligations | 0.84 | (0.74) |
| Asset/(Liability) | (0.18) | 0.01 |
| Asset/Liability recognised in the balance sheet | 0.18 | 0.01 |

Changes in the present value of the defined benefit obligation are as follows:

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|---|--------------|---------------|
| Opening defined benefit obligation | 0.75 | 0.59 |
| Interest cost | 0.06 | 0.04 |
| Current service cost | 0.50 | 0.27 |
| Past service cost | - | - |
| Cost of Plan Amendment | 0.50 | - |
| Benefits paid | (0.15) | (0.22) |
| Actuarial (gains) / losses on obligation | (0.82) | 0.06 |
| Closing defined benefit obligation | 0.84 | 0.74 |



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Changes in the fair value of plan assets are as follow:

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|--|--------------|---------------|
| Opening fair value of plan assets | 0.75 | 0.77 |
| Expected return | 0.06 | 0.06 |
| Contributions by employer | - | 0.13 |
| Benefits paid | (0.15) | (0.22) |
| Actuarial gains / (losses) | - | 0.01 |
| Closing fair value of plan assets | 0.66 | 0.75 |

Experience adjustments:

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|---|--------------|---------------|
| Experience adjustments on plan liabilities (Gains)/Loss | 0.19 | 0.67 |
| Experience adjustments on plan assets Gain/(Loss) | - | 0.02 |

Principal assumptions used in determining gratuity for the Bank's plans are shown below:

| Particulars | Current Year | Previous Year |
|--|--------------|---------------|
| Discount Rate (%) p.a. | 8.00% | 7.75% |
| Expected rate of return on assets (%) p.a. | 8.00% | 7.75% |
| Salary escalation rate (%) p.a. | 8.00% | 15.00% |
| Employee turnover (%) p.a. | 25.00% | 1.00% |

Compensated Absences

The actuarial liability of compensated absences of unencashable accumulated sick leaves of the employees of the Bank as of March 31, 2010 is given below:

(Rs. in crore)

| Particulars | Current Year | Previous Year |
|--|--------------|---------------|
| Total actuarial liability for sick leave | 0.13 | 0.12 |

Principal assumptions used in determining gratuity for the Bank's plans are shown below:

| Particulars | Current Year | Previous Year |
|---------------------------------|--------------|---------------|
| Discount Rate (%) p.a. | 8.00% | 7.75% |
| Salary escalation rate (%) p.a. | 8.00% | 15.00% |

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

34. Segment Reporting

Segment Information about Primary Business Segments for the year March 31, 2010

(Rs. in crore)

| BUSINESS SEGMENT | Treasury | Corporate Banking | Retail Banking | Other Banking Services | Unallocated | Total |
|--|-------------|-------------------|----------------|------------------------|-------------|-------------|
| PARTICULARS | | | | | | |
| Total Revenue | 13.74 | 32.16 | 2.29 | 2.52 | - | 50.71 |
| Result | 1.55 | 7.67 | 0.11 | 0.08 | (3.06) | 6.35 |
| Income Tax (net of deferred tax) | | | | | | 3.94 |
| Extraordinary Profit / loss | | | | | | - |
| Net profit | | | | | | 2.41 |
| Other information | | | | | | |
| Segment Assets | 265.02 | 388.24 | 21.95 | 1.25 | 15.87 | 692.33 |
| Segment Liabilities | 60.79 | 185.16 | 344.82 | 0.52 | 101.04 | 692.33 |
| Total Depreciation | 0.33 | 0.86 | 0.10 | 0.24 | 0.18 | 1.71 |
| Non cash expenses other than Depreciation of which: | 1.59 | (0.66) | 0.03 | 0.02 | 0.04 | 1.02 |
| Specific Provision for NPA & Write-off | - | (0.40) | 0.03 | - | - | (0.37) |
| General loss Provision | - | - | - | - | - | - |
| Gen. Prov. for Stand. Assets | - | (0.30) | - | - | - | (0.30) |
| Provision for depreciation on Investments | 1.59 | - | - | - | - | 1.59 |
| Provision for Country Risk | - | - | - | - | - | - |
| Other Provisions | - | 0.04 | - | 0.02 | 0.04 | 0.10 |
| Provision on other assets | - | - | - | - | - | - |

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.



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Segment information for the year ended March 31, 2009

(i) Information about Primary Business Segments

(Rs. in crore)

| BUSINESS SEGMENTS | Treasury | Corporate Banking | Retail Banking | Other Banking Services | Unallocated | Total |
|--|---------------|-------------------|----------------|------------------------|-------------|---------------|
| PARTICULARS | | | | | | |
| Revenue | 19.74 | 39.35 | 2.93 | 1.20 | 0.19 | 63.41 |
| Result | 8.52 | 16.65 | (0.80) | (0.99) | (1.14) | 22.25 |
| Income Taxes (net of deferred tax) | | | | | | 4.84 |
| Extraordinary Profit / loss | | | | | | - |
| Net Profit | | | | | | 17.41 |
| Other Information | | | | | | |
| Segment Assets | 296.67 | 271.11 | 19.94 | 0.78 | 21.30 | 609.80 |
| Segment Liabilities | 20.53 | 160.17 | 326.09 | 0.52 | 102.49 | 609.80 |
| Depreciation | 0.31 | 0.51 | 0.11 | 0.15 | 0.13 | 1.21 |
| Non cash expenses other than Depreciation of which: | (0.03) | (0.53) | (0.06) | - | - | (0.62) |
| Specific provision for Non Performing Assets & write-offs | - | (1.24) | 0.17 | - | - | (1.07) |
| General loss provision | - | - | - | - | - | - |
| Gen. Prov. for Stand. Assets | - | 0.75 | (0.18) | - | - | 0.57 |
| Provision for depreciation on Investments | - | - | - | - | - | - |
| Provision for Country Risk | - | - | - | - | - | - |
| Other Provisions | - | 0.01 | 0.02 | - | - | 0.03 |
| Provision on other assets | (0.03) | (0.05) | (0.07) | - | - | (0.15) |

In computing the above information, certain estimates and assumptions have been made which have been relied upon by the auditors.

Notes: -

- (i) The Bank operates as a single unit in India and as such has no identifiable geographical segments subject to dissimilar risk and returns. Hence no information regarding the same has been given.
- (ii) The Bank is organised into three main business segments, namely:
 - Treasury – primarily comprising of Dealing Room operations, trading/investments in Bonds and Government securities.
 - Corporate Banking – primarily comprising of Wholesale Loans and Advances to Corporates, Investments in Corporate Bonds.
 - Retail banking – Primarily comprising of retail loans & advances to customers.
- (iii) The above segments are based on the currently identified segments taking into account the nature of services provided, the risks and returns, overall organisation structure of the Bank and the internal financial reporting system.
- (iv) Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments and amounts apportioned/allocated on a reasonable basis.
- (v) The classification of assets to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP. BC.81/21.01.018/2006-07 dated April 18, 2007.
- (vi) Segment revenues stated above are aggregate of Schedule 13 – Interest income and Schedule 14 – Other Income with zero spread on account of transfer pricing.

35. Related Parties

Parent

Bank of Bahrain & Kuwait, Bahrain, its branches and representative office.

Subsidiaries of Parent

1. CrediMax
2. Invita Company B.S.C
3. BBK Investment Fund Company
4. Global Payment Services
5. Capinnova Bank



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Associated Company of Parent

1. Bahrain Commercial Facilities Company
2. Ithmaar Bank
3. Bahrain Kuwait Insurance
4. Securities Investment Company
5. Pension Fund Commission
6. Social Insurance Organisation
7. Kuwait Investment Authority (KIA)
8. Benefit Company
9. EBLA
10. Naseej
11. Alosra Bank
12. Sakana Holistic Housing Solutions

Key Management Personnel*

Mr. V. Sankaran – General Manager & CEO

The following transactions were carried out with the related parties in the ordinary course of business:

(Rs in crore)

| Items/Related Party | Parent & Overseas Branch | | | |
|----------------------------|-----------------------------------|---|-----------------------------------|---|
| | Outstanding as on 31st March 2010 | Maximum Balance during the year 2009-2010 | Outstanding as on 31st March 2009 | Maximum Balance during the year 2008-2009 |
| Borrowings | 44.90 | 44.90 | - | 50.08 |
| Lending | - | 94.23 | 12.68 | 81.80 |
| Deposits | 0.61 | 3.97 | 0.43 | 5.63 |
| Guarantees | 29.63 | 31.38 | 35.45 | 35.45 |
| Foreign exchange contracts | - | 4.72 | - | 1.28 |

| Items/Related Party | Parent & Overseas Branch | |
|---------------------|--------------------------|-----------|
| | 2009-2010 | 2008-2009 |
| Interest Paid | 0.02 | 0.89 |
| Interest Received | 0.03 | - |
| Commission received | - | - |
| Commission paid | - | - |

*As per RBI circular dated July 1, 2009 on 'Disclosure in Financial Statements – Notes to Accounts, the Bank has not disclosed details pertaining to the related party where there is only one entity/person in any one category of related parties.

36. Operating Leases

- a) Details of total of future minimum lease payments are as follows:

(Rs. in crore)

| Particulars | 2009-10 | 2008-09 |
|---|---------|---------|
| Not later than one year | 3.22 | 3.06 |
| Later than one year and not later than five years | 2.50 | 5.72 |
| Later than five years | Nil | Nil |

- b) Lease payments of Rs. 3.22 crore have been recognized in the statement of profit and loss for the year being minimum lease payments.
- c) The lease agreements entered into pertain to use of premises (including fixed assets) at the branch. The lease agreements do not have any undue restrictive or onerous clauses other than those normally prevalent in similar agreement regarding use of assets, lease escalations, renewals and a restriction on sub-leases.

37. Deferred Taxes

In accordance with Accounting Standard 22 on "Accounting for taxes on income" issued by the Institute of Chartered Accountants of India, the Bank has recognized Deferred Tax Asset (DTA) on timing differences to the extent there is virtual certainty based on contracts and arrangements in place which will enable the Deferred Tax Asset to reverse.



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Items on which DTA is created are as follows:

(Rs. in crore)

| | As at March 31, 2010 | As at March 31, 2009 |
|--------------------------------------|----------------------|----------------------|
| <u>Deferred Tax Assets</u> | | |
| Provision for NPA's | - | 3.90 |
| Carried forward losses | 3.02 | 3.29 |
| Total | 3.02 | 7.19 |
| <u>Deferred Tax Liability</u> | | |
| Depreciation on Fixed Assets | 1.12 | 1.37 |
| Total | 1.12 | 1.37 |
| Net Deferred tax asset | 1.90 | 5.82 |

38. Provisions and contingencies

- (i) Claims against the Bank not acknowledged as debts:
Includes legal proceedings in the normal course of business, which are disputed by the Bank.
No disclosure of disputed income tax demand as a contingent liability is considered necessary, as in the Bank's view, duly supported by expert legal opinion/judicial pronouncements and also based on the favourable decisions for the Bank in its own earlier appeals, that these demands are not sustainable.
- (ii) Liabilities on account of forward contracts:
The Bank enters into forward exchange contracts with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.
- (iii) Guarantees given on behalf of constituents, acceptances, endorsements and others
As a part of its normal banking activities, the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.
- (iv) Other items for which the Bank is contingently liable represents repos outstanding on account of borrowing against Government securities, capital commitments.

39. Based on the available information, there are no outstanding dues towards principal amount or interest thereon remaining unpaid to any supplier covered under, Micro, Small and Medium Enterprises development Act, 2006 as at the end of the accounting year.

40. Previous year's financials have been audited by another firm of Chartered Accountants.

41. Previous year figures have been regrouped wherever necessary to conform to current year's presentation.

For Bank of Bahrain & Kuwait B.S.C – Indian Branches

Sd/-
V. Sankaran
General Manager &
Chief Executive Officer – India

Sd/-
Mehjabeen Saifi
Financial Controller – India

Mumbai
Dated: June 24, 2010



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BASEL II

1. Scope of application:

The bank has no subsidiary and hence no consolidation is applicable.

2. Capital Structure:

Qualitative Disclosures:

Tier 1 – Capital of the bank comprises of capital funds injected by HO, Statutory reserves and retained earnings.

Regulatory deductions are on account of intangible assets being deferred tax asset

Tier 2 Capital consists of general loss reserves subject to restrictions as per RBI guidelines.

Quantitative Disclosures:

| a. Tier 1 Capital | (Rs. in crore) |
|---|-----------------------|
| Capital | 58.40 |
| Reserves | 41.83 |
| Debit balance in Profit and Loss A/c (excluding current year's profit after appropriation) | 10.27 |
| b. Tier II Capital | 02.02 |
| c. Deduction from Capital | 01.90 |
| d. Total Eligible Capital | 90.08 |

3. Capital Adequacy:

Qualitative Disclosures:

The primary objective of the Bank's capital management framework is to ensure that the Bank complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximize the return on equity.

CAR of the Bank is estimated to be well above the regulatory CAR of 9 % for the next two years. For maintaining adequate capital, Bank has the additional option of augmenting the capital by raising subordinated debt.

The Bank has finalized its ICAAP policy and will be reviewed on a yearly basis.

Quantitative Disclosures:

| | |
|---|-----------------|
| Capital requirement for credit risk | |
| Portfolios subject to standardized approach | Rs. 26.89 crore |
| Securitization exposures | NIL |
| Total @ 9% CRAR | Rs. 26.89 crore |

Capital requirement for market risk.

- Standardized duration approach

Interest Rate Risk Rs. 0.75 crore

Foreign exchange risk (including gold) Rs. 1.20 crore

Equity Risk NIL

Capital requirement for operational risk;

Basic indicator approach

Capital required for operational risk Rs. 3.59 crore

Total and Tier 1 capital ratios

Tier I Capital Rs. 88.06 crore

Tier II Capital Rs. 2.02 crore

Total Rs. 90.08 crore

Total CRAR 25.01%

Core CRAR 24.45%

4. General Disclosures:

Qualitative Disclosures:

Risk Management involves identifying, measuring, monitoring and managing risks on a regular basis. The objective of risk management is to increase return on equity and achieve a return on equity commensurate with the risks assumed.



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The Bank faces a range of risks in its business and operations. These include among other things (i) Liquidity Risk (ii) Market Risk (iii) Credit Risk (iv) Operational Risk.

General Manager & CEO – India is the head of Indian operations who functions under the guidance of the Head office at Bahrain. The Bank has a full fledged risk management department which looks after the risk functions pertaining to Indian operations. The Risk related policies and procedures applicable to Indian operations are discussed and approved by the Risk management Committee. The head office at Bahrain has a fully equipped risk management department which guides the Indian counterparts on the risk related issues.

Liquidity Risk:

Liquidity risk is defined as the potential inability of the Bank to meet its financial obligations (liquidity needs) due to funding mismatch. The Bank has in place ALM policy which describes the measures for tracking and managing liquidity. It is the Bank's policy to keep part of its assets in high quality liquid assets such as inters bank placements, government bonds, bills and other short term instruments to meet maturing liabilities. The Bank has an arrangement for line of credit and may approach its Head office in case of liquidity gaps. The day to day management of liquidity is looked after by treasury with support from Asset-Liability management Committee (ALCO). The monitoring is done by risk management department.

Market Risk:

Market risk is defined as the risk of losses in on or off balance sheet positions arising from movements in market prices of interest rate related instruments, equities, forex and commodity prices.

The Bank has clearly defined policies for conducting investment and foreign exchange business, which stipulates limits for these activities. The Bank has no exposure to equity and commodity markets.

GAP analysis and Duration analysis are followed for interest rate risk management. Fixing of IGL/AGL and Forex VAR are followed for managing the forex risk.

Credit Risk:

Credit Risk is defined as the risk of the bank's borrowers or counterparties failing to meet their obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the Bank's risk adjusted rate of return by maintaining credit-risk exposures within acceptable parameters. The bank has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all its activities. Credit limits are approved after thorough assessment of the creditworthiness of the borrower or counterparty including the purpose and structure of credit and its source of repayment. Credit proposals are reviewed by the designated credit officer independently before obtaining approval from the appropriate authority.

Credit growth, quality and portfolio composition are monitored continuously to maximize return and reduce incidence of impairment. The Bank monitors concentration risk by setting up limits for maximum exposure to individual borrower or counterparty, country, bank or industry. These limits are approved after detailed analysis and are monitored regularly.

The Bank's credit administration unit ensures that credit facilities are released after proper approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits, and highlights corrective action immediately.

The Bank has a risk asset rating guidelines and all credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once a year and more frequently for Non Performing Assets. The Internal Audit Department conducts independent reviews of risk assets periodically and submits its report to Senior Management/Audit Committee.

It is the Bank's policy to ensure that provisions for credit loss are maintained at adequate levels.

The bank line limits are set by Head Office at Bahrain giving due weightage to political, economic and commercial risks attached to various countries and the size, track record and performance indicator of various banks. These limits are reviewed annually

Definition of past due and impaired assets (for accounting purpose)

Non-performing Assets:

The Bank has followed the 90-day norm for NPA classification.

Accordingly, an advance is treated as a Non-performing asset when

- (i) Interest and/or installment of principal amount remains overdue for a period of 90 days or above in respect of a term loan
- (ii) The account remains out of order for a period of more than 90 days in respect of Overdraft/Cash Credit
- (iii) Bills remain overdue for a period of more than 90 days in case of bills purchased/discounted.
- (iv) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.



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Discussion of Bank's Credit Risk Management policy

As discussed under the sub head Credit risk

Quantitative Disclosures:

- Total gross credit risk exposures – Fund based Rs. 685.44 crore
- Non-fund based Rs. 53.22 crore
- Geographic distribution of exposure-Fund based and non fund based separately.

The Bank operates as a single unit in India and as such has no identifiable geographical segment subject to dissimilar risk and returns. Hence no information regarding the same has been given.

- Industry type distribution of exposures- funded and non-funded exposure separately.

Industry Type Distribution of Exposures

(Rs. in crores)

| CODE | INDUSTRY | FUND BASED O/S | | | NFB O/S |
|--------------------|--|----------------|-------------|---------------|--------------|
| | | STD | NPA | TOTAL | |
| 003 | Iron & Steel | 0.93 | - | 0.93 | - |
| 005 | All Engineering | 28.36 | - | 28.36 | 8.45 |
| 006 | Electricity | - | - | 0.00 | - |
| 007 | Cotton Textiles | - | - | 0.00 | - |
| 009 | Other Textiles | 13.47 | - | 13.47 | 0.64 |
| 012 | Food Processing | 21.94 | - | 21.94 | - |
| 017 | Chemicals, dyes paints etc. | 20.68 | - | 20.68 | - |
| 0171 | - of Which fertilizers | 7.08 | - | 7.08 | - |
| 0172 | - of Which petro chemicals | 13.60 | - | 13.60 | - |
| 0173 | - of Which drugs & pharmaceuticals | - | - | 0.00 | - |
| 021 | Construction | 15.97 | - | 15.97 | 0.20 |
| 025 | Infrastructure | 10.08 | - | 10.08 | 3.69 |
| 0252 | - of which telecommunications | - | - | - | - |
| 0253 | - of which road & ports | 10.08 | - | 10.08 | 3.69 |
| 026 | Other industries | 212.18 | 7.38 | 219.56 | 32.10 |
| 027 | NBFCs | 24.23 | - | 24.23 | - |
| 028 | Residual advances to balance gross dv. | 29.69 | 0.13 | 29.82 | 0.02 |
| Grand Total | | 377.53 | 7.51 | 385.04 | 45.10 |

- Residual Contractual Maturity break-down of assets:

(Rs. in crores)

| | 1 Day | 2-7 Days | 8 to 14 Days | 15 to 28 Days | 29 days- upto 3 months | 3- upto 6 months | 6- upto 12 months | 1- upto 3 years | 3- upto 5 years | 5- upto 10 years | 10-upto 20 years | Over 20 years | Total |
|--|-------|----------|--------------|---------------|------------------------|------------------|-------------------|-----------------|-----------------|------------------|------------------|---------------|--------|
| 1 Cash | 0.43 | - | - | - | - | - | - | - | - | - | - | - | 0.43 |
| 2 Balance with RBI | 0.26 | 1.05 | 1.58 | 6.46 | 3.29 | 4.01 | 10.13 | 14.18 | 0.50 | - | - | - | 41.46 |
| 3 Balances with banks & money at call & short notice | 14.87 | - | - | - | - | - | - | - | - | - | - | - | 14.87 |
| 4 Investments | - | - | 30.27 | 23.19 | 11.81 | 39.04 | 36.42 | 70.25 | 1.15 | 8.02 | - | - | 220.15 |
| 5 Advances | 1.88 | 13.20 | 15.98 | 37.25 | 163.87 | 34.69 | 21.81 | 66.64 | 28.14 | 3.15 | - | - | 386.61 |
| 6 Fixed Assets | - | - | - | - | - | - | - | - | - | - | - | 5.46 | 5.46 |
| 7 Other assets | - | 0.84 | 0.47 | 1.82 | 0.54 | - | 1.94 | - | 2.56 | 6.73 | - | - | 14.90 |

- Amount of NPA's Gross
 - Substandard Rs. 10.10 crore
 - Doubtful 1 Rs. 0.25 crore
 - Doubtful 2 Rs. 0.04 crore
 - Doubtful 3 Rs. 0.02 crore
 - Loss Rs. 0.50 crore



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- Net NPA's Rs. 7.51 crore
- NPA Ratios
 - Gross NPA's to Gross Advances 2.81%
 - Net NPA's to net advances 1.95%
- Movement of NPA's (Gross)
Disclosed in Schedule 18 of the year accounts Note no 7.
- Movement of provisions for NPA's
Disclosed in Schedule 18 of the year accounts Note no 7.
- Amount of Non – Performing Investments Rs. 1.34 crore
- Amount of provision held for Non –Performing Investments Rs. 1.34 crore
- Movement of provision for depreciation on investments

(Rs. in crore)

| Particulars | 2009-2010 |
|---|-----------|
| Opening Balance | 1.34 |
| Add: Provisions for depreciation made during the year | 1.59 |
| Less: Write-off | - |
| Less: Write back of provisions during the year | - |
| Closing balance | 2.93 |

5. Credit Risk: Portfolios subject to standardized approach

Qualitative Disclosures:

As per RBI Guidelines, the Bank has identified CARE, CRISIL, ICRA and FITCH in India as the domestic credit rating agencies and FITCH, MOODY and S & P as international credit rating agencies for all exposures (Corporate exposures and banking exposures) wherever applicable. The bank is not using any process to transfer public issue ratings on to comparable assets in the banking book.

Also rated facilities have been considered as those facilities where the bank's exposure has been explicitly rated; else that exposure has been treated by the bank as unrated.

Quantitative Disclosures:

The quantitative disclosures for exposure amounts after risk mitigation subject to the standardized approach are given in three major risk buckets:-

| | |
|------------------------|------------------|
| Below 100% risk weight | Rs. 520.91 crore |
| 100% risk weight | Rs. 157.65 crore |
| More than 100% | Rs. 45.91 crore |
| Deducted | Nil |

6. Credit risk mitigation: Standardized approach

Quantitative Disclosures:

The Bank has in place credit risk mitigation and collateral management policy which summarizes the Bank's approach for and an indication of the extent to which the bank makes use of on and off balance sheet netting. The valuation of collaterals is being carried out periodically. The collaterals considered for Risk mitigation includes bank's fixed deposits, insurance policies and counter guarantees of Banks including Head Office and Branch guarantee.

Quantitative Disclosures:

Total Exposure covered by eligible financial collateral after the application of haircuts:

Rs. in crore as of 31-03-2010

| | Gross outstanding | Financial Mitigant |
|---------------------|-------------------|--------------------|
| Corporate Exposure* | 17.41 | 3.70 |
| Retail Exposure | 0.05 | 0.03 |

*Corporate Exposure includes both Fund based and Non Fund based exposure.



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7. Securitisation: Standardised approach

The Bank has not securitized any of its assets portfolios.

8. Market Risk

Qualitative Disclosures:

- a) The Bank is following the standardized duration for calculating market risk on the following portfolios
Securities held under HFT and AFS categories
Forward foreign exchange contracts
- b) Risk Management Department is responsible for identification, assessment, monitoring and reporting the market risks.
- c) Risk Management and reporting is based on parameters such as Modified Duration, Maximum permissible exposures, Net Open Position limits, Gap limits, Value at Risk (VAR).
- d) The Bank does not have any exposure to Capital Market.

Quantitative Disclosures:

The capital requirements for

- | | |
|----------------------------|----------------|
| i) Interest rate risk | Rs. 0.75 crore |
| ii) Equity position risk | NIL |
| iii) Foreign exchange risk | Rs. 1.20 crore |

9. Operational Risk

Qualitative Disclosures:

Operational Risk is the exposure to loss resulting from inadequate or failed internal processes or people or systems or from external events. The Bank has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy. The Bank has got in place concurrent audit and internal audit systems which help in identifying and rectifying the operational deficiencies.

The approved Business Continuity Plan is in place and implementation of the same is in process. The regular back-ups are made for important data and stored outside the bank's premises. All our branches are integrated under core banking software. A system of prompt submission of reports on frauds is in place in the Bank.

Interest Rate Risk in the Banking book

The Asset Liability Management Committee which is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of Balance Sheet risks and laying down parameters for efficient management of these risks through Assets Liability Management Policy of the Bank. ALCO therefore periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank.

It is the Bank's policy to keep its assets and liabilities mismatches at acceptable levels to maintain steady net interest income. The Bank monitors interest rate risk based on gap/duration limits. The Interest rate sensitivity statements are prepared on a fortnightly basis to monitor the interest rate risk. The Asset Liability management committee (ALCO) reviews the interest rate risk periodically and suggests measures to tackle the dynamic situations.

10. Interest rate Risk in the banking Book (IRRBB)

Qualitative Disclosures

The bank has practice of monitoring Interest rate risk in Banking Book on a monthly basis. The liabilities and assets are grouped in to different buckets based on the interest re-pricing horizon. The gaps between the Assets and Liabilities are analyzed with the help of pre-determined gap limits. The reasons for the breaches are identified and necessary steps are initiated.

Quantitative Disclosures

The impact on the bank's financial condition due to change in interest rate is being monitored. The impact of 200 basis points change upward/ downward in interest rate on Net Interest Income (NII) amounted to an expected gain/loss of INR 0.93 crore based on Asset Liability position of March 2010 using the traditional gap analysis.



BANK OF BAHRAIN & KUWAIT B.S.C.

(Incorporated in Bahrain with Limited Liability)

INDIAN BRANCHES

The General Manager & Chief Executive Officer

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

1. We have audited the attached balance sheet of Bank of Bahrain & Kuwait – Indian Branches (the 'Bank') as at 31 March 2010 and also the profit and loss account and cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The balance sheet and profit and loss account are drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956 ('the Companies Act').
4. We report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;
 - b) In our opinion, the transactions of the Bank which have come to our notice have been within its powers;
 - c) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;
 - d) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - e) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub section (3C) of Section 211 of the Companies Act, read with guidelines issued by the Reserve Bank of India insofar as they apply to the Bank;
5. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Companies Act, in the manner so required for banking companies, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a) in the case of the balance sheet, of the state of the affairs of the Bank as at 31 March 2010;
 - b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For S.R. BATLIBOI & Co.

Chartered Accountants

Firm Registration number: 301300E

per Surekha Gracias

Partner

Membership No.:105488

Mumbai: 24 June 2010