

## Basel II Pillar III Disclosures

For the period ended 30 June 2011

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

### 1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Bank's interim condensed consolidated financial information for the period ended 30 June 2011, presented in accordance with International Financial Reporting Standards (IFRS). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Bank's interim condensed consolidated financial information for the period ended 30 June 2011.

### 2. Basel II Framework

CBB has issued Basel II guidelines which are effective from January 2008. These guidelines have been issued for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a more risk based approach to the assessment of the risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information

The Pillar 3 disclosures apply to First Leasing Bank B.S.C. (c) (the Bank) and its subsidiary (collectively the Group).

During May 2011, the assets and liabilities of FLB Capital (the subsidiary) have been liquidated following an approval obtained from the Board of Directors on 6 October 2010

### 3. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarized as follows:

Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

#### Capital Structure for capital adequacy purpose:

##### A. Tier 1 Capital

Issued and fully paid-up ordinary capital	100,000	
<b>Reserves</b>		
Retained profit brought forward	(122)	
Statutory reserve	789	
Current loss	<u>(1,140)</u>	
<b>Total Tier 1 capital before PCD deductions</b>		<b>99,527</b>

**B. Total Available Capital (A)** **99,527**

**C. General Deductions from Tier 1 under PCD Module** **-**

**D. Total Eligible Capita (B-C)** **99,527**

#### 4. Disclosure of the regulatory capital requirements for credit risk under the standardised approach

	Risk weighted assets	Capital requirement
Banks	28,731	690
Claims on corporates	74,764	8,972
Investment in securities	10,428	1,877
Holding of real estate	10,119	2,429
Other assets	<u>2,933</u>	<u>352</u>
<b>Total</b>	<b><u>126,975</u></b>	<b><u>14,320</u></b>

#### 5. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Cash and balances with bank	6,645	7,398
Placements with banks	25,086	26,375
Finance lease receivables	74,764	80,853
Investment securities available-for-sale	20,547	20,672
Property, plant and equipment	1,934	2,270
Other assets	999	1,151
<b>Total credit risk exposure – on balance sheet</b>	<b><u>129,975</u></b>	<b><u>138,719</u></b>
Lease commitments – off balance sheet	<u>-</u>	<u>-</u>
<b>Total credit exposure</b>	<b><u>129,975</u></b>	<b><u>138,719</u></b>

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2010.

#### 6. Geographical distribution of credit exposures

	Asia/Pacific	Middle East	Europe	North America	Total
<b>On-balance sheet items</b>					
Cash and balances with banks	-	6,645	-	-	6,645
Placements with banks	-	25,086	-	-	25,086
Finance lease receivables	-	71,170	-	3,594	74,764
Investment securities available-for-sale	5,000	1,087	9,460	5,000	20,547
Property, plant and equipment	-	1,934	-	-	1,934
Other assets	-	999	-	-	999
<b>Total on balance sheet items</b>	<b><u>5,000</u></b>	<b><u>106,921</u></b>	<b><u>9,460</u></b>	<b><u>8,594</u></b>	<b><u>129,975</u></b>
<b>Off balance sheet items</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total credit exposure</b>	<b><u>5,000</u></b>	<b><u>106,921</u></b>	<b><u>9,460</u></b>	<b><u>8,594</u></b>	<b><u>129,975</u></b>

#### 7. Industry distribution of credit exposures

	Banks and financial institutions	Manufacturing	Property and construction	Technology	Others	Total
<b>On-balance sheet items</b>						
Cash and balances with banks	6,645	-	-	-	-	6,645
Placements with banks	25,086	-	-	-	-	25,086
Finance lease receivables	-	18,594	31,934	3,583	20,654	74,764
Investment securities available-for-sale	-	-	10,119	-	10,428	20,547
Property, plant and equipment	-	1,430	443	-	61	1,934
Other assets	688	-	-	-	311	999
<b>Total on-balance sheet items</b>	<b><u>32,419</u></b>	<b><u>20,023</u></b>	<b><u>42,496</u></b>	<b><u>3,583</u></b>	<b><u>31,454</u></b>	<b><u>129,975</u></b>
<b>Off-balance sheet items</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total credit exposure</b>	<b><u>32,419</u></b>	<b><u>20,023</u></b>	<b><u>52,601</u></b>	<b><u>3,583</u></b>	<b><u>31,454</u></b>	<b><u>129,975</u></b>

## 8. Maturity breakdown of credit exposures

	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 years	Total
<b>On-balance sheet items</b>					
Cash and balances with banks	6,645	-	-	-	6,645
Placements with banks	4,490	10,496	10,100	-	25,086
Finance lease receivables	15,922	9,393	24,152	25,297	74,764
Investment securities available for sale	-	-	20,547	-	20,547
Operating lease receivables	-	-	461	-	461
Other assets	85	212	703	1,473	2,472
<b>Total on-balance sheet items</b>	<b>27,142</b>	<b>20,101</b>	<b>55,962</b>	<b>26,770</b>	<b>129,975</b>
<b>Off-balance sheet items</b>	-	-	-	-	-
<b>Total credit exposure</b>	<b>27,142</b>	<b>20,101</b>	<b>55,962</b>	<b>26,770</b>	<b>129,975</b>

## 9. Related-party balances under credit exposure

Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 30 June 2011 were \$22,185 (31 December 2010: \$ 27,665)

As at 30 June 2011 and 31 December 2010 the Group did not have any concentration of risk to individual counterparties where the credit exposure is in excess of the 15 percent individual obligor limit.

As at 30 June 2011, the Bank had balances with related parties amounting to \$21,067 which were due within 3 months and hence considered by management as exempted exposures.

## 10. Past due and impaired lease receivables by geographical areas and related provisions for impairment

The Bank had impaired financial assets at 30 June 2011 amounting to \$37,794 (31 December 2010: \$29,290). The Bank has made a provision of \$1,470 (31 December 2010: \$3,930) against the impaired loans.

Impaired assets are overdue by more than 6 months and are located in United Arab Emirates, Kuwait and United States of America.

<b>Movement in impairment provisions</b>	<b>Specific provisions</b>
At 1 January 2011	5,928
Write off	-
Net charge during the year	1,470
<b>At 30 June 2011</b>	<b>7,398</b>

## 11. Credit exposures which are covered by eligible financial collateral

In respect of finance leases receivable, the underlying assets are held in the name of the Bank and their fair values are estimated by management to exceed the carry amounts.

## 12. Disclosure of regulatory capital requirements for market risk under the standardised approach

	Risk weighted assets	Capital charge	Maximum	Minimum
Foreign exchange risk	5,119	410	410	410

### **13. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach**

For regulatory reporting, the capital requirement for operational risk is calculated based on the basic indicator approach. According to this approach, the Group's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15 percent under CBB Basel II guidelines. The capital requirement for operational risk at 30 June 2011 aggregated to \$1,131.

### **14. Tier 1 capital ratios and total capital ratios**

	<b>Tier 1 Capital Ratio</b>	<b>Total Capital Ratio</b>
First Leasing Bank B.S.C. (c) Consolidated	71.82%	71.82%