

Basel II Pillar III Disclosures

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For the year ended 31 December 2008

(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 financial statements for the year ended 31 December 2008, presented in accordance with the 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 financial statements for the year ended 31 December 2008.

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

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

Consolidated Capital Structure for capital adequacy purpose:

A. Tier 1 Capital

Issued and fully paid-up ordinary capital	100,000	
Reserves		
Retained profit brought forward	339	
Statutory reserve	450	
Total Tier 1 capital before PCD deductions		100,789

B. Tier 2 Capital

Current profit	3,018	
Total Tier 2 capital before PCD deductions		3,018

C. Total Available Capital (A+B) **103,807**

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

E. Total Eligible Capital (C-D) **103,807**

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

	Risk weighted assets	Capital requirement
Banks	17,435	2,092
Claims on corporates	124,367	14,924
Investment in securities	15,611	1,873
Holding of Real Estate	20,236	2,428
Other assets	1,916	230
Total	179,565	21,547

5. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Cash and balances with bank	1,614	3,607
Placements with banks	33,353	19,147
Finance lease receivables	121,966	92,489
Total credit risk exposure – on balance sheet	156,933	115,243
Lease commitments – off balance sheet	4,803	15,991
Total credit exposure	161,736	131,234

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2008.

6. Geographical distribution of credit exposures

	Asia/Pacific	Middle East	Europe	North America	Total
On-balance sheet items					
Cash and balances with banks	-	1,614	-	-	1,614
Placements with banks	-	33,353	-	-	33,353
Finance lease receivables	-	109,373	-	12,594	121,966
Investment securities available-for-sale	4,407	11,000	5,119	-	20,526
Operating lease receivables	-	427	-	-	427
Other assets	-	815	-	-	815
Total on balance sheet items	4,407	156,582	5,119	12,594	178,702
Off balance sheet items	-	6,458	-	-	6,458
Total credit exposure	4,407	163,040	5,119	12,594	185,160

Basel II Pillar III Disclosures

For the year ended 31 December 2008

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7. Industry distribution of credit exposures

	Banks and financial institutions	Manufacturing	Property and construction	Technology	Others	Total
On-balance sheet items						
Cash and balances with banks	1,614	-	-	-	-	1,614
Placements with banks	33,353	-	-	-	-	33,353
Finance lease receivables	-	14,647	48,167	14,960	44,193	121,967
Investment securities available-for-sale	-	-	10,119	-	10,407	20,526
Operating lease receivables	-	427	-	-	-	427
Other assets	-	-	543	-	272	815
Total on-balance sheet items	34,967	15,074	58,829	14,960	54,872	178,702
Off-balance sheet items						
	-	1,034	-	-	5,424	6,458
Total credit exposure	34,967	16,108	58,829	14,960	60,296	185,160

8. Maturity breakdown of credit exposures

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Total
On-balance sheet items					
Cash and balances with banks	1,614	-	-	-	1,614
Placements with banks	5,000	20,737	7,616	-	33,353
Finance lease receivables	3,441	6,262	22,208	90,054	121,965
Investment securities available for sale	-	-	-	20,525	20,525
Operating lease receivables	-	-	-	427	427
Other assets	-	-	814	-	814
Total on-balance sheet items	10,055	26,999	30,638	111,006	178,698
Off-balance sheet items					
	4,803	-	-	-	4,803
Total credit exposure	14,858	26,999	30,638	111,006	183,501

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9. Related-party balances under credit exposure

A Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2008 were \$46,162.

As at 31 December 2008, the Bank did not have any concentration of risk to individual counterparties where the credit exposure is in excess of the 15 percent individual obligor limit.

10. Past due and impaired financial assets by geographical areas and related provisions for impairment

The Bank had impaired financial assets at 31 December 2008 amounting to \$2,882,332 (31 December 2007: Nil). The Bank has made provision of \$124,000 (31 December 2007: Nil) against the impaired loans based on discounting the future cash flows. Impaired asset is overdue by more than 1 year and is located in United Arab Emirates.

Movement in impairment provisions

	<u>Specific provisions</u>
At 1 January 2008	-
Net charge during the period	124
At 31 December 2008	124

11. Credit exposures which are covered by eligible financial collateral

In respect of finance lease receivable, the 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 standardized approach

	<u>Risk weighted</u>			
	assets	Capital charge	Maximum	Minimum
Foreign exchange risk	5,113	614	616	550

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 basic indicator approach. According to this approach, the Bank'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 31 December 2008 aggregated to \$748 thousands.

14. Tier 1 capital ratios and total capital ratios

	<u>Tier 1 Capital</u>	<u>Total Capital</u>
	Ratio	Ratio
First Leasing Bank B.S.C. (c)	52.79%	54.38%