

# Basel II Pillar III Disclosures

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for the year ended 31 December 2009

(All amounts expressed in 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 2009, 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 2009.

## 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

### Capital Structure for capital adequacy purpose:

<b>A. Tier 1 Capital</b>	
Issued and fully paid-up ordinary capital	100,000,000
Reserves	
Retained profit brought forward	3,055,000
Statutory reserve	752,000
<b>Total Tier 1 capital before PCD deductions</b>	<b>103,807,000</b>
<b>B. Tier 2 Capital</b>	
Current profit	368,000
<b>Total Tier 2 capital before PCD deductions</b>	<b>368,000</b>
<b>C. Total Available Capital (A+B)</b>	<b>104,175,000</b>
<b>D. General Deductions from Tier 1 under PCD Module</b>	<b>-</b>
<b>E. Total Eligible Capita (C-D)</b>	<b>104,175,000</b>

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

	Risk weighted assets	Capital requirement
Banks	3,411,000	409,000
Claims on corporates	116,606,000	13,993,000
Investment in securities	15,006,000	1,801,000
Holding of Real Estate	20,236,000	2,428,000
Other assets	1,806,000	217,000
<b>Total</b>	<b>157,065,000</b>	<b>18,848,000</b>

### 5. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Cash and balances with bank	1,230,000	1,233,000
Placements with banks	15,824,000	21,121,000
Finance lease receivables	116,606,000	126,931,000
<b>Total credit risk exposure – on balance sheet</b>	<b>133,610,000</b>	<b>149,285,000</b>
Lease commitments – off balance sheet	-	2,068,000
<b>Total credit exposure</b>	<b>133,610,000</b>	<b>151,353,000</b>

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2009.

### 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	-	1,230,000	-	-	1,230,000
Placements with banks	-	15,824,000	-	-	15,824,000
Finance lease receivables	-	108,685,000	-	7,921,000	116,606,000
Investment securities available-for-sale	5,000,000	5,781,000	9,341,000	-	20,122,000
Property, plant and equipment	-	1,253,000	-	-	1,253,000
Other assets	-	552,000	-	-	552,000
<b>Total on balance sheet items</b>	<b>5,000,000</b>	<b>133,325,000</b>	<b>9,341,000</b>	<b>7,921,000</b>	<b>155,587,000</b>
<b>Off balance sheet items</b>					
	-	-	-	-	-
<b>Total credit exposure</b>	<b>5,000,000</b>	<b>133,325,000</b>	<b>9,341,000</b>	<b>7,921,000</b>	<b>155,587,000</b>

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### 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	1,230,000	-	-	-	-	1,230,000
Placements with banks	15,824,000	-	-	-	-	15,824,000
Finance lease receivables	-	26,753,000	48,083,000	8,788,000	32,982,000	116,606,000
Investment securities available-for-sale	-	-	10,119,000	-	10,003,000	20,122,000
Property, plant and equipment	-	567,000	147,000	-	539,000	1,253,000
Other assets	305,000	-	43,000	-	204,000	552,000
<b>Total on-balance sheet items</b>	<b>17,359,000</b>	<b>27,320,000</b>	<b>58,392,000</b>	<b>8,788,000</b>	<b>43,728,000</b>	<b>155,587,000</b>
<b>Off-balance sheet items</b>						
	-	-	-	-	-	-
<b>Total credit exposure</b>	<b>17,359,000</b>	<b>27,320,000</b>	<b>58,392,000</b>	<b>8,788,000</b>	<b>43,728,000</b>	<b>155,587,000</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	1,230,000	-	-	-	1,230,000
Placements with banks	-	5,588,000	10,236,000	-	15,824,000
Finance lease receivables	5,691,000	7,512,000	32,160,000	71,243,000	116,606,000
Investment securities available-for-sale	-	-	-	20,122,000	20,122,000
Operating lease receivables	-	-	-	567,000	567,000
Other assets	-	-	-	1,238,000	1,238,000
<b>Total on-balance sheet items</b>	<b>6,921,000</b>	<b>13,100,000</b>	<b>42,396,000</b>	<b>93,170,000</b>	<b>155,587,000</b>
<b>Off-balance sheet items</b>					
	-	-	-	-	-
<b>Total credit exposure</b>	<b>6,921,000</b>	<b>13,100,000</b>	<b>42,396,000</b>	<b>93,170,000</b>	<b>155,587,000</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 31 December 2009 were \$29,694.

As at 31 December 2009, 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.

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

The Bank had impaired financial assets at 31 December 2009 amounting to \$23,839,132 (31 December 2008: \$2,882,332). The Bank has made provision of \$2,177,447 (31 December 2008: \$124,000) against the impaired loans based on discounting the future cash flows.

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

Movement in impairment provisions	Specific provisions
At 1 January 2009	124,000
Net charge during the period	2,177,000
<b>At 31 December 2009</b>	<b>2,301,000</b>

### 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

	Risk weighted assets	Capital charge	Maximum	Minimum
Foreign exchange risk	5,118,000	409,000	409,000	409,000

### 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 2009 aggregated to \$938 thousands.

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

	Tier 1 Capital Ratio	Total Capital Ratio
First Leasing Bank B.S.C. (c)	59.69%	59.90%