

Basel II Pillar III Disclosures

For the six month period ended 30 June 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 condensed interim financial information for the six month period ended 30 June 2009, presented in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34). 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 six month period ended 30 June 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:

A. Tier 1 Capital

Issued and fully paid-up ordinary capital	100,000,000	
Reserves		
Retained profit brought forward	3,055,267	
Statutory reserve	<u>751,782</u>	
Total Tier 1 capital before PCD deductions		103,807,049

B. Tier 2 Capital

Current profit	<u>1,437,249</u>	
Total Tier 2 capital before PCD deductions		<u>1,437,249</u>

C. Total Available Capital (A+B) **105,244,298**

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

E. Total Eligible Capital (C-D) **105,244,298**

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

	Risk weighted assets	Capital requirement
Banks	4,168,000	500,160
Claims on corporates	133,580,291	16,029,635
Investment in securities	15,513,000	1,861,560
Holding of real estate	20,236,000	2,428,320
Other assets	<u>2,298,000</u>	<u>275,760</u>
Total	<u>175,795,291</u>	<u>21,095,435</u>

5. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Cash and balances with bank	772,375	908,443
Placements with banks	20,066,990	23,386,736
Finance lease receivables	<u>133,580,291</u>	<u>130,475,366</u>
Total credit risk exposure – on balance sheet	<u>154,419,656</u>	<u>154,770,545</u>
Lease commitments – off balance sheet	-	4,136,000
Total credit exposure	<u>154,419,656</u>	<u>158,906,545</u>

Average gross credit exposures have been calculated based on the average of balances outstanding during the six month period ended 30 June 2009.

6. Geographical distribution of credit exposures

	Asia/Pacific	Middle East	Europe	North America	Total
On-balance sheet items					
Cash and balances with banks	-	772,375	-	-	772,375
Placements with banks	-	20,066,990	-	-	20,066,990
Finance lease receivables	-	120,986,541	-	12,593,750	133,580,291
Investment securities available for sale	5,000,000	10,341,342	5,118,843	-	20,460,185
Operating lease receivables	-	1,343,846	-	-	1,343,846
Other assets	-	953,246	-	-	953,246
Total on-balance sheet items	<u>5,000,000</u>	<u>154,464,340</u>	<u>5,118,843</u>	<u>12,593,750</u>	<u>177,176,933</u>
Off-balance sheet items	-	-	-	-	-
Total credit exposure	<u>5,000,000</u>	<u>154,464,340</u>	<u>5,118,843</u>	<u>12,593,750</u>	<u>177,176,933</u>

7. Industry distribution of credit exposures

	Bank and financial institutions	Manufacturing	Property and construction	Technology	Others	Total
On-balance sheet items						
Cash and balances with banks	772,375	-	-	-	-	772,375
Placements with banks	20,066,990	-	-	-	-	20,066,990
Finance lease receivables	1,180,498	31,291,709	55,688,169	12,593,750	32,826,165	133,580,291
Investment securities available for sale	-	-	10,118,843	-	10,341,342	20,460,185
Operating lease receivables	-	581,959	177,271	-	584,616	1,343,846
Other assets	373,375	-	168,564	-	411,307	953,246
Total on-balance sheet items	<u>22,393,238</u>	<u>31,873,668</u>	<u>66,152,847</u>	<u>12,593,750</u>	<u>44,163,430</u>	<u>177,176,933</u>
Off-balance sheet items	-	-	-	-	-	-
Total credit exposure	<u>22,393,238</u>	<u>31,873,668</u>	<u>66,152,847</u>	<u>12,593,750</u>	<u>44,163,430</u>	<u>177,176,933</u>

8. Maturity breakdown of credit exposures

	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 years	No Maturity	Total
On-balance sheet items						
Cash and balances with banks	772,375	-	-	-	-	772,375
Placements with banks	-	7,425,566	12,641,424	-	-	20,066,990
Finance lease receivables	8,057,041	7,742,283	25,941,937	91,839,030	-	133,580,291
Investment securities available for sale	-	-	-	-	20,460,185	20,460,185
Operating lease receivables	-	-	-	581,959	-	581,959
Other assets	171,153	208,316	567,536	6,241	-	953,246
Total on-balance sheet items	<u>9,000,569</u>	<u>15,376,165</u>	<u>39,150,897</u>	<u>92,427,230</u>	<u>20,460,185</u>	<u>176,415,046</u>
Off-balance sheet items	-	-	-	-	-	-
Total credit exposure	<u>9,000,569</u>	<u>15,376,165</u>	<u>39,150,897</u>	<u>92,427,230</u>	<u>20,460,185</u>	<u>176,415,046</u>

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 2009 were \$46,545,982 (31 December 2008: \$ 46,162,441)

As at 30 June 2009 and 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 lease receivables by geographical areas and related provisions for impairment

The Bank had impaired lease receivables at 30 June 2009 amounting to \$2,599,559 (30 June 2008: \$1,983,838). The Bank has made a provision of \$247,000 (31 December 2008: \$124,000) against the impaired loans based on discounting the expected future cash flows.

Impaired lesae receivables are overdue by more than 1 year 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	<u>123,000</u>
At 30 June 2009	<u>247,000</u>

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	5,118	409	409	409

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 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 30 June 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)	53.89%	54.63%