Ithmaar Bank

Quantitative Public Disclosures
At 30 June 2008

INDEX

1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from 1st January 2008. The new module requires semi-annual disclosures with respect to quantitative information under PD 3.1.6 and PD 1.3 to be disclosed on the Bank's website along with the half yearly financial information. The disclosure in this document covers all the applicable quantitative disclosures at 30 June 2008 required by the new public disclosure module. These disclosures are mainly related to compliance with the Basel 2 Pillar 3 disclosure requirements.

2. Basel 2 Framework

CBB has issued Basel 2 guidelines which became effective from 1st January 2008. These guidelines have been issued for the implementation of Basel 2 capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel 2 framework provides a more risk based approach to the assessment of risk and the calculation of regulatory capital as compared to the erstwhile Basel 1 framework. The Basel 2 framework is expected to strengthen the risk management practices across the financial institutions.

The Basel 2 framework is based on three pillars as follows:-

- Pillar 1: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar 2: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar 3: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Methodology

As per the requirements of CBB's Basel 2 capital adequacy framework, the method for calculating the capital adequacy ratio for the consolidated Ithmaar Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within Ithmaar Group except for the following:
    - With respect to Ithmaar's banking subsidiaries incorporated outside Bahrain which are operating under Basel 2 compliant jurisdictions, full aggregation is performed of the risk weighted exposures and eligible capital as required under PCD module.
    - With respect to Ithmaar's Islamic Banking subsidiaries incorporated in the Kingdom of Bahrain, full aggregation is performed of the risk weighted exposures and eligible capital as required under PCD module.
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in Banking and other financial entities as required under PCD module.

4. Consolidated Capital Structure for capital adequacy purpose:

			(USD in '000)
A	**Tier 1 Capital**		
	Issued and fully paid-up ordinary capital	535,130	
	Reserves		
	General reserve	109,861	
	Retained profit brought forward	77,931	
	Legal/ statutory reserves	35,873	
	Share premium	213,387	
	Others	2,496	
	Minority interest in the equity of subsidiaries	171,049	
	Aggregation/Pro-rata aggregation of investments in Banking and other financial entities	624,298	
	Sub-Total	1,770,025	
	Regulatory deductions:		
	Goodwill	(202,179)	
	Total Tier 1 capital before PCD deductions		**1,567,846**
B	**Tier 2 Capital**		
	Current interim profits (reviewed by external auditors)	28,456	
	Unrealized gains arising from fair valuations (45%)	31,836	
	Aggregation/Pro-rata aggregation of investments in Banking and other financial entities	131,072	
	Total Tier 2 capital before PCD deductions		**191,364**
C	**Total Available Capital (A+B)**		**1,759,210**
D	**General deductions from Tier 1 under PCD Module**		
	Significant minority investments in Banking, securities and other financial entities which are pro-rata aggregated	(179,260)	
	Deduction of unconsolidated financial subsidiaries where ownership is >50% which are aggregated	(487,133)	
	Total Deductible Items		**(666,393)**
E	**Total Eligible Capital (C-D)**		**1,092,817**

5. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

(USD in '000)

	Risk weighted assets	Capital requirement
Banks	14,014	1,682
Corporate Portfolio	76,950	9,234
Equity portfolio	411,790	49,415
Holding of Real estate	484,492	58,139
Other assets	549,834	65,980
Aggregation/Pro-rata aggregation of investments in Banking and other financial entities	3,351,506	402,181
Total	**4,888,586**	**586,630**

6. Gross credit exposures:

(USD in '000)

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and cash equivalents	516,182	552,313
Due from banks & financial institutions	21,548	17,308
Investments in financings	2,020,180	1,955,930
Investment securities	635,459	753,167
Accounts receivable	165,394	126,178
Other assets	696,624	686,077
Total on balance sheet credit exposure	**4,055,387**	**4,090,973**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	587,074	673,084
Financing commitments, Undrawn facilities and other credit related liabilities	487,587	678,542
Total off balance sheet credit exposure	**1,074,661**	**1,351,626**
Total credit exposure	**5,130,048**	**5,442,599**

Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the period ended 30 June 2008.

7. Geographical distribution of credit exposures:

(USD in '000)

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and cash equivalents	206,889	206,358	48,917	54,018	-	516,182
Due from banks & financial institutions	-	21,548	-	-	-	21,548
Investments in financing	1,390,477	528,368	84,287	15,798	1,250	2,020,180
Investment securities	458,581	115,409	27,765	33,704	-	635,459
Accounts receivable	13,464	99,040	30,888	22,002	-	165,394
Other assets	54,297	541,198	101,129	-	-	696,624
Total on balance sheet items	**2,123,708**	**1,511,921**	**292,986**	**125,522**	**1,250**	**4,055,387**
Off balance sheet items	**909,563**	**123,030**	**40,987**	**1,081**	**-**	**1,074,661**
Total credit exposure	**3,033,271**	**1,634,951**	**333,973**	**126,603**	**1,250**	**5,130,048**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

8. Industry distribution of credit exposures:

(USD in '000)

	Banks and finance institution	Trading and manufacturing	Property and construction	Services	Private individuals	Textile	Others	Total
On-balance sheet items								
Cash and cash equivalents	442,179	-	-	65,516	-	-	8,487	516,182
Due from banks & financial institutions	21,548	-	-	-	-	-	-	21,548
Investments in financing	580,850	376,172	218,372	392,767	78,086	269,561	104,372	2,020,180
Investment securities	520,645	26,609	59,841	726	-	2,847	24,791	635,459
Accounts receivable	91,488	6,883	45,504	2,575	2,473	44	16,427	165,394
Other assets	315,310	-	323,498	40,351	-	-	17,465	696,624
Total on balance sheet items	**1,972,020**	**409,664**	**647,215**	**501,935**	**80,559**	**272,452**	**171,542**	**4,055,387**
Off balance sheet items	**67,355**	**227,926**	**132,248**	**187,086**	**83,832**	**199,907**	**176,307**	**1,074,661**
Total credit exposure	**2,039,375**	**637,590**	**779,463**	**689,021**	**164,391**	**472,359**	**347,849**	**5,130,048**

بنك الإثمار
Ithmaar Bank

9. Maturity breakdown of credit exposures:

(USD in '000)

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and cash equivalents	482,008	34,174	-	-	-	-	-	516,182
Due from banks & financial institutions	-	21,548	-	-	-	-	-	21,548
Investments in financing	565,163	461,984	441,457	402,924	83,430	65,222	-	2,020,180
Investment securities	82,688	70,320	224,507	224,814	33,130	-	-	635,459
Accounts receivable	81,589	40,878	30,523	12,224	180	-	-	165,394
Other assets	749	8,265	-	184,446	284,430	216,826	1,908	696,624
Total on balance sheet items	**1,212,197**	**637,169**	**696,487**	**824,408**	**401,170**	**282,048**	**1,908**	**4,055,387**
Off-balance sheet items	**528,492**	**155,646**	**111,983**	**182,074**	**96,466**	**-**	**-**	**1,074,661**
Total credit exposure	**1,740,689**	**792,815**	**808,470**	**1,006,482**	**497,636**	**282,048**	**1,908**	**5,130,048**

10. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are entered into on an arms length basis. The related party balances included under credit exposure at 30 June 2008 were as follows:

	(USD in '000)
Associated companies	5,185
Affiliated companies	243,777
Directors & key management	647
Total	**249,609**

Concentration of risk to individual counterparties where the credit exposure is in excess of the 15% individual obligor limit:

	(USD in '000)
Non-Banks	192,932
Total	**192,932**

11. Past due and impaired investments in financings and related provisions for impairment:

(USD in '000)

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	80,758	32,710	48,048
Mining	297	297	-
Construction	2,823	46	2,777
Financial	5	-	5
Trade	33,201	10,056	23,145
Personal / Consumer finance	63,827	5,353	58,474
Commercial real estate financing	29,524	3,512	26,012
Technology, media and telecommunications	2,554	993	1,561
Transport	3,680	415	3,265
Other sectors	32,875	9,071	23,804
Total	**249,544**	**62,453**	**187,091**
Ageing analysis			
Over 3 months up to 1 year	158,185	26,502	131,683
Over 1 year up to 3 years	55,813	17,913	37,900
Over 3 years	35,546	18,038	17,508
Total	**249,544**	**62,453**	**187,091**

Movement in impairment provisions	**Specific provisions**
At 1 January 2008	67,097
Net charge during the period	358
Exchange and other movements	(5,002)
At 30 June 2008	**62,453**

12. Past due and impaired investments in financings by geographical areas:

(USD in '000)

Analysis by Geography	Gross exposure	Impairment provisions	Net exposure
Asia / Pacific	247,558	60,472	187,086
Middle East	1,500	1,500	-
Europe	486	481	5
Total	**249,544**	**62,453**	**187,091**

13. Details of credit facilities outstanding at year ended 31 December 2007 that have been restructured during the period:

Restructured financings during the six months period ended 30 June 2008 aggregated to $1.4 million. This restructuring resulted in a positive impact aggregating to $0.6 million which included $0.5 million on provisions and $0.1 million on present earnings during the period ended 30 June 2008. Further, this restructuring is not expected to have significant impact on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

14. Credit exposures which are covered by eligible financial collateral:

		(USD in '000)
	Gross exposure	**Eligible financial collateral**
Banks	29,906	5,824
Corporate	852,845	52,143
Retail portfolio	352,858	54,601

15. Disclosures related to counterparty credit risk:

For regulatory capital adequacy purposes, the Group uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel 2 capital adequacy framework.

The calculation of exposure at default, risk weighted assets and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analyzed by standard portfolio, is presented in the table below:

	Exposure at Default				**(USD in '000)**
	Current exposure	**Future exposure**	**Total exposure**	**Risk weighted assets**	**Capital requirement**
Banks	3,054	989	4,043	981	118
Corporate	411	157	568	568	68
Total	**3,465**	**1,146**	**4,611**	**1,549**	**186**

16. Legal contingencies:

At 30 June 2008, the Group had contingent liabilities towards customer claims aggregating to $48.9 million. The management is of the view that these claims are not likely to result into potential liabilities.

17. Equity position in Banking book:

At 30 June 2008, the Group's available for sale investment securities aggregated to $635.5 million. Out of the total investment securities, $169.6 million were listed investment securities and the remaining $465.9 million represented unlisted investment securities.

Cumulative net realized gains arising from sale of investment securities during the six month period ended 30 June 2008 aggregated to $12.9 million.

Unrealized net loss recognized directly in equity aggregated to $13.3 million during the six month period ended 30 June 2008. Unrealized gains and losses from fair valuation of equities in Banking book are included in the calculation of regulatory capital as per CBB's Basel 2 capital adequacy framework.

At 30 June 2008, capital requirements using standardized approach aggregated to $0.3 million for listed investment securities and $49 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

18. Profit rate risk in the Banking book:

(USD in '000)

	USD	**PKR**	**GBP**	**BHD**
Total profit rate exposure	125,467	258,912	11,876	181,343
Rate shock (assumed) (+/-)	1%	1%	1%	1%
Total estimated impact (+/-)	**1,255**	**2,589**	**119**	**1,813**

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

(USD in '000)

	Risk weighted assets	Capital Charge	Maximum	Minimum
Foreign exchange risk	84,725	10,167	12,813	9,324
Aggregation/Pro-rata aggregation of market risks from investments in Banking and other financial entities	500,309	60,037	71,191	60,037
Total	**585,034**	**70,204**	**84,004**	**69,361**

20. 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 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% under CBB Basel 2 guidelines. The capital requirement for operational risk at 30 June 2008 aggregated to $67.2 million.

21. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar Consolidated	14.94%	18.11%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Shamil Bank of Bahrain B.S.C (c)	21.41%	22.02%
Faysal Bank Limited	7.51%	10.10%

22. Financial impact on acquisition of 24.42% of BBK B.S.C:

On 18 February 2008 the Bank acquired 147,637,621 shares in BBK B.S.C. ("BBK") for a total consideration of Bahraini Dinars 123.6 million ($329.6 million), being 19.12% equity interest. From that date till 30 June 2008, the Bank acquired further 50,375,415 shares (including 7,438,892 bonus shares) for a total consideration of Bahraini Dinars 31.2 million ($83.5 million), being equity interest of 5.30%. At 30 June 2008 the Bank was entitled to a voting and equity interest of 24.42%. The acquired company contributed income from equity accounting of $8.5 million to the Group for the period ended 30 June 2008.

The Group has performed preliminary assessment of the fair values of the BBK's tangible and intangible assets, liabilities and contingent liabilities as at 31 March 2008. The excess of consideration over the fair value of the net assets acquired amounting to $109 million has been included under goodwill.

	(USD in '000)
Purchase consideration	413,126
Fair value of net assets acquired	(303,820)
Goodwill	109,306

The following table provides a comparison of the fair value and carrying amounts of total assets and total liabilities of BBK as at 31 March 2008:

		(USD in '000)
	Fair value	**Carrying amount**
Total assets	7,067,950	6,396,533
Total liabilities	5,823,804	5,823,804
Net assets	1,244,146	572,729
Ithmaar's share of net assets (24.42%)	**303,820**	