Ithmaar Bank

Public Disclosures
As at 30 June 2015

Ithmaar Bank B.S.C
Public Disclosures at 30 June 2015

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1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") half-yearly requirements outlined in its Public Disclosure Module ("PD"), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in the Group's interim condensed consolidated financial information for the six month period ended 30 June 2015, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures include additional information complying with Capital Adequacy (CA) Module effective from 1 January 2015 in accordance with Basel III disclosure requirements.

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III 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. Methodology

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

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.

- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.

- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted 800%.

4. Approaches adopted for determining regulatory capital requirements

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

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Group Structure

The Group's interim condensed consolidated financial information are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with AAOIFI. However, the CBB's consolidated capital adequacy methodology accommodates both line-by-line and aggregation forms of consolidation.

For the purpose of calculation of consolidated capital adequacy ratio under Basel III, line by line consolidation is performed for the risk exposures and eligible capital of all the Financial subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	66.6 per cent	Full Aggregation

(Expressed in thousands of United States Dollars unless otherwise stated)

6. Consolidated Capital Structure for capital adequacy purpose

A Tier 1 Capital

Issued and fully paid-up ordinary capital	**757,690**
Reserves	
General reserves	56,725
Statutory reserve	38,090
Share premium	149,614
Retained earnings	(441,090)
Current interim cumulative net losses	(10,361)
Gains/(losses) resulting from converting foreign currency to the parent currency	(36,554)
Unrealized gains and losses from fair valuing equities	38,708
Total Common Equity Tier 1 (CET1) prior to regulatory adjustments	**552,822**
Less: Investments in own shares	(30,149)
Total CET1a Capital	**522,673**
Positive or Negative Adjustments due to Aggregation CET1	117,310
Total CET 1d Capital	**639,983**

B Other Capital (Tier 2 Capital)

General financing impairment provision	17,462
Positive or Negative Adjustments due to Aggregation of Tier 2 Capital	32,973
Total Tier 2 capital	**50,435**

C Total Capital	**690,418**

(Expressed in thousands of United States Dollars unless otherwise stated)

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

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on sovereign	84,666	10,583
Claims on banks	90,338	11,292
Claims on corporate portfolio	53,790	6,724
Investments in equity securities	1,042,506	130,313
Holding of real estate	499,828	62,479
Regulatory retail portfolio	542	68
Past due facilities	90,735	11,342
Other assets	206,780	25,848
Aggregation	1,407,570	175,946
Total	**3,476,755**	**434,595**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on banks	1,127	141
Claims on corporate portfolio	239,956	29,995
Equity portfolio	15,591	1,949
Holding of real estate	28,926	3,616
Regulatory retail portfolio	221,567	27,696
Past due facilities	69,475	8,684
Total	**576,642**	**72,081**

(Expressed in thousands of United States Dollars unless otherwise stated)

8. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	653,411	606,403
Commodity and other placements with banks, financial and other institutions	420,027	375,199
Murabaha and other financings	3,327,182	3,329,260
Musharaka financing	125,643	107,897
Investments	3,444,299	3,195,442
Other assets	303,833	288,515
Fixed assets	114,366	113,822
Intangible assets	209,134	212,864
Total on balance sheet credit exposure	**8,597,895**	**8,229,402**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endoresements	784,993	819,326
Financing commitments, Undrawn facilities and other credit related liabilities	2,604,498	2,779,944
Total off balance sheet credit exposure	**3,389,491**	**3,599,270**
Total credit exposure	**11,987,386**	**11,828,672**
Total credit exposure financed by URIA	**2,234,302**	**2,144,401**
Total credit exposure financed by URIA (%)	**18.64%**	**18.13%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the six month period ended 30 June 2015.

(Expressed in thousands of United States Dollars unless otherwise stated)

9. Geographical distribution of credit exposures:

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	244,609	270,047	121,567	17,188	-	653,411
Commodity and other placements with banks, financial and other institutions	76,879	312,250	28,702	-	2,196	420,027
Murabaha and other financings	1,781,050	1,232,535	226,060	111	87,426	3,327,182
Musharaka financing	125,643	-	-	-	-	125,643
Investments	2,119,031	1,206,676	96,872	21,720	-	3,444,299
Other assets	134,453	119,664	35,425	14,291	-	303,833
Fixed assets	54,939	59,346	81	-	-	114,366
Intangible assets	21,152	183,923	4,059	-	-	209,134
Total on balance sheet items	**4,557,756**	**3,384,441**	**512,766**	**53,310**	**89,622**	**8,597,895**
Off balance sheet items	**2,739,674**	**618,217**	**22,140**	**-**	**9,460**	**3,389,491**
Total credit exposure	**7,297,430**	**4,002,658**	**534,906**	**53,310**	**99,082**	**11,987,386**

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

(Expressed in thousands of United States Dollars unless otherwise stated)

10. Industrial distribution of credit exposures:

	Government, Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	653,411	-	-	-	-	-	-	653,411
Commodity and other placements with banks, financial and other institutions	420,027	-	-	-	-	-	-	420,027
Murabaha and other financings	464,250	1,037,894	115,512	150,191	1,019,302	254,744	285,289	3,327,182
Musharaka financing	-	107,735	147	8,938	5,814	3,009	-	125,643
Investments	2,556,127	89,981	608,878	96,625	91,879	-	809	3,444,299
Other assets	215,663	16,454	23,834	298	39,344	-	8,240	303,833
Fixed assets	54,939	-	59,427	-	-	-	-	114,366
Intangible assets	209,134	-	-	-	-	-	-	209,134
Total on balance sheet items	**4,573,551**	**1,252,064**	**807,798**	**256,052**	**1,156,339**	**257,753**	**294,338**	**8,597,895**
Off balance sheet items	**1,722,959**	**1,236,759**	**133,002**	**8,847**	**2,710**	**27,457**	**257,757**	**3,389,491**
Total credit exposure	**6,296,510**	**2,488,823**	**940,800**	**264,899**	**1,159,049**	**285,210**	**552,095**	**11,987,386**

(Expressed in thousands of United States Dollars unless otherwise stated)

11. Maturity breakdown of credit exposures:

	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 balances with banks and central banks	653,411	-	-	-	-	-	-	653,411
Commodity and other placements with banks, financial and other institutions	247,556	39,547	132,924	-	-	-	-	420,027
Murabaha and other financings	624,550	414,045	408,023	1,049,034	748,099	83,431	-	3,327,182
Musharaka financing	28,250	36	2,220	73,380	6,884	14,873	-	125,643
Investments	435,089	429,071	638,445	613,561	417,234	43,342	867,557	3,444,299
Other assets	150,545	16,951	96,312	16,618	7,916	15,491	-	303,833
Fixed assets	6,395	33	2,064	10,646	2,017	35,813	57,398	114,366
Intangible assets	-	-	-	7,576	16,168	106,399	78,991	209,134
Total on balance sheet items	**2,145,796**	**899,683**	**1,279,988**	**1,770,815**	**1,198,318**	**299,349**	**1,003,946**	**8,597,895**
Off balance sheet items	**1,806,169**	**480,738**	**431,970**	**630,851**	**39,763**	**-**	**-**	**3,389,491**
Total credit exposure	**3,951,965**	**1,380,421**	**1,711,958**	**2,401,666**	**1,238,081**	**299,349**	**1,003,946**	**11,987,386**

12. Related-party balances under credit exposure

A number of 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 2015 were as follows:

Affiliated companies	454,988
Directors & key management	12,864
Total	**467,852**

(Expressed in thousands of United States Dollars unless otherwise stated)

13. Past due and impaired financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	234,475	189,618	44,857
Agriculture	14,751	7,973	6,778
Construction	61,952	9,427	52,525
Finance	7,931	971	6,960
Trade	166,997	54,671	112,326
Personal	100,928	36,814	64,114
Credit cards	2,066	1,838	228
Real estate	30,188	23,083	7,105
Other sectors	24,435	11,573	12,862
Total	**643,723**	**335,968**	**307,755**
Ageing analysis			
Over 3 months up to 1 year	89,700	7,045	82,655
Over 1 year up to 3 years	156,642	18,979	137,663
Over 3 years	397,381	309,944	87,437
Total	**643,723**	**335,968**	**307,755**

Movement in specific impairment provisions	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January 2015	293,004	72,289	365,293
Charge for the period	20,153	1,700	21,853
Write back during the period	(3,996)	-	(3,996)
Utilized during the period	(18,811)	(25,225)	(44,036)
Exchange differences	(3,146)	-	(3,146)
At 30 June 2015	**287,204**	**48,764**	**335,968**

(Expressed in thousands of United States Dollars unless otherwise stated)

14. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia / Pacific	354,427	255,631	98,796
Middle East	277,396	71,998	205,398
Europe	11,900	8,339	3,561
Total	**643,723**	**335,968**	**307,755**

15. Details of credit facilities outstanding that have been restructured during the six month period ended 30 June 2015:

Restructured financings during the six month period ended 30 June 2015 aggregated to $9.8 million. This restructuring had an impact of $2.3 million on present earnings during the six month period ended 30 June 2015. Further, this restructuring is expected to have positive impact of $0.6 million on the Group's future earnings in 2015. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

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

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	1,168,670	191,998
Claims on sovereign	1,897,055	74,538
Regulatory retail portfolio	289,189	38,056
Public sector entities	90,975	82
Past due financings	137,967	6,187
Total	**3,583,856**	**310,861**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	855,789	55,936
Retail Portfolio	985,213	469
Past due financings	177,879	17,374
Total	**2,018,881**	**73,779**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	2	-	-	3	3
Foreign Exchange Contracts	4,773	-	-	4,773	2,482
Total	**4,775**	**-**	**-**	**4,776**	**2,485**

(Expressed in thousands of United States Dollars unless otherwise stated)

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

	Risk weighted assets			Capital requirement		
	30 June 2015	Maximum Value	Minimum Value	30 June 2015	Maximum Value	Minimum Value
Foreign exchange risk	126,658	131,366	126,658	15,199	15,764	15,199
Aggregation						
Foreign exchange risk	8,999	8,999	7,611	1,080	1,080	913
Profit Rate Risk (Trading Book)	121,017	121,017	83,154	14,522	14,522	9,978
Equity Position Risk	61,979	61,979	44,106	7,437	7,437	5,293
Total	**318,653**	**323,361**	**261,529**	**38,238**	**38,803**	**31,383**

18. 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% under CBB Basel III guidelines. The capital requirement for operational risk at 30 June 2015 aggregated to $56.4 million.

19. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	13.22%	14.26%
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:		
Faysal Bank Limited	11.45%	13.20%

(Expressed in thousands of United States Dollars unless otherwise stated)

20. Equity position in Banking book

At 30 June 2015, the Group's investment securities aggregated to $2,097.6 million. Out of the total investment securities, $60.8 million were listed investment securities and the remaining $2,036.8 million represented unlisted investment securities.

Cumulative realized income from sale of investment securities during the six month period ended 30 June 2015 amounted to $15.7 million. Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to $3.7 million.

At 30 June 2015, capital requirements using standardized approach aggregated to $50.4 million for listed investment securities and $90.2 million for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

21. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	30 June		31 December				
	2015	**2014**	**2014**	**2013**	**2012**	**2011**	**2010**
Income from unrestricted investment accounts	45,884	51,742	100,500	100,796	93,207	67,926	61,546
Less: return to unrestricted investment accounts	(34,054)	(42,406)	(76,793)	(77,133)	(70,785)	(65,019)	(56,395)
Group's share of income from unrestricted investment accounts as a Mudarib	**11,830**	**9,336**	**23,707**	**23,663**	**22,422**	**2,907**	**5,151**

For the six month period ended 30 June 2015 the return generated from unrestricted investment accountholders based on the average balance outstanding during six month period stood at 4.4%. The return paid to unrestricted investment accountholders based on the average balance outstanding during six month period stood at 2.8%.

(Expressed in thousands of United States Dollars unless otherwise stated)

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22. Movement in Profit Equalization Reserve and Provisions – URIA:

	30 June		31 December				
	2015	2014	2014	2013	2012	2011	2010
Profit Equalization Reserve							
As at 1 January	7,548	2,546	2,546	10,061	18,607	8,154	3,099
Net addition	2,499	2,523	5,002	5,183	5,443	10,453	6,011
Transfer to impairment provisions	-	-	-	(12,698)	(13,989)	-	-
Net utilization	-	-	-	-	-	-	(956)
Closing balance	**10,047**	**5,069**	**7,548**	**2,546**	**10,061**	**18,607**	**8,154**
Amount appropriated as a percentage of gross income	5%	5%	5%	5%	6%	15%	10%
Provisions							
As at 1 January	110,844	105,742	105,742	88,363	68,854	69,767	64,427
Net addition	1,700	5,216	4,892	6,496	6,406	1,456	5,464
Transfer from Investment Risk Reserve	-	-	835	-	-	-	-
Transfer from Profit Equalization Reserve	-	-	-	12,698	13,989	-	-
Net utilization	(26,388)	(374)	(625)	(1,815)	(886)	-	(124)
Reclassification	-	-	-	-	-	(2,369)	-
Closing balance	**86,156**	**110,584**	**110,844**	**105,742**	**88,363**	**68,854**	**69,767**

At 30 June 2015, the ratio of profit equalization reserve and provisions to equity of unrestricted investment accountholders stood at 0.46 % and 3.96% respectively.

At 30 June 2015, the ratio of financings to URIA stood at 65%.

At 30 June 2015, the Investment Risk Reserve (IRR) amounted to $6.3 million.

The following table summarizes the breakdown of URIA and impairment provisions

	30 June		31 December				
	2015	2014	2014	2013	2012	2011	2010
URIA : Banks	253,144	211,262	266,496	119,655	35,178	58,260	83,584
URIA : Non-Banks	1,924,327	1,754,361	1,735,453	1,865,814	1,715,944	1,418,374	1,112,379
Provisions : Banks	10,016	11,885	14,755	6,373	1,775	2,717	4,876
Provisions : Non-Banks	76,140	98,699	96,089	99,369	86,588	66,137	64,891

(Expressed in thousands of United States Dollars unless otherwise stated)

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23. Gross return from Restricted Investment Accounts (RIA)

	30 June		31 December				
	2015	**2014**	**2014**	**2013**	**2012**	**2011**	**2010**
Gross income / (expense)	302	(161)	302	4,278	268	2,408	7,523
Mudarib fee	87	108	208	599	809	2,814	12,249

24. Average declared rate of return on General Mudaraba deposits:

	30 June		31 December				
	2015	**2014**	**2014**	**2013**	**2012**	**2011**	**2010**
				Percentage			
7 Days	0.10	0.23	0.2	0.25	0.25	0.30	0.50
30 Days	1.10	1.21	1.17	1.49	1.90	2.31	3.00
90 Days	1.60	1.71	1.69	1.99	2.48	2.90	3.25
180 Days	2.00	2.21	2.14	2.49	2.90	3.25	3.50
360 Days	2.50	2.66	2.60	2.97	3.40	3.50	3.70

25. Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	EUR	PKR	BD	AED
Total profit rate exposure	174,064	83,932	328,679	901,032	290,659
Rate shock (assumed) (+/-)	0.09%	0.24%	2.88%	0.45%	0.00%
Total estimated impact (+/-)	**157**	**201**	**9,466**	**4,055**	**-**

(Expressed in thousands of United States Dollars unless otherwise stated)

26. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistani Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal

The significant net foreign currency positions at 30 June 2015 were as follows:

	Long/(Short)
Pakistani Rupee	95,205
Euro	(50,810)
United States Dollars	114,633
Polish Zloty	42,296
UAE Dirham	(290,659)
Hong Kong Dollar	82,139

27. Performance ratios:

	30 June		31 December				
	2015	2014	2014	2013	2012	2011	2010
Return on average assets	0.32%	0.05%	-0.12%	-1.08%	-0.38%	-0.91%	-2.18%
Return on average Shareholders' equity	2.19%	-0.04%	-2.85%	-14.34%	-5.23%	-10.20%	-21.99%
Cost to operating income Ratio	60.88%	87.54%	87.28%	97.60%	85.38%	121.71%	72.06%

28. Liquidity ratios

	30 June		31 December				
	2015	2014	2014	2013	2012	2011	2010
Liquid assets to total assets	12.48%	13.77%	11.32%	14.78%	13.74%	12.80%	13.48%
Short term assets to short term liabilities	58.11%	61.15%	59.35%	66.97%	56.98%	63.80%	63.44%

29. Legal contingencies and compliance:

At 30 June 2015, the Group had contingent liabilities towards customer and other claims aggregating to $419.5 million. The management is of the view that these claims are not likely to result into potential liabilities.