



**Quantitative Public Disclosures
At 30 June 2010**

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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 Group's interim condensed consolidated financial information for the six month period ended 30 June 2010, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Group's interim condensed consolidated financial information for the six month period ended 30 June 2010.

2. Basel II Framework

CBB has issued Basel II guidelines which became 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 risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework. The Basel II framework is expected to strengthen the risk management practices across the financial institutions.

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. Methodology

As per the requirements of CBB's Basel II 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 subsidiaries within the Group except for the following:
 - With respect to Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).
 - 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.

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4. Consolidated Capital Structure for capital adequacy purpose:

A Tier 1 Capital

Issued and fully paid-up ordinary capital	669,441
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Reserves

Share premium	151,702
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General reserve	120,045
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Retained profit brought forward less foreign currency translation reserve	(133,947)
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Statutory reserve	38,090
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Minority interest in the equity of subsidiaries	116,703
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Aggregation/Pro-rata aggregation of investments in banking and other financial entities	339,745
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Sub-Total	1,301,779
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Regulatory deductions:

Goodwill	(229,743)
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Current interim loss	(2,825)
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Total Tier 1 capital before PCD deductions	1,069,211
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B Tier 2 Capital

Unrealized gains arising from fair valuations (45%)	4,260
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Aggregation/Pro-rata aggregation of investments in banking and other financial entities	64,074
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Total Tier 2 capital before PCD deductions	68,334
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C Total Available Capital (A+B)	1,137,545
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D General deductions from Tier 1 & 2 under PCD Module

Significant minority investments in banking, securities and other financial entities which are pro-rata aggregated	(209,247)
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Deduction of unconsolidated financial subsidiaries where ownership is >50% which are aggregated	(114,080)
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Excess over maximum permitted large exposure limit <small>(The capital base for the purpose of large exposure deduction is the audited consolidated capital base as at 31 December 2009 plus net proceeds from rights issue during 2010)</small>	(24,058)
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Total Deductible Items	(347,385)
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E Total Eligible Capital (C+D)	790,160
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5. Disclosure of the regulatory capital requirements for credit risk under standardized approach :

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Sovereign	3,103	372
Banks	100,499	12,060
Corporate Portfolio	515,345	61,841
Investments in Securities	502,162	60,259
Holding of Real estate	1,310,241	157,229
Regulatory Retail	732	88
Residential Mortgage	49,989	5,999
Past due loans	50,560	6,067
Other assets	492,430	59,092
Aggregation	2,112,239	253,469
Total	5,137,300	616,476

Exposure funded by Un-restricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Banks	2	-
Corporate Portfolio	52,014	6,242
Equity portfolio	38,239	4,589
Holding of Real estate	65,620	7,874
Regulatory Retail	74,967	8,996
Past due loans	14,865	1,784
Other assets	3,710	445
Total	249,417	29,930

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6. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash, balances with banks and central bank	386,200	518,624
Commodity placements with banks, financial and other institutions	273,060	330,646
Murabaha and other financing	2,158,249	2,201,704
Investments	2,324,838	2,281,405
Intangible assets	251,454	255,031
Other assets	222,833	221,080
Property and equipment	102,337	105,041
Total on balance sheet credit exposure	5,718,971	5,913,531
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	513,919	480,498
Financing commitments, Undrawn facilities and other credit related liabilities	670,663	929,723
Total off balance sheet credit exposure	1,184,582	1,410,221
Total credit exposure	6,903,553	7,323,752

Average gross credit exposures have been calculated based on the average of balances outstanding during the six month period ended 30 June 2010.

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7. Geographical distribution of credit exposures:

	Asia/ Pacific	Middle East	Europe	America	Others	Total
On-balance sheet items						
Cash, balances with banks and central bank	113,649	222,427	39,089	8,030	3,005	386,200
Commodity placements with banks, financial and other institutions	94,062	153,997	25,001	-	-	273,060
Murabaha and other financing	1,152,935	728,904	24,442	193,716	58,252	2,158,249
Investments	804,079	1,226,624	194,323	90,742	9,070	2,324,838
Intangible assets	2,390	244,320	4,744	-	-	251,454
Other assets	56,801	113,213	21,170	31,649	-	222,833
Property and equipment	24,765	76,812	760	-	-	102,337
Total on balance sheet items	2,248,681	2,766,297	309,529	324,137	70,327	5,718,971
Off balance sheet items	797,739	118,485	215,987	46,986	5,385	1,184,582
Total credit exposure	3,046,420	2,884,782	525,516	371,123	75,712	6,903,553

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

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8. Industrial distribution of credit exposures:

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash, balances with banks and central bank	317,268	-	-	67,552	-	-	1,380	386,200
Commodity placements with banks, financial and other institutions	260,852	6,660	-	-	3,644	-	1,904	273,060
Murabaha and other financing	263,880	556,766	234,670	265,443	345,094	199,276	293,120	2,158,249
Investments	1,479,098	46,453	633,002	36,074	7,570	1,306	121,335	2,324,838
Intangible assets	251,454	-	-	-	-	-	-	251,454
Other assets	88,596	913	68,393	29,587	11,301	22	24,021	222,833
Property and equipment	2,057	-	100,266	-	-	-	14	102,337
Total on balance sheet items	2,663,205	610,792	1,036,331	398,656	367,609	200,604	441,774	5,718,971
Off balance sheet items	430,858	176,368	105,402	114,565	7,151	99,016	251,222	1,184,582
Total credit exposure	3,094,063	787,160	1,141,733	513,221	374,760	299,620	692,996	6,903,553

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9. Maturity breakdown of credit exposures:

	Up to 1 Month	1-3 Month	3-12 Month	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash, balances with banks and central bank	366,002	7,332	12,866	-	-	-	-	386,200
Commodity placements with banks, financial and other institutions	158,713	11,405	89,419	11,187	2,336	-	-	273,060
Murabaha and other financing	297,734	457,941	439,595	640,968	298,966	23,045	-	2,158,249
Investments	95,264	176,853	543,491	555,257	942,137	11,836	-	2,324,838
Intangible assets	677	18	236	2,146	1,906	246,471	-	251,454
Other assets	121,200	7,942	30,449	40,860	18,261	4,121	-	222,833
Property and equipment	480	29	843	57,373	43,612	-	-	102,337
Total on balance sheet items	1,040,070	661,520	1,116,899	1,307,791	1,307,218	285,473	-	5,718,971
Off balance sheet items	762,365	169,164	111,828	40,499	100,726	-	-	1,184,582
Total credit exposure	1,802,435	830,684	1,228,727	1,348,290	1,407,944	285,473	-	6,903,553
Liabilities, unrestricted investment accounts, minority interests and owners' equity								
Customers' current accounts	470,927	275	-	-	-	-	-	471,202
Due to banks, financial and other institutions	1,018,562	239,105	72,225	9,026	9,695	-	-	1,348,613
Due to investors	767,076	217,317	303,657	147,147	-	-	-	1,435,197
Other liabilities	144,947	7,309	30,032	28,821	4,081	-	-	215,190
Unrestricted investment accounts	421,148	213,642	546,416	54,438	-	-	-	1,235,644
Minority interest	-	-	-	-	-	-	223,771	223,771
Share capital	-	-	-	-	-	-	669,441	669,441
Reserves	-	-	-	-	-	-	119,913	119,913
Total Liabilities, unrestricted investment accounts, minority interests and owners' equity	2,822,660	677,648	952,330	239,432	13,776	-	1,013,125	5,718,971



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10. 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 2010 were as follows:

Associated companies	87
Affiliated companies	440,071
Directors & key management	11,915
Total	452,073

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

Non-banks	161,487
Total	161,487



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

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Accommodation & Food Services	91	40	51
Agriculture	4,938	9	4,929
Banks	7,774	6,525	1,249
Construction	17,238	3,489	13,749
Finance	14,173	873	13,300
Government	1,215	-	1,215
Information	6,993	959	6,034
Manufacturing	36,550	31,379	5,171
Other Services	89,251	36,132	53,119
Personal	28,529	7,728	20,801
Real Estate And Rentals	27,682	8,326	19,356
Retail Trade	18,684	5,908	12,776
Transportation And Warehousing	3,381	636	2,745
Utilities	284	3	281
Wholesale Trade	16,749	4,967	11,782
Other sectors	68,797	43,455	25,342
Total	342,329	150,429	191,900
Ageing analysis			
Over 3 months up to 1 year	100,634	22,789	77,845
Over 1 year up to 3 years	151,071	67,324	83,747
Over 3 years	90,624	60,316	30,308
Total	342,329	150,429	191,900
Movement in impairment provisions			
	Specific provisions		
At 1 January 2010	139,737		
Net charge during the period	14,583		
Exchange and other movements	(3,891)		
At 30 June 2010	150,429		



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

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia / Pacific	63,862	21,567	42,295
Middle East	276,612	127,110	149,502
Europe	1,855	1,752	103
Total	342,329	150,429	191,900

13. Details of credit facilities outstanding at 30 June 2010 that have been restructured during the year 2010:

Restructured financings during the six months period ended 30 June 2010 aggregated to USD47.1 million. This restructuring resulted in a positive impact of USD0.7 million on present earnings during the period ended 30 June 2010. Further, this restructuring is expected to have positive impact of USD0.1 million 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:

Analysis by Geography	Gross exposure	Eligible financial collateral
Banks	-	-
Corporate	310,680	117,002
Retail portfolio	376	376

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

	Risk weighted assets			Capital requirement		
	As of 30 June 2010	Maximum Value	Minimum Value	As of 30 June 2010	Maximum Value	Minimum Value
Foreign exchange risk	80,273	95,857	80,273	9,633	11,503	9,633
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	136,504	202,400	136,504	16,380	24,288	16,380
Total	216,777	298,257	216,777	26,013	35,791	26,013



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16. 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 II guidelines. The capital requirement for operational risk at 30 June 2010 aggregated to USD 72.1 million.

17. Tier one capital ratios and Total capital ratios:

	<u>Tier One Capital Ratio</u>	<u>Total Capital Ratio</u>
Ithmaar consolidated	11.70%	12.74%
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	11.88%	12.75%

18. Quoted and unquoted investments

Both quoted and unquoted equity investments are classified as investments available for sale and are kept for capital gain. The Breakup of total consolidated equity investment, before aggregation of pro-rata aggregation of financial entities, are as follows:

	<u>Quoted</u>	<u>Unquoted</u>
Investments available for sale	14,361	307,188
Capital requirements	1,723	53,397

19. Gross income from Mudaraba and profit paid to Investment Account Holders:

	<u>30 June</u>		<u>31 December</u>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income from unrestricted investment accounts	26,662	26,551	50,033	54,500	71,893	54,199
Less: return to unrestricted investment accounts	(23,890)	(19,366)	(37,868)	(44,781)	(46,073)	(39,572)
Group's share of income from unrestricted investment accounts as a Mudarib	<u>2,772</u>	<u>7,185</u>	<u>12,165</u>	<u>9,719</u>	<u>25,820</u>	<u>14,627</u>

For the six months ended 30 June 2010 the return to unrestricted investment account holders based on the average balance outstanding during the period stood at 2.1%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the six months ended 30 June 2010 as a percentage of gross income from unrestricted investment accounts stood at 10.4%.



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

	30 June		31 December			
	2010	2009	2008	2007	2006	2005
Profit Equalization Reserve						
As at 1 January	3,099	3,645	2,072	764	4,795	1,200
Net addition	-	398	1,573	1,308	-	3,595
Net utilization	(172)	-	-	-	(4,031)	-
As at period end	2,927	4,043	3,645	2,072	764	4,795
Amount appropriated as a percentage of gross profit	-	1%	3%	2%	(6%)	7%
Provisions						
As at 1 January	64,428	46,563	38,334	37,906	27,310	38,628
Net addition	4,346	6,752	8,229	428	10,596	-
Net utilization	-	-	-	-	-	(11,318)
As at period end	68,774	53,315	46,563	38,334	37,906	27,310

At 30 June 2010, the ratio of profit equalization reserve and provisions to unrestricted investment accounts stood at 0.2% and 5.6% respectively.

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

	30 June		31 December			
	2010	2009	2008	2007	2006	2005
	Percentage					
7 Days	0.50	0.50	0.52	0.75	0.75	0.75
30 Days	3.00	3.25	3.26	4.25	4.02	2.48
90 Days	3.25	3.25	3.27	4.50	4.27	2.60
180 Days	3.50	3.50	3.51	4.70	4.52	2.76
360 Days	3.70	3.60	3.68	4.95	4.77	3.12



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22. 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	PKR	EUR	BHD
Total profit rate exposure	51,265	589,628	437,778	161,075
Rate shock (assumed) (+/-)	2%	2%	2%	2%
Total estimated impact (+/-)	1,025	11,793	8,756	3,222

23. 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 or Saudi Riyal. 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 2010 were as follows:

Swiss Franc	(326)
Euro	(12,957)
UK Sterling	503
Japanese Yen	12
Kuwaiti Dinar	74
Pakistani Rupee	31
UAE Dirham	3798
Australian Dollar	14,201
Hong Kong Dollar	65,451
Qatari Riyal	47
Saudi Riyal	6,496

24. Legal contingencies:

At 30 June 2010, the Group had contingent liabilities towards customer claims aggregating to USD81.7 million. The management is of the view that these claims are not likely to result into potential liabilities.

25. Sharia compliance:

The Bank has received Islamic retail banking license in April 2010, accordingly the Bank is implementing the Sharia Compliance Plan as approved by the Sharia Supervisory Board. Appropriate disclosures will be made in our Annual Report for the year ending 31 December 2010 as per the instructions of the Sharia Supervisory Board.