



BASEL II PILLAR III DISCLOSURES

30 JUNE 2010

ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
For the six month period ended 30 June 2010

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1. Introduction

Central Bank of Bahrain (the "CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain, provides a common framework for the implementation of Basel II accord.

The Basel II framework is based on three pillars:

- Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- Pillar II addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- Pillar III complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

This document gathers together all the elements of the disclosure required under Pillar III and complies with the Public Disclosure module (PD module) of CBB, in order to enhance corporate governance and financial transparency. This disclosure report is in addition to the interim condensed financial statements presented in accordance with International Financial Reporting Standards (IFRS).

2. Corporate structure

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain under the new integrated licensing frame work. The Bank's registered office is at Wind Tower Building, 2nd Floor, Diplomatic Area, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank (Shareholding 98.38%), a bank registered in Libya.

3. Capital structure

The Bank's capital base comprise of Tier I Capital (which includes share capital, statutory reserve and retained earnings) and Tier II Capital (comprising of interim profits).

Pursuant to the approval in the annual general meeting held on 22nd March 2010, the Bank increased its paid up share capital from US\$ 100 Million to US\$ 200 Million in April 2010, in order to strengthen its Capital base for its expanding business operations.

The issued and paid up share capital of the Bank was US \$ 200 million as at 30 June, 2010, comprising of 4 million shares of US\$ 50 each.

Break down of Capital Base

	<i>US\$ '000s</i>	<i>US\$ '000s</i>
	<i>Tier I</i>	<i>Tier II</i>
Share capital	200,000	-
Statutory reserve	2,649	-
Retained earnings brought forward	6,552	-
Current interim profits	-	7,901
Total	209,201	7,901

Total Eligible Capital Base – (Tier I & Tier II) 217,102

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	<i>US\$ '000s</i>
Total Capital Base	217,102
Risk weighted assets (RWA)	
Credit risk	521,560
Market risk	450
Operational risk	16,741
	<u>538,751</u>
Capital adequacy ratio	<u>40.30%</u>

The Bank's capital adequacy ratio of 40.30% is well above the minimum regulatory requirement of 12%.

5. Profile of risk-weighted assets and capital charge

The Bank has adopted the standardized approach for Credit risk and Market risk and the basic indicator approach for Operational risk for regulatory reporting purposes. The Bank's risk weighted capital requirement for credit, market and operational risks are given below:

5.1 Credit risk

Credit exposure and risk weighted assets

US\$ '000s	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted	Capital requirement
Claims on Sovereigns	50,162	-	50,162	-	42,118	5,054
Claims on Banks	927,809	387,506	1,315,315	76,085	442,470	53,096
Claims on Corporate	24,488	-	24,488	-	24,488	2,939
Past due	1,125	-	1,125	-	1,125	135
Equity Portfolio	30	-	30	-	30	4
Other exposures	11,329	-	11,329	-	11,329	1,360
Total	1,014,943	387,506	1,402,449	76,085	521,560	62,588

Gross credit exposure before credit risk mitigation

US\$ '000s	Gross credit exposure	Average monthly balance
Claims on Sovereigns	50,162	51,059
Claims on Banks	927,809	663,243
Claims on Corporate	24,488	23,930
Past Due	1,125	1,729
Equity Portfolio	30	32
Other exposures	11,329	12,127
Total funded exposure	1,014,943	752,120
Unfunded exposures	387,506	324,586
Gross credit exposures	1,402,449	1,076,706

Average monthly balance represents the average of the sum of month end balances for the six month period ended 30 June 2010.

5.2 Market risk

The Bank's capital requirement for market risk in accordance with the standardized methodology is as follows:

	<i>US\$ '000s</i>			
	Risk weighted exposures	Capital requirement	Maximum value	Minimum value
Equities position risk	25	3	38	25
Foreign exchange risk	425	51	450	175
Total	450	54		

5.3 Operational risk

Capital requirement for operational risk in accordance with basic indicator approach is US \$ 2,009 thousand.

6. Risk management

6.1 Exposures in excess of 15% single obligor limit

As at 30 June 2010, the Bank's exposures in excess of 15% of the obligor limits to individual counterparties are shown below:

US \$ '000s	Funded exposure	Unfunded exposure	Total
Counterparty A *	65,329	Nil	65,329
Counterparty B	40,894	Nil	40,894

* These are interbank deposits maturing within 6 months from 30 June 2010.

6.2 Geographical distribution of exposures is summarized below:

US\$ '000s	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	394,751	394,751	-
Other GCC Countries	175,655	175,655	-
Other Middle East & Africa	536,244	149,377	386,867
Europe	286,433	285,794	639
Rest of the world	9,366	9,366	-
Total	1,402,449	1,014,943	387,506

6.3 Industrial sector analysis of exposures is summarized below:

US\$ '000s	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	50,162	50,162	-
Banks & financial institutions	1,315,345	927,839	387,506
Commercial & business	25,613	25,613	-
Others	11,329	11,329	-
Total	1,402,449	1,014,943	387,506

6.4 Exposure by external credit rating

US\$ '000s	Rated-exposure		Unrated exposure	Gross credit exposure
	High	Standard		
Claims on sovereigns	8,044	-	42,118	50,162
Claims on banks	167,285	514,953	633,077	1,315,315
Claims on corporate	-	-	24,488	24,488
Past due	-	-	1,125	1,125
Equity portfolio	-	-	30	30
Other exposures	-	-	11,329	11,329
Total	175,329	514,983	712,167	1,402,449

6.5 Maturity analysis of funded and unfunded exposures

Residual contractual maturities of the Bank's exposures are as follows:

US\$ '000s	Within 1 month	1-3 months	3-12 months	1-5 years	10-20 years	Undated	Total
Claims on Sovereigns	-	5,492	1,223	2,500	40,894	53	50,162
Claims on Banks	730,902	87,867	291,320	163,177	-	42,049	1,315,315
Claims on Corporate	13,671	6,117	-	4,700	-	-	24,488
Past Due	-	-	-	-	-	1,125	1,125
Equity Portfolio	-	-	-	-	-	30	30
Other exposures	1,952	140	745	66	-	8,426	11,329
Total	746,525	99,616	293,288	170,443	40,894	51,683	1,402,449

The Bank does not have any exposure maturing within 5-10 years or more than 20 years.

7. Other Disclosures

7.1 Related Party transactions

The Bank enters into transactions with related parties which represent, shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length.

30 June 2010

US\$ '000s

Exposures to related parties:

Balances with banks	723
Other assets	36

Liabilities to related parties:

Connected deposits	143,564
Other Liabilities	301

7.2 Impaired loans and relative provision:

30 June 2010

US\$ '000s

Gross impaired loans	2,250
Less: Specific provision	(1,125)
Net impaired loans	<u>1,125</u>

Movement in impairment provision:	US\$ '000s	US\$ '000s	US\$ '000s
	Specific	Collective	Total
Opening provision	400	300	700
Charge for the period	725	-	725
Closing provision	<u>1,125</u>	<u>300</u>	<u>1,425</u>

The impaired loans and provisions against it relates to commercial and business loans in GCC Countries. The collaterals consist of securities and properties which are managed by the syndicated agent and valued on an annual basis.

All past due loans are impaired and are past due for a period of one to three years.

7.3 Restructured facilities:

30 June 2010

US\$ '000s

Balance of any restructured credit facilities as at 30 June 2010	40,894
Loans restructured during the period	-
Impact on statement of income	215

8. Interest rate risk

Interest rate re pricing profile of assets and liabilities

	<i>US\$ '000</i>		
	Less than 3 months	3-12 months	Total
ASSETS			
Deposits with banks and financial institutions	810,197	-	810,197
Loans and advances	9,700	12,000	21,700
	819,897	12,000	831,897
LIABILITIES			
Deposits from banks and financial institutions	487,433	3,350	490,783
Due to banks	304,403	-	304,403
	791,836	3,350	795,186
On-balance sheet gap	28,061	8,650	36,711
Off-balance sheet gap	-	-	-
Total interest sensitivity gap	28,061	8,650	36,711
Cumulative interest sensitivity gap	28,061	36,711	

Sensitivity analysis-interest rate risk

	<i>Impact on earnings (+/- US\$ '000)</i>
at 200 bps increase / (decrease)	734
at 25 bps increase/ (decrease)	92
at 15 bps increase/ (decrease)	55
at 10 bps increase/ (decrease)	37