

اليوباف
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بنك اليوباف العربي الدولي ش.م.ب (م)
Alubaf Arab International Bank B.S.C (c)



BASEL II PILLAR III DISCLOSURES

30 JUNE 2013

ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
As at 30 June 2013

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1. Introduction

Central Bank of Bahrain (“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 of CBB, in order to enhance corporate governance and financial transparency. This disclosure report is in addition to the 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 framework. 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 99.50%), 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.

Break down of Capital Base

	US\$ '000s	US\$ '000s
	Tier I	Tier II
Share Capital	250,000	-
Statutory reserve	9,933	-
Retained earnings	20,666	-
Current interim profits	-	16,479
Total	280,599	16,479

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US\$ '000s
Total Capital Base	297,078
Risk Weighted assets (RWA)	
Credit risk	613,377
Market risk	2,788
Operational risk	59,978
	676,143
Tier I ratio	41.50%
Capital adequacy ratio	43.94%

The Bank's capital adequacy ratio of 43.94% , 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, 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

<u>US\$ '000</u>	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	88,749	-	88,749	-	57,490	6,899
Claims on banks	994,362	217,219	1,211,581	64,579	483,399	58,008
Claims on corporate	57,745	1,571	59,316	115	49,522	5,942
Equity portfolio	3,124	-	3,124	-	3,124	375
Past due	3,339	-	3,339	-	5,009	601
Other exposures	14,833	-	14,833	-	14,833	1,780
Total	1,162,152	218,790	1,380,942	64,694	613,377	73,605

Gross credit exposure before credit risk mitigation

<u>US\$ '000</u>	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	88,749	88,797
Claims from Banks	1,211,581	1,120,801
Claims on Corporate	59,316	50,908
Equity Portfolio	3,124	1,311
Past due	3,339	3,339
Other exposures	14,833	14,744
Total funded exposure	1,162,152	1,088,718
Unfunded exposures	218,790	191,182
Gross credit exposures	1,380,942	1,279,900

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2013.

5.2 Market risk

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

<u>US\$ '000</u>	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	2,788	335	2,788	1,125

5.2 Market risk (continued)

Interest rate risk on the Banking book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the re pricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates.

The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, of the Bank's interim condensed statement of income for the period ended 30 June 2013.

Currency	Sensitivity of net interest income
	US\$ 000
USD	505
AED	(523)
EUR	(138)
Other currencies	(16)
	<u>(172)</u>

The decrease in the basis points will have an opposite impact on the net interest income.

The details of interest rate sensitive assets and liabilities are as follows:

	Less than 3 months	Three months to one year	Over one year	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Assets				
Deposits with banks and other financial institutions	581,456	25,000	-	606,456
Loans & advances	79,950	145,643	17,628	243,221
Total	<u>661,406</u>	<u>170,643</u>	<u>17,628</u>	<u>849,677</u>
Liabilities				
Deposits from banks and other financial institutions	497,206	-	-	497,206
Due to Banks and other financial institutions	333,177	-	-	333,177
Due to Customers	27,913	-	-	27,913
Total	<u>858,296</u>	<u>-</u>	<u>-</u>	<u>858,296</u>
On - balance sheet gap	(196,890)	170,643	17,628	(8,619)

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 7,197 thousand on operational risk weighted exposure of US\$ 59,978 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous three year annual gross income, is multiplied by 12.5 operational capital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB Capital adequacy rulebook.

6. Risk Management

6.1 Credit risk concentration and thresholds:

As at 30 June 2013, the Bank's exposures in excess of 15% of Capital base for obligor limits to individual counterparties are shown below:

US \$ '000	Funded exposure	Unfunded exposure	Total
Counterparty A *	65,000	Nil	65,000
Counterparty B *	62,908	Nil	62,908
Counterparty C	18,025	27,605	45,630

* These are interbank deposits/Nostro balances maturing within 6 months from 30 June 2013.

6.2 Geographical distribution of exposures is summarized below:

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	210,598	210,598	-
Other GCC Countries	179,898	179,340	558
Other Middle East & Africa	598,102	380,305	217,797
Europe	271,283	270,848	435
Rest of the world	121,061	121,061	-
Total	1,380,942	1,162,152	218,790

6. Risk Management (continued)

The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

US\$ '000	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest Of the world	Total
Claims from Sovereigns	10,356	14,210	59,486	4,697	-	88,749
Claims from Banks	180,319	146,438	317,395	237,150	113,059	994,362
Claims on Corporate	5,071	15,587	84	29,001	8,002	57,745
Equity Portfolio	19	3,105	-	-	-	3,124
Past due	-	-	3,339	-	-	3,339
Other exposures	14,833	-	-	-	-	14,833
Total funded exposure	210,598	179,340	380,304	270,848	121,061	1,162,152
Unfunded exposures	-	558	217,797	435	-	218,790
Gross credit exposures	210,598	179,898	598,102	271,283	121,061	1,380,942

6.3 Industrial sector analysis of exposures is summarized below:

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	88,749	88,749	-
Banks & financial institutions	1,215,661	998,442	217,219
Other sector	76,532	74,961	1,571
Total	1,380,942	1,162,152	218,790

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6. Risk Management (continued)

6.3 Industrial sector analysis of exposures (Continued)

The industrial sector analysis of gross credit exposures by major types of credit exposures can be analyzed as follows :

USD '000s	Banks & financial institutions	Sovereign	Other Sector	Total
Claims from Sovereigns	-	88,749	-	88,749
Claims from Banks	994,362	-	-	994,362
Claims on Corporate	-	-	57,745	57,745
Equity Portfolio	741	-	2,383	3,124
Past due	3,339	-	-	3,339
Other exposures	-	-	14,833	14,833
Total funded exposure	998,442	88,749	74,961	1,162,152
Unfunded exposures	217,219	-	1,571	218,790
Gross credit exposures	1,215,661	88,749	76,532	1,380,942

6.4 Exposure by external credit rating

The Bank uses external credit ratings from Standard & Poors, Moodys and Fitch ratings, which are accredited External Credit Assessment Institutions (ECAI's). The Bank assigns the risk weights through the mapping process provided by CBB to the rating grades. The Bank uses the highest risk weight associated, in case of two or more eligible ECAI's are chosen. The breakdown of the Bank's exposure into rated and unrated categories is as follows:

US\$ '000	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	88,749	-	29,263	11,829	47,657
Claims on banks	994,362	217,219	118,980	394,964	697,637
Claims on corporate	57,745	1,571	16,842	26,636	15,838
Equity portfolio	3,124	-	-	3,124	-
Past due	3,339	-	-	-	3,339
Other exposures	14,833	-	-	-	14,833
Total	1,162,152	218,790	165,085	436,553	779,304

6. Risk Management (continued)

6.5 Maturity analysis of funded exposures

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

<i>US\$ '000</i>	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>Total within 1 year</i>	<i>1-5 years</i>	<i>5-10 years</i>	<i>10-20 years</i>	<i>Undated</i>	<i>Total</i>
Claims on Sovereigns	1,501	-	441	1,942	12,912	31,533	42,362	-	88,749
Claims on Banks	561,683	207,608	172,998	942,289	11,987	32,052	8,034	-	994,362
Claims on Corporate	293	314	135	742	12,886	22,702	21,415	-	57,745
Equity Portfolio	-	-	-	-	-	-	-	3,124	3,124
Past due	-	-	-	-	-	-	-	3,339	3,339
Other exposures	-	-	-	-	-	-	-	14,833	14,833
Total	563,477	207,922	173,574	944,973	37,785	86,287	71,811	21,296	1,162,152

The Bank does not have any exposure maturing more than 20 years.

6.6 Maturity analysis of unfunded exposures

<i>US\$ '000</i>	<i>Notional principal</i>	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>Total within 1 year</i>	<i>Over one year</i>	<i>Total</i>
Claims on Banks-contingent items	217,219	22,099	62,184	132,507	216,790	429	217,219
Claims on Non-Banks: contingent items	1,571	1,069	432	19	1,520	51	1,571
Total	218,790	23,168	62,616	132,526	218,310	480	218,790

7. Other Disclosures

7.1 Related Party transactions

Related party represents major shareholders, directors, key management personnel and entities significantly influenced by such parties. Pricing policies are at arm's length and approved by executive management and Board of Directors.

Assets	US\$'000
Cash and balances with banks	17,137
Deposit with banks and other financial institutions	85,855
Interest receivable	6
Other assets	74
Liabilities	
Deposits from banks and other financial institutions	249,636
Due to banks and other financial institutions	14,931
Interest payable	34
Other liabilities - others	375
Income	
Interest income	109
Fee and commission income	24
Expenses	
Interest expense	491

7.2 Impaired loans and relative provision:

US\$ '000	3 months to One year	Over 3 Years	Total
Gross impaired loans	3,706	2,490	6,196
Less: Specific Provision	367	2,250	2,617
Less: Interest suspense	-	240	240
Net outstanding 30 June 2013	3,339	-	3,339

Movement in impairment provision:

	Specific	Collective	Total
Opening provision	3,867	3,200	7,067
Specific charge for the year	-	-	-
Closing specific provision	<u>3,867</u>	<u>3,200</u>	<u>7,067</u>

7. Other Disclosures (Continued)

Specific Provision by Geographic and Sector:

<i>US\$ '000</i>	Other GCC Countries	Other Middle East and Africa	Total
Banks & Financial Institutions	-	367	367
Other Sector	3,500	-	3,500
Total	3,500	367	3,867

7.3 Restructured facilities:

30 June 2013

US\$ '000

Balance of any restructured credit facilities as at 30 June 2013 42,362
 Loans restructured during the six month period -

The facilities restructured before the current period did not have any impact on provisions and earnings for the current period. It is expected that these will not have any impact on the future earnings of the Bank.

7.4 Assets sold under recourse agreements: The Bank did not enter into any recourse agreements during the six month period ended 30 June 2013

7.5 Equity positions in the Banking book :

30 June 2013

US\$ '000

Quoted equities

3,124

Realized gain/(loss) from Trading Equities

324

Unrealized gain /(loss) from Trading Equities

(97)

Total reported in Tier 2 Capital

227