



## **BASEL III PILLAR III DISCLOSURES**

**30 June 2018**

**ALUBAF Arab International Bank B.S.C. (c)**  
**Basel II -Pillar III disclosures**  
**As at 30 June 2018**

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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 III accord.

The Basel III 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, Commerce and Tourism 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 Alubaf tower , Al Seef District, 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 Common equity Tier I Capital, which includes share capital, statutory reserve, retained earnings , current interim profit and unrealized loss on FVOCI Investments (Debt) and Tier II component of Expected credit loss related to stage 1 and 2; Retained earnings reflects balance after IFRS 9 Transition adjustment at 1 January 2018.

<b>Break down of Capital Base</b>		
	<b>US\$ '000s</b>	<b>US\$ '000s</b>
	<b>CET I</b>	<b>Tier II</b>
Share Capital	250,000	-
Statutory reserve	21,257	-
Retained earnings	17,852	-
Current interim net profit	6,746	-
Cumulative fair value changes on FVOCI Investments (Debt)	(9,502)	-
<b>Total CET I capital prior to regulatory adjustments</b>	<b>286,353</b>	-
<b>Less: intangibles other than mortgage rights</b>	<b>(1,019)</b>	-
<b>Total CET I capital after regulatory adjustment</b>	<b>285,334</b>	-
Expected credit losses (ECL) Stage 1 & 2	-	7,742
<b>Total</b>	<b>285,334</b>	<b>7,742</b>
<b>Total available capital</b>		<b>293,076</b>

### 4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	<b>US\$ '000s</b>
<b>Total Capital Base</b>	<b>293,076</b>
<b>Risk Weighted assets (RWA)</b>	
Credit risk	619,367
Market risk	163
Operational risk	82,555
	<b>702,085</b>
<b>CET I ratio</b>	<b>40.64%</b>
<b>Capital adequacy ratio</b>	<b>41.74%</b>

The Bank's capital adequacy ratio of 41.74 % is well above the minimum regulatory requirement of 12.5%.

## 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	509,799	-	509,799	-	116,892	14,612
Claims on banks	503,146	150,213	653,359	7,377	407,993	50,999
Claims on corporate	88,372	25,500	113,872	5,100	83,098	10,387
Equity portfolio	20	-	20	-	20	3
Other exposures	11,364	-	11,364	-	11,364	1,421
<b>Total</b>	<b>1,112,701</b>	<b>175,713</b>	<b>1,288,414</b>	<b>12,477</b>	<b>619,367</b>	<b>77,421</b>

#### Gross credit exposure before credit risk mitigation

<u>US\$ '000</u>	Gross credit exposure	Average monthly gross exposure
Claims on sovereigns	509,799	489,692
Claims on banks	503,146	518,048
Claims on Corporate	88,372	85,297
Equity Portfolio	20	17
Other exposures	11,364	11,530
<b>Total funded exposure</b>	<b>1,112,701</b>	<b>1,104,584</b>
<b>Unfunded exposures</b>	<b>175,713</b>	<b>130,319</b>
<b>Gross credit exposures</b>	<b>1,288,414</b>	<b>1,234,903</b>

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2018.

## 5.2 Market risk

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

<u>US\$ '000</u>	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	163	20	163	150

**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 re-price 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 2018.

Currency	Sensitivity of net Interest income
	US\$'000
USD	2,868
EUR	(109)
AED	(732)
Other currencies	(109)
	<b>1,918</b>

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
<b>Assets</b>				
Balances and deposits with banks and other financial institutions	721,853	-	-	721,853
Loans & advances	45,850	42,604	64,316	152,770
<b>Total</b>	<b>767,703</b>	<b>42,604</b>	<b>64,316</b>	<b>874,623</b>
<b>Liabilities</b>				
Deposits from banks and other financial institutions	385,236	2,450	200,000	587,686
Due to Banks and other financial institutions	95,796	-	-	95,796
Due to Customers	95,220	-	-	95,220
<b>Total</b>	<b>576,252</b>	<b>2,450</b>	<b>200,000</b>	<b>778,702</b>
<b>On Balance sheet gap</b>	<b>191,451</b>	<b>40,154</b>	<b>(135,684)</b>	<b>95,921</b>

### 5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 10,319 thousand on operational risk weighted exposure of US\$ 82,555 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 2018, 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 *	329,967	Nil	329,967
Counterparty B *	45,818	Nil	45,818

\* Comprise of exempted large exposures to Sovereign.

### 6.2 Geographical distribution of exposures based on residence is summarized below:

USD '000s	Gross Credit Exposure	Funded Exposure	Unfunded Exposure
Bahrain	509,637	509,637	-
Other GCC Countries	157,273	133,062	24,211
Other Middle East and African Countries	243,204	125,170	118,034
Europe	312,237	279,054	33,183
Rest Of the world	66,063	65,778	285
<b>Total</b>	<b>1,288,414</b>	<b>1,112,701</b>	<b>175,713</b>

The geographical distribution of gross credit exposures by major type of credit exposures:

US\$ '000	Bahrain	Other GCC	Middle East and Africa	Europe	Rest Of the world	Total
Claims on Sovereigns	371,752	34,217	103,830	-	-	509,799
Claims on Banks	121,725	84,522	21,186	209,935	65,778	503,146
Claims on Corporate	5,045	14,323	-	69,004	-	88,372
Equity Portfolio	20	-	-	-	-	20
Other exposures	11,095	-	154	115	-	11,364
<b>Total funded exposure</b>	<b>509,637</b>	<b>133,062</b>	<b>125,170</b>	<b>279,054</b>	<b>65,778</b>	<b>1,112,701</b>
Unfunded exposures	-	24,211	118,034	33,183	285	175,713
<b>Gross credit exposures</b>	<b>509,637</b>	<b>157,273</b>	<b>243,204</b>	<b>312,237</b>	<b>66,063</b>	<b>1,288,414</b>

6.3 Industrial sector analysis of exposures is summarized below:

US\$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	509,799	509,799	-
Banks & financial institutions	653,379	503,166	150,213
Other sector	125,236	99,736	25,500
<b>Total</b>	<b>1,288,414</b>	<b>1,112,701</b>	<b>175,713</b>



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 on Sovereigns	-	509,799	-	509,799
Claims on Banks	503,146	-	-	503,146
Claims on Corporate	-	-	88,372	88,372
Equity Portfolio	20	-	-	20
Other exposures	-	-	11,364	11,364
<b>Total funded exposure</b>	<b>503,166</b>	<b>509,799</b>	<b>99,736</b>	<b>1,112,701</b>
<b>Unfunded exposures</b>	<b>150,213</b>	<b>-</b>	<b>25,500</b>	<b>175,713</b>
<b>Gross credit exposures</b>	<b>653,379</b>	<b>509,799</b>	<b>125,236</b>	<b>1,288,414</b>

#### 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 grade exposure	Rated-Standard exposure	Unrated exposure
Claims on sovereigns	509,799	-	2,514	423,764	83,521
Claims on banks	503,146	150,213	143,814	350,052	159,493
Claims on corporate	88,372	25,500	11,172	24,401	78,299
Equity portfolio	20	-	-	20	-
Other exposures	11,364	-	-	-	11,364
<b>Total</b>	<b>1,112,701</b>	<b>175,713</b>	<b>157,500</b>	<b>798,237</b>	<b>332,677</b>

## 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>1-10 years</i>	<i>More than 10 years</i>	<i>Undated</i>	<i>Total</i>
Claims on Sovereigns	52,572	247,592	21,697	<b>321,861</b>	187,938		-	<b>509,799</b>
Claims on Banks	352,813	116,974	8,181	<b>477,968</b>	25,178		-	<b>503,146</b>
Claims on Corporate	10,788	7,282	27,038	<b>45,108</b>	34,564	8,700	-	<b>88,372</b>
Equity Portfolio	20	-	-	<b>20</b>	-	-	-	<b>20</b>
Other exposures	121	493	-	<b>614</b>	677		10,073	<b>11,364</b>
<b>Total</b>	<b>416,314</b>	<b>372,341</b>	<b>56,916</b>	<b>845,571</b>	<b>248,357</b>	<b>8,700</b>	<b>10,073</b>	<b>1,112,701</b>

## 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	150,213	15,187	62,657	66,713	<b>144,557</b>	5,656	<b>150,213</b>
Claims on Non-Banks: contingent items	25,500	-	25,489	11	<b>25,500</b>	-	<b>25,500</b>
<b>Total</b>	<b>175,713</b>	<b>15,187</b>	<b>88,146</b>	<b>66,724</b>	<b>170,057</b>	<b>5,656</b>	<b>175,713</b>

## 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.

	<b>30-Jun-18</b>
	<b>US\$'000</b>
<b>Assets</b>	
Cash and balances with banks	11,122
Loans and advances	4,670
Interest receivable	38
Other assets	202
<b>Liabilities</b>	
Deposits from banks and other financial institutions	427,922
Due to banks and other financial institutions	1,889
Interest payable	1,270
Other liabilities	320
<b>Contingent liabilities</b>	
Assets under management	22,229
Letters of credit & guarantee	14,589
Forward Foreign exchange contracts	2,995
<b>Interest &amp; similar income</b>	582
<b>Interest expenses</b>	5,776
<b>Fee and commission income</b>	536

### 7.2 Impaired loans and relative provision [Stage 3]:

USD '000s	1 to 3 years	Total
Gross impaired loans [Stage 3]	69,710	<b>69,710</b>
Less: Specific Provision [Stage 3]	69,710	<b>69,710</b>
<b>Net outstanding 30 June 2018</b>	-	-

Note: There is no impaired loans which is less than one year and over three years.

**Movement in impairment provision including  
Expected credit losses- Loans and advances**

USD'000s	Stage 1	Stage 2	Stage 3	Total
<b><u>Loans</u></b>				
At beginning of the year	2,856	18,610	76,984	<b>98,450</b>
Transfer to Stage 1	(12)	12	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net re-measurement loss allowance	-	12,087	2,191	<b>14,278</b>
Write back/ recoveries	(613)	-	(9,260)	<b>(9,873)</b>
Write off during the period	-	-	-	-
Exchange difference	-	-	(205)	<b>(205)</b>
<b>Balance as at 30 June 2018</b>	<b>2,231</b>	<b>30,709</b>	<b>69,710</b>	<b>102,650</b>

**Movement in Expected credit losses :**

USD'000s	Stage 1	Stage 2	Stage 3	Total
<b><u>Investments</u></b>				
At beginning of the year	608	3,796	-	<b>4,404</b>
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(24)	24	-	-
Transfer to Stage 3	-	-	-	-
Net re-measurement loss allowance	(13)	(3,246)	-	<b>(3,259)</b>
Write back/ recoveries	-	-	-	-
Write off during the period	-	-	-	-
Exchange difference	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>575</b>	<b>570</b>	<b>-</b>	<b>1,145</b>

**Movement in Expected credit losses :**

USD'000s	Stage 1	Stage 2	Stage 3	Total
<b><u>Other Financial assets and off Balance sheet items</u></b>				
At beginning of the year	95	4	-	<b>99</b>
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net re-measurement loss allowance	1,356	-	-	<b>1,356</b>
Write back/ recoveries	-	-	-	-
Write off during the period	-	-	-	-
Exchange difference	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>1,455</b>	<b>-</b>	<b>-</b>	<b>1,455</b>

**Specific Provision by Geographic and Sector:**

USD '000s	Other Middle East and Africa
<b>Banks &amp; Financial Institutions</b>	<b>41,771</b>
<b>Corporate</b>	<b>27,939</b>
<b>Total</b>	<b>69,710</b>

Expected Credit loss (Stage 1 & 2) provision of US\$ 35,540 thousand as at 30 June 2018 is not for any specific geographic region.

**7.3 Restructured facilities:**

	<b>30 June 2018</b>
	<b>US\$ '000</b>
Balance of any restructured credit facilities as at 30 June 2018	38,376
Loans restructured during the six month period	Nil

The facilities restructured before the current period have been categorized as per IFRS -9 requirement and required Expected credit loss provision (ECL) has been considered in current period.

**7.4 Assets sold under recourse agreements:** The Bank did not enter into any recourse agreements during the six month period ended 30 June 2018.

**7.5 Equity positions in the Banking book :**

	<i><b>30 June 2018</b></i>
	<i><b>US\$ '000</b></i>
<b>Quoted equities</b>	<b><u>20</u></b>
Realized gain from Trading Equities	5
Unrealized gain from Trading Equities	8
<b>Total reported in Tier 1 Capital</b>	<b><u>13</u></b>