

**اليوباف**  
**alubaf**

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



## **BASEL III PILLAR III DISCLOSURES**

**30 June 2017**

**ALUBAF Arab International Bank B.S.C (c)**  
**Basel II -Pillar III disclosures**  
**As at 30 June 2017**

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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 loss and unrealized loss on available for sale financial instruments and Tier II component of General loan loss provision.

| <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   | 20,174            | -                 |
| Retained earnings   | 35,652            | -                 |
| Current interim net loss                                    | 3,486             | -                 |
| Unrealized loss on Available for sale financial instruments | (2,267)           | -                 |
| <b>Total CET I capital prior to regulatory adjustments</b>  | <b>307,045</b>    |                   |
| <b>Less: intangibles other than mortgage rights</b>         | <b>(682)</b>      |                   |
| <b>Total CET I capital after regulatory adjustment</b>      | <b>306,363</b>    |                   |
| General loan loss provision                                 | -                 | 3,005             |
| <b>Total</b>  | <b>306,363</b>    | <b>3,005</b>      |
| <b>Total available capital</b>                              |                   | <b>309,368</b>    |

### 4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

|                                   | <b>US\$ '000s</b> |
|-----------------------------------|-------------------|
| <b>Total Capital Base</b>         | <b>309,368</b>    |
| <b>Risk Weighted assets (RWA)</b> |                   |
| Credit risk                       | 867,408           |
| Market risk                       | 1,188             |
| Operational risk                  | 99,325            |
|                                   | <b>967,921</b>    |
| <b>CET I ratio</b>                | <b>31.65%</b>     |
| <b>Capital adequacy ratio</b>     | <b>31.96%</b>     |
|                                   |                   |

The Bank's capital adequacy ratio of 31.96%, 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 | 543,062          | 9,127              | 552,189                | 14,488              | 144,624              | 18,078         |
| Claims on banks      | 587,656          | 40,468             | 628,124                | 13,045              | 603,974              | 75,497         |
| Claims on corporate  | 95,847           | 8,468              | 104,315                | 1,694               | 95,521               | 11,940         |
| Past due             | 10,771           | -                  | 10,771                 | -                   | 10,771               | 1,346          |
| Equity portfolio     | 309              | -                  | 309                    | -                   | 309                  | 39             |
| Other exposures      | 12,209           | -                  | 12,209                 | -                   | 12,209               | 1,526          |
| <b>Total</b>         | <b>1,249,854</b> | <b>58,063</b>      | <b>1,307,917</b>       | <b>29,227</b>       | <b>867,408</b>       | <b>108,426</b> |

#### Gross credit exposure before credit risk mitigation

| <u>US\$ '000</u>              | Gross credit exposure | Average monthly gross exposure |
|-------------------------------|-----------------------|--------------------------------|
| Claims from Sovereigns        | 543,062               | 538,428                        |
| Claims from Banks             | 587,656               | 559,234                        |
| Claims on Corporate           | 95,847                | 85,730                         |
| Past due                      | 10,771                | 14,964                         |
| Equity Portfolio              | 309                   | 435                            |
| Other exposures               | 12,209                | 12,648                         |
| <b>Total funded exposure</b>  | <b>1,249,854</b>      | <b>1,211,439</b>               |
| <b>Unfunded exposures</b>     | <b>58,063</b>         | <b>83,744</b>                  |
| <b>Gross credit exposures</b> | <b>1,307,917</b>      | <b>1,295,183</b>               |

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2017.

### 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 | 1,188                   | 149            | 1,188         | 275           |

**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 2017.

| Currency         | Sensitivity of net Interest income |
|------------------|------------------------------------|
|                  | US\$'000                           |
| USD              | 1,698                              |
| EUR              | (25)                               |
| AED              | (390)                              |
| Other currencies | 84                                 |
|                  | <b>1,367</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 | 813,383            | -                        | -              | 813,383          |
| Loans & advances  | 46,761             | 30,351                   | 109,776        | 186,888          |
| <b>Total</b>  | <b>860,144</b>     | <b>30,351</b>            | <b>109,776</b> | <b>1,000,271</b> |
| <b>Liabilities</b>  |                    |                          |                |                  |
| Deposits from banks and other financial institutions              | 386,342            | 239,160                  | -              | 625,502          |
| Due to Banks and other financial institutions                     | 174,269            | -                        | -              | 174,269          |
| Due to Customers  | 128,157            | 3,994                    | -              | 132,151          |
| <b>Total</b>  | <b>688,768</b>     | <b>243,154</b>           | <b>-</b>       | <b>931,922</b>   |
| <b>On Balance sheet gap</b>                                       | <b>171,376</b>     | <b>(212,803)</b>         | <b>109,776</b> | <b>68,349</b>    |

### 5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 12,416 thousand on operational risk weighted exposure of US\$ 99,325 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 2017, 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 *  | 352,965         | Nil               | 352,965 |
| Counterparty B ** | 52,575          | Nil               | 52,575  |

\* Comprise of exempted large exposures to Sovereign.

\*\* Pledge deposits obtained as collateral :\$ 13,745 thousand.

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

| USD '000s                               | Gross Credit Exposure | Funded Exposure  | Unfunded Exposure |
|---|-----------------------|------------------|-------------------|
| Bahrain                                 | 631,537               | 631,537          | -                 |
| Other GCC Countries                     | 119,832               | 118,507          | 1,325             |
| Other Middle East and African Countries | 205,560               | 154,841          | 50,719            |
| Europe                                  | 331,502               | 331,502          | -                 |
| Rest Of the world                       | 19,486                | 13,467           | 6,019             |
| <b>Total</b>                            | <b>1,307,917</b>      | <b>1,249,854</b> | <b>58,063</b>     |

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

| US\$ '000                     | Bahrain        | Other GCC Countries | Other Middle East and Africa | Europe         | Rest Of the world | Total            |
|-------------------------------|----------------|---------------------|------------------------------|----------------|-------------------|------------------|
| Claims from Sovereigns        | 394,742        | 35,986              | 109,138                      | -              | 3,196             | <b>543,062</b>   |
| Claims from Banks             | 219,482        | 67,644              | 34,768                       | 260,481        | 5,281             | <b>587,656</b>   |
| Claims on Corporate           | 5,252          | 14,661              | -                            | 71,021         | 4,913             | <b>95,847</b>    |
| Past due                      | -              | -                   | 10,771                       | -              | -                 | <b>10,771</b>    |
| Equity Portfolio              | 16             | 216                 | -                            | -              | 77                | <b>309</b>       |
| Other exposures               | 12,045         | -                   | 164                          | -              | -                 | <b>12,209</b>    |
| <b>Total funded exposure</b>  | <b>631,537</b> | <b>118,507</b>      | <b>154,841</b>               | <b>331,502</b> | <b>13,467</b>     | <b>1,249,854</b> |
| <b>Unfunded exposures</b>     | <b>-</b>       | <b>1,325</b>        | <b>50,719</b>                | <b>-</b>       | <b>6,019</b>      | <b>58,063</b>    |
| <b>Gross credit exposures</b> | <b>631,537</b> | <b>119,832</b>      | <b>205,560</b>               | <b>331,502</b> | <b>19,486</b>     | <b>1,307,917</b> |

**6.3 Industrial sector analysis of exposures is summarized below:**

| <b>US\$'000</b>                | <b>Gross credit exposure</b> | <b>Funded exposure</b> | <b>Unfunded exposure</b> |
|--------------------------------|------------------------------|------------------------|--------------------------|
| Sovereign                      | 552,190                      | 543,062                | 9,128                    |
| Banks & financial institutions | 636,103                      | 595,636                | 40,467                   |
| Other sector                   | 119,624                      | 111,156                | 8,468                    |
| <b>Total</b>                   | <b>1,307,917</b>             | <b>1,249,854</b>       | <b>58,063</b>            |

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

| <b>USD '000s</b>              | <b>Banks &amp; financial institutions</b> | <b>Sovereign</b> | <b>Other Sector</b> | <b>Total</b>     |
|-------------------------------|---|------------------|---------------------|------------------|
| Claims from Sovereigns        | -   | 543,062          | -                   | <b>543,062</b>   |
| Claims from Banks             | 587,656                                   | -                | -                   | <b>587,656</b>   |
| Claims on Corporate           | -   | -                | 95,847              | <b>95,847</b>    |
| Past due                      | 7,919                                     | -                | 2,852               | <b>10,771</b>    |
| Equity Portfolio              | 61  | -                | 248                 | <b>309</b>       |
| Other exposures               |   | -                | 12,209              | <b>12,209</b>    |
| <b>Total funded exposure</b>  | <b>595,636</b>                            | <b>543,062</b>   | <b>111,156</b>      | <b>1,249,854</b> |
| <b>Unfunded exposures</b>     | <b>40,467</b>                             | <b>9,128</b>     | <b>8,468</b>        | <b>58,063</b>    |
| <b>Gross credit exposures</b> | <b>636,103</b>                            | <b>552,190</b>   | <b>119,624</b>      | <b>1,307,917</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 | 543,062          | 9,128             | 2,514                     | 485,343                 | 64,333           |
| Claims on banks      | 587,656          | 40,467            | 145,508                   | 349,335                 | 133,280          |
| Claims on corporate  | 95,847           | 8,468             | 6,070                     | 35,307                  | 62,938           |
| Past due             | 10,771           | -                 | -                         | -                       | 10,771           |
| Equity portfolio     | 309              | -                 | 63                        | 16                      | 230              |
| Other exposures      | 12,209           | -                 | -                         | -                       | 12,209           |
| <b>Total</b>         | <b>1,249,854</b> | <b>58,063</b>     | <b>154,155</b>            | <b>870,001</b>          | <b>283,761</b>   |

#### 6.5 Maturity analysis of funded exposures

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

| US\$ '000            | Within 1 month | 1-3 months     | 3-12 months   | Total within 1 year | 1-10 years     | More than 10 years | Undated       | Total            |
|----------------------|----------------|----------------|---------------|---------------------|----------------|--------------------|---------------|------------------|
| Claims on Sovereigns | 156,227        | 178,851        | 4,024         | <b>339,102</b>      | 158,956        | 45,004             | -             | <b>543,062</b>   |
| Claims on Banks      | 443,733        | 94,846         | 8,106         | <b>546,685</b>      | 35,942         | 5,029              | -             | <b>587,656</b>   |
| Claims on Corporate  | 2,687          | 10,482         | 18,915        | <b>32,084</b>       | 48,812         | 14,951             | -             | <b>95,847</b>    |
| Past due             | -              | -              | -             | -                   | 10,771         | -                  | -             | <b>10,771</b>    |
| Equity Portfolio     | 309            | -              | -             | <b>309</b>          | -              | -                  | -             | <b>309</b>       |
| Other exposures      | -              | 124            | 19            | <b>143</b>          | 970            | -                  | 11,096        | <b>12,209</b>    |
| <b>Total</b>         | <b>602,956</b> | <b>284,303</b> | <b>31,064</b> | <b>918,323</b>      | <b>255,451</b> | <b>64,984</b>      | <b>11,096</b> | <b>1,249,854</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      | 40,467                    | 896                   | 30,892            | 8,679              | <b>40,467</b>              | -                    | <b>40,467</b> |
| Claims on Non-Banks: contingent items | 17,596                    | 697                   | 628               | 10,857             | <b>12,182</b>              | 5,414                | <b>17,596</b> |
| <b>Total</b>                          | <b>58,063</b>             | <b>1,593</b>          | <b>31,520</b>     | <b>19,536</b>      | <b>52,649</b>              | <b>5,414</b>         | <b>58,063</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.

|  | <i>30 June 2017</i> |
|--|---------------------|
|  | <i>US\$'000</i>     |
| <b>Assets</b>  |                     |
| Cash and balances with banks                         | 25,905              |
| Deposits with banks and other financial institutions | 10,086              |
| Loans and advances                                   | -                   |
| Interest receivable                                  | 2                   |
| Other assets   | 236                 |
| <b>Liabilities</b>                                   |                     |
| Deposits from banks and other financial institutions | 477,596             |
| Due to banks and other financial institutions        | 42,424              |
| Interest payable                                     | 1,409               |
| Other liabilities                                    | 261                 |
| <b>Contingent liabilities</b>                        |                     |
| Assets under management                              | 21,905              |
| Letters of credit & guarantee                        | 4,302               |
|  |                     |
| <b>Interest &amp; similar income</b>                 | 24                  |
| <b>Interest expenses</b>                             | 4,566               |
| <b>Fee and commission income</b>                     | 468                 |

## 7.2 Impaired loans and relative provision:

| <i>US\$ '000</i>                    | Up to one year | More than One less than three years | Total         |
|-------------------------------------|----------------|-------------------------------------|---------------|
| Gross impaired loans                | 15,281         | 70,029                              | 85,310        |
| Less: Specific Provision            | (11,356)       | (63,183)                            | (74,539)      |
| <b>Net outstanding 30 June 2017</b> | <b>3,925</b>   | <b>6,846</b>                        | <b>10,771</b> |

### Movement in impairment provision:

| <b>USD'000s</b>                        | <b>Specific</b> | <b>Collective</b> | <b>Total</b>  |
|--|-----------------|-------------------|---------------|
| Opening provision                      | 65,952          | 3,500             | 69,452        |
| Exchange difference                    | 445             | -                 | 445           |
| Charge and reallocation for the period | 8,234           | (495)             | 7,647         |
| Write off during the period            | (92)            | -                 | (92)          |
| <b>Closing provision</b>               | <b>74,539</b>   | <b>3,005</b>      | <b>77,544</b> |

### Specific Provision by Geographic and Sector:

| <i>US\$ '000</i>                          | Other Middle East and Africa |
|---|------------------------------|
| <b>Banks &amp; Financial Institutions</b> | <b>40,973</b>                |
| <b>Corporate</b>                          | <b>33,566</b>                |
| <b>Total</b>                              | <b>74,539</b>                |

Collective impairment provision of US\$ 3,005 thousand as at 30 June 2017 is towards Middle east and Africa region.

## 7.3 Restructured facilities:

**30 June 2017**

**US\$ '000**

|  |        |
|--|--------|
| Balance of any restructured credit facilities as at 30 June 2017   | 36,940 |
| Loans restructured during the six month period   | Nil    |
| The facilities restructured before the current period did not have any impact on provisions and earnings for the 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 2017.

## 7.5 Equity positions in the Banking book :

**30 June 2017**

**US\$ '000**

|   |                   |
|---|-------------------|
| <b>Quoted equities</b>                        | <b><u>309</u></b> |
| Realized gain/(loss) from Trading Equities    | 7                 |
| Unrealized gain /(loss) from Trading Equities | 10                |
| <b>Total reported in Tier 1 Capital</b>       | <b><u>17</u></b>  |