BASEL III PILLAR III DISCLOSURES

30 June 2020

ALUBAF Arab International Bank B.S.C. (c)
Basel III -Pillar III disclosures
As at 30 June 2020

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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 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.

Break down of Capital Base	US$ '000s	US$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	25,631	-
Retained earnings	37,219	-
Current interim net profit	12,242	-
Cumulative fair value changes on FVOCI Investments (Debt)	(6,538)	-
Total CET I capital prior to regulatory adjustments	**318,554**	-
Less: intangibles other than mortgage rights	**(1,469)**	-
Add: Expected Credit Loss 1&2 for period (1Apr-30 June) part of CET 1	**1,139**	-
Total CET I capital after regulatory adjustment	**318,224**	-
Add: Expected credit loss (ECL) Stage 1&2 in Tier 2	**-**	5,917
Total	**318,224**	**5,917**
Total available capital at 30 June 2020		**324,141**

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US$ '000
Credit risk weighted assets	523,891
Market risk weighted assets	2,150
Operational risk weighted assets	63,095
Total Risk weighted assets (RWA)	**589,136**
Total Eligible Capital Base	**324,141**
CET I ratio	**54.02%**
Capital adequacy ratio	**55.02%**

The Bank's capital adequacy ratio of 55.02 %, at 30 June 2020 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: 30 June 2020

US$ '000	Funded exposures	Unfunded exposures	Gross credit exposures*	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	604,753	-	**604,753**	**-**	**90,170**	**11,271**
Claims on banks	469,833	80,844	**550,677**	**6,768**	**331,865**	**41,483**
Claims on corporate	54,507	2,994	**57,501**	**220**	**92,088**	**11,511**
Other exposures	9,726	-	**9,726**	**-**	**9,726**	**1,216**
Past Due	42	-	**42**	**-**	**42**	**5**
Total	**1,138,861**	**83,838**	**1,222,699**	**6,988**	**523,891**	**65,486**

Gross credit exposure before credit risk mitigation:

US$ '000	Gross credit exposure	Average monthly gross exposure*
Claims from Sovereigns	604,753	564,829
Claims from Banks	469,833	497,016
Claims on Corporate	54,507	63,316
Other exposures	9,726	9,815
Past due	42	14
Total funded exposure	**1,138,861**	**1,134,990**
Unfunded exposures	**83,838**	**79,088**
Gross credit exposures	**1,222,699**	**1,214,077**

Average monthly balance represents the average of the sum of six-month end balance for the six-month period ended 30 June 2020.

5.2 Market risk

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

US$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign Exchange Risk	2,150	269	2,150	75

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 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 2020.

US$ '000		30-June-2020
Currency		Sensitivity of net Interest income
USD	+/-	2,501
AED	+/-	(720)
Euro	+/-	(44)
Other currencies	+/-	(6)

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:

US$ '000	Less than 3 months	Three months to one year	Over one year	Total
Assets				
Balances and deposits with banks and other financial institutions	678,178	109,809	3,576	791,563
Loans & advances	17,543	9,503	71,819	98,865
Total	**695,721**	**119,312**	**75,395**	**890,428**
Liabilities				
Deposits from banks and other financial institutions	306,712	31,246	327,043	665,001
Due to Banks and other financial institutions	57,727	-	-	57,727
Due to Customers	70,378	10,800	-	81,178
Total	**434,817**	**42,046**	**327,043**	**803,906**
On Balance sheet gap	**260,904**	**77,266**	**- 251,648**	**86,522**

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 7,887 thousand on operational risk weighted exposure of US$ 63,095 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 2020, 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 *	446,149	Nil	446,149

*Comprise of exempted large exposures to Sovereigns.

6.2 Geographical distribution of exposures as at 30 June 2020, based on residence is summarized below:

US$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	553,216	553,216	-
Other GCC Countries	151,337	150,237	1,100
Other Middle east & Africa	226,742	147,568	79,174
Europe	233,557	231,663	1,894
Rest of the world	57,847	56,177	1670
Total	**1,222,699**	**1,138,861**	**83,838**

6.2 Geographical distribution of exposures continued:
The geographical distribution of gross credit exposures by major type of credit exposures:

US$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims from Banks	74,157	179,994	82,978	83,137	49,567	**469,833**
Claims from Sovereigns	469,333	14,797	52,650	64,390	3,583	**604,753**
Claims on Corporate	-	36,872	14,608	-	3,027	**54,507**
Other exposures	9,726	-	-	-	-	**9,726**
Past due	-	-	-	42	-	**42**
Total funded exposure	**553,216**	**231,663**	**150,236**	**147,569**	**56,177**	**1,138,861**
Unfunded exposures	-	**1,894**	**1,100**	**79,174**	**1,670**	**83,838**
Gross credit exposures	**553,216**	**233,557**	**151,336**	**226,743**	**57,847**	**1,222,699**

6.3 Industrial sector analysis of exposures is summarized below:

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	604,753	604,753	-
Banks & financial institutions	550,677	469,833	80,844
Commercial & other business	67,269	64,275	2994
Total	**1,222,699**	**1,138,861**	**83,838**

6.3 Industrial sector analysis of exposures as at 30 June 2020 -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	Commercial & other businesses	Sovereign	Total
Claims from Banks	469,833	-	-	**469,833**
Claims from Sovereigns	-	-	604,753	**604,753**
Claims on Corporate	-	54,507	-	**54,507**
Other exposures	-	9,726	-	**9,726**
Past due	-	42	-	**42**
Total funded exposure	**469,833**	**64,275**	**604,753**	**1,138,861**
Unfunded exposures	**80,844**	**2,994**	**-**	**83,838**
Gross credit exposures	**550,677**	**67,269**	**604,753**	**1,222,699**

6.4 Exposure by external credit rating at 30 June 2020:

The Bank uses external credit ratings from Standard & Poor's, Moody's 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	Eligible collateral	Risk weighted assets	Capital charge
Claims on Banks	469,833	80,844	165,454	255,877	129,346	6,768	90,170	11,271
Claims on Sovereigns	604,753	-	11,165	585,824	7,764	-	331,865	41,483
Claims on Corporate	54,507	2,994	-	29,579	27,922	220	92,088	11,511
Other exposures	9,726	-	-	-	9,726	-	9,726	1,216
Past due	42	-	-	-	42	-	42	5
Total	**1,138,861**	**83,838**	**176,619**	**871,280**	**174,800**	**6,988**	**523,891**	**65,486**

6.5 Maturity analysis of funded exposures at 30 June 2020:

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	Total
Claims on Sovereigns	56,161	236,596	130,264	**423,021**	181,732	**604,753**
Claims on Banks	280,772	134,673	2,650	**418,095**	51,738	**469,833**
Claims on Corporate	8,108	1,022	16,900	**26,030**	28,477	**54,507**
Other exposures	61	602	68	**731**	8,995	**9,726**
Past Due	-	-	-	**-**	42	**42**
Total	**345,102**	**372,893**	**149,882**	**867,877**	**270,984**	**1,138,861**

6.6 Maturity analysis of unfunded exposures at 30 June 2020:

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	Total
Claims on Banks	7,801	36,355	36,688	**80,844**	**80,844**
Claims on Corporates	-	1,894	1,100	**2,994**	**2,994**
Total	**7,801**	**38,249**	**37,788**	**83,838**	**83,838**

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.

	30-Jun-20
	US$'000
Assets	
Cash and balances with banks	5,786
Loans and advances	4,574
Interest receivable	38
Other assets	20
Liabilities	
Deposits from banks and other financial institutions	524,664
Due to banks and other financial institutions	10,417
Interest payable	671
Other liabilities	470
Contingent liabilities	
Assets under management	17,371
Letters of credit & guarantee	22,836
Interest & similar income	85
Interest expenses	4,972
Fee and commission income	170

7.2 Impaired loans and relative provision at 30 June 2020:

i. Gross impaired loans and related specific provision (Stage 3)

USD'000s	**1 to 3 year**	**over 3 years**	**Total**
Gross impaired loans (stage 3)	20,418	69,867	**90,285**
Less: Specific Provision (stage 3)	(20,418)	(69,825)	**(90,243)**
Net outstanding 30 June 2020	**-**	**42**	**42**

7.2 Impaired loans and related provision contd.

ii. Movement in Expected credit losses provision - Loans and advances:

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans:				
At beginning of the year	1,935	-	93,007	**94,942**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Net re-measurement loss allowance	53	4	-	**57**
(Write back)/(Recoveries)/Write off	-	-	(2,869)	**(2,869)**
Exchange difference	-	-	105	**105**
Balance as at 30 June 2020	**1,988**	**4**	**90,243**	**92,235**

Movement in expected credit losses provision– Investments

USD'000s	Stage 1	Stage 2	Total
Investments			
At beginning of the year	319	4,332	**4,651**
Transfer to Stage 1	-	-	**-**
Transfer to Stage 2	-	-	**-**
Transfer to Stage 3	-	-	**-**
Net re-measurement loss allowance	297	(722)	**(425)**
(Write back)/(Recoveries)/Write off	-	-	**-**
Balance as at 30 June 2020	**616**	**3,610**	**4,226**

Movement in expected credit losses provision - Other Financial Assets and Off-Balance Sheet Items:

USD'000s	Stage 1	Stage 2	Total
At beginning of the year	349	2	**351**
Transfer to Stage 1	-	-	**-**
Transfer to Stage 2	-	-	**-**
Transfer to Stage 3	-	-	**-**
Net re-measurement loss allowance	488	1	**489**
(Write back)/(Recoveries)/Write off	-	-	**-**
Balance as at 30 June 2020	**837**	**3**	**840**

iii. Stage 3 – Expected credit loss or specific provision by geographic and sector:

USD '000s	Europe	Other Middle East and Africa
Banks & Financial Institutions	-	41,772
Sovereigns	-	-
Corporate	20,418	28,053
Total	**20.418**	**69,825**

Expected Credit loss (Stage 1 & 2) provision of US$ 7,056 thousand as at 30 June 2020 is not for any specific geographic region.

7.3 Restructured facilities:

	30 June 2020
	US$ '000
Balance of any restructured credit facilities as at 30 June 2020	Nil
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 agreement during the six-month period ended 30 June 2020.

7.5 Equity positions in the banking book : Nil

7.6 Leverage Ratio

US$ '000	30-June-2020
Total exposure on-balance sheet (all unweighted)	1,117,938
Total Off Balance Sheet items - with relevant Credit Conversion Factors	16,803
Total	**1,134,741**
Tier One Capital	**324,140**
Leverage Ratio	**28.57%**