

اليوباف
alubaf

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



BASEL II PILLAR III DISCLOSURES

30 JUNE 2015

ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
As at 30 June 2015

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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 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.

Balance Sheet under the regulatory scope of consolidation

	Balance sheet as in published financial statements	Consolidated PIR data
	30 June 2015	30 June 2015
	USD'000s	USD'000s
ASSETS		
Cash and balances with banks	43,357	
Cash separately in PIR		7
Placements and balances with banks separately in PIR		452,952
Deposits with banks and other financial institutions	409,602	
Investments held for trading	14,825	14,825
Non-trading investments	146,230	146,230
Loans and advances	493,303	501,703
Collective impairment provision in PIR		(8,400)
Property, equipment and software	12,079	12,079
Interest receivable	7,433	7,433
Other assets	1,651	1,651
TOTAL ASSETS	1,128,480	1,128,480
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks and other financial institutions	567,093	767,230
Due to banks and other financial institutions	200,137	
Due to customers	25,387	25,387
Interest payable	217	217
Other liabilities	6,502	6,433
Dividend payable in PIR separately		69
Total liabilities	799,336	799,336
Equity		
Share capital	250,000	250,000
Advance towards capital increase	-	
Statutory reserve	17,667	17,667
Retained earnings	62,484	40,272
Net profit for current period separately in PIR		22,212
Fair value reserve	(1,007)	(1,007)
Total equity	329,144	329,144
TOTAL LIABILITIES AND EQUITY	1,128,480	1,128,480

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 profits and unrealized loss on available for sale financial instruments and Tier II component of collective impairment provision.

Break down of Capital Base	US\$ '000s	US\$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	17,667	-
Retained earnings	40,272	-
Current interim profits	22,212	-
Unrealized loss on Available for sale financial instruments	(1,007)	-
Collective impairment loss provision	-	8,400
Total	329,144	8,400
Total Available Capital		337,544

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US\$ '000s
Total Capital Base	337,544
Risk Weighted assets (RWA)	
Credit risk	842,620
Market risk	4,438
Operational risk	94,344
	941,402
CET I ratio	34.96%
Capital adequacy ratio	35.86%

The Bank's capital adequacy ratio of 35.86%, 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	115,149	2,574	117,723	-	69,923	8,391
Claims on banks	767,145	179,372	946,517	86,129	507,445	60,893
Claims on corporate	147,542	58,662	206,204	2,906	153,712	18,445
Past due	91,037	-	91,037	27,263	95,543	11,465
Equity portfolio	2,268	-	2,268	-	2,268	272
Other exposures	13,730	-	13,730	-	13,729	1,647
Total	1,136,871	240,608	1,377,479	116,298	842,620	101,114

Gross credit exposure before credit risk mitigation

<u>US\$ '000</u>	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	115,149	119,833
Claims from Banks	767,145	843,808
Claims on Corporate	147,542	120,973
Past due	91,037	51,087
Equity Portfolio	2,268	1,258
Other exposures	13,730	13,682
Total funded exposure	1,136,871	1,150,642
Unfunded exposures	240,608	236,895
Gross credit exposures	1,377,479	1,387,536

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2015.

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	4,438	533	4,438	750

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 2015.

Currency	Sensitivity of net Interest income
	US\$'000
USD	3,879
EUR	25
AED	(470)
Other currencies	14
	3,448

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
Assets				
Balances and deposits with banks and other financial institutions	452,952	-	-	452,952
Loans & advances	213,761	113,608	184,704	512,073
Total	666,713	113,608	184,704	965,025
Liabilities				
Deposits from banks and other financial institutions	539,812	24,875	2,406	567,093
Due to Banks and other financial institutions	200,137	-	-	200,137
Due to Customers	25,387	-	-	25,387
Total	765,336	24,875	2,406	792,617
On Balance sheet gap	(98,623)	88,733	182,298	172,408

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 11,321 thousand on operational risk weighted exposure of US\$ 94,344 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 2015, 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 *	61,721	Nil	61,721

* Comprise of exempted large exposure to a Bank.

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

USD '000s	Gross Credit Exposure	Funded Exposure	Unfunded Exposure
Bahrain	201,255	201,255	
Other GCC Countries	172,294	171,806	488
Other Middle East and African Countries	655,556	440,797	214,759
Europe	301,354	285,539	15,815
Rest Of the world	47,020	37,474	9,546
Total	1,377,479	1,136,871	240,608

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	28,398	21,407	55,160	-	10,184	115,149
Claims from Banks	154,302	134,014	231,467	227,018	20,344	767,145
Claims on Corporate	5,061	14,629	62,949	58,350	6,553	147,542
Past due	-	-	91,037	-	-	91,037
Equity Portfolio	36	1,756	-	83	393	2,268
Other exposures	13,458	-	184	88	-	13,730
Total funded exposure	201,255	171,806	440,797	285,539	37,474	1,136,871
Unfunded exposures	-	488	214,759	15,815	9,546	240,608
Gross credit exposures	201,255	172,294	655,556	301,354	47,020	1,377,479

6.3 Industrial sector analysis of exposures is summarized below:

US\$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	119,438	116,864	2,574
Banks & financial institutions	1,036,682	857,310	179,372
Other sector	221,359	162,697	58,662
Total	1,377,479	1,136,871	240,608

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	-	115,149	-	115,149
Claims from Banks	767,145	-	-	767,145
Claims on Corporate	-	-	147,542	147,542
Past due	89,322	1,715	-	91,037
Equity Portfolio	571	-	1,697	2,268
Other exposures	272	-	13,458	13,730
Total funded exposure	857,310	116,864	162,697	1,136,871
Unfunded exposures	179,372	2,574	58,662	240,608
Gross credit exposures	1,036,682	119,438	221,359	1,377,479

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	115,149	2,574	44,275	28,417	45,031
Claims on banks	767,145	179,372	68,795	453,047	424,675
Claims on corporate	147,542	58,662	11,362	30,138	164,704
Past due	91,037	-	-	-	91,037
Equity portfolio	2,268	-	628	430	1,210
Other exposures	13,730	-	-	-	13,730
Total	1,136,871	240,608	125,060	512,032	740,387

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>1-10 years</i>	<i>More than 10 years</i>	<i>Undated</i>	<i>Total</i>
Claims on Sovereigns	1,772	375	2,525	4,672	66,907	43,570	-	115,149
Claims on Banks	435,266	186,497	93,417	715,180	46,934	5,031	-	767,145
Claims on Corporate	29,152	31,489	22,804	83,445	49,454	14,643	-	147,542
Past due	-	1,715	-	1,715	89,322	-	-	91,037
Equity Portfolio	-	-	-	-	-	-	2,268	2,268
Other exposures	53	509	10,682	11,244	2,486	-	-	13,730
Total	466,243	220,585	129,428	816,256	255,103	63,244	2,268	1,136,871

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	179,372	5,461	72,361	100,218	178,040	1,332	179,372
Claims on Non-Banks: contingent items	61,236	15,003	12,711	20,202	47,916	13,320	61,236
Total	240,608	20,464	85,072	120,0420	225,956	14,652	240,608

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 June 2015
	US\$'000
Assets	
Cash and balances with banks	2,117
Deposits with banks and other financial institutions	20,071
Loans and advances	4,230
Interest receivable	16
Other assets	321
Liabilities	
Deposits from banks and other financial institutions	387,875
Due to banks and other financial institutions	15,328
Interest payable	173
Other liabilities	1,420
Contingent liabilities	
Assets under management	34,022
Letters of credit & guarantee	7,372
Interest & similar income	323
Interest expenses	620
Fee and commission income	49

7.2 Impaired loans and relative provision:

US\$ '000	Up to one year	One to three years	Total
Gross impaired loans	95,918	3,774	99,692
Less: Specific Provision	(6,832)	(3,538)	(10,370)
Net outstanding 30 June 2015	89,086	236	89,322

7. Other Disclosures (Continued)

Movement in impairment provision:

USD'000s	Specific	Collective	Total
Opening provision	7,236	11,646	18,882
Write off during the period	(2,276)		(2,276)
Write back during the period	(1,422)		(1,422)
Charge for the period	6,832	(3,246)	3,586
Closing provision	10,370	8,400	18,770

Specific Provision by Geographic and Sector:

US\$ '000	Other Middle East and Africa	Total
Banks & Financial Institutions	10,370	10,370

Collective impairment provision of US\$ 8,400 thousand as at 30 June 2015 is towards Middle east and Africa region.

7.3 Restructured facilities:

30 June 2015

US\$ '000

Balance of any restructured credit facilities as at 30 June 2015	43,571
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 2015.

7.5 Equity positions in the Banking book :

30 June 2015

US\$ '000

Quoted equities	<u>2,268</u>
Realized gain/(loss) from Trading Equities	107
Unrealized gain /(loss) from Trading Equities	(104)
Total reported in Tier 1 Capital	<u>3</u>