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 2012

ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
As at 30 June 2012

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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.

The issued and paid up share capital of the Bank was US $ 250 million as at 30 June 2012 comprising of 5 million shares of US$ 50 each. In January 2012, the Bank increased its Paid up Capital to US$250 Million, pursuant to approval in Annual general meeting held on 6th June 2011 and lifting of UN Sanctions on major shareholder Libyan Foreign Bank on 16th December, 2011.

Break down of Capital Base

	US$ '000s Tier I	US$ '000s Tier II
Share Capital	250,000	-
Statutory reserve	6,888	-
Retained earnings	13,694	-
Current interim profits	-	16,355
Total	**270,582**	**16,355**

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US$ '000s
Total Capital Base	**286,937**
Risk Weighted assets (RWA)	
Credit risk	594,595
Market risk	1,138
Operational risk	43,244
	638,977
Tier I ratio	**42.35%**
Capital adequacy ratio	**44.91%**

The Bank's capital adequacy ratio of 44.91% , 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

US$ '000	**Funded exposures**	**Unfunded exposures**	**Gross credit exposures**	**Eligible collateral**	**Risk weighted assets**	**Capital charge**
Claims on sovereigns	52,528	-	52,528	-	49,015	5,882
Claims on banks	1,043,486	305,902	1,349,388	116,333	515,415	61,850
Claims on corporate	11,931	-	11,931	-	11,931	1,432
Equity portfolio	24	-	24	-	24	2
Other exposures	18,210	-	18,210	-	18,210	2,185
Total	**1,126,179**	**305,902**	**1,432,081**	**116,333**	**594,595**	**71,351**

Gross credit exposure before credit risk mitigation

US$ '000	**Gross credit exposure**	**Average monthly gross exposure**
Claims from Sovereigns	52,528	51,674
Claims from Banks	1,043,486	900,357
Claims on Corporate	11,931	11,252
Equity Portfolio	24	23
Other exposures	18,210	14,334
Total funded exposure	**1,126,179**	**977,640**
Unfunded exposures	**305,902**	**373,926**
Gross credit exposures	**1,432,081**	**1,351,566**

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2012.

5.2 Market risk

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

US$ '000	**Risk weighted exposures**	**Capital charge**	**Maximum value**	**Minimum value**
Foreign exchange risk	1,138	137	3,225	50

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 Bank's interest rate sensitivity position as of 30 June 2012 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 2,532 thousand.

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 5,189 thousand on operational risk weighted exposure of US$ 43,244 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 2012, 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

* These are interbank deposits maturing within 6 months from 30 June 2012.

6.2 Geographical distribution of exposures is summarized below:

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	230,913	230,913	-
Other GCC Countries	169,612	169,208	404
Other Middle East & Africa	763,423	458,209	305,214
Europe	257,456	257,172	284
Rest of the world	10,677	10,677	-
Total	**1,432,081**	**1,126,179**	**305,902**

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	3,513	-	49,015	-	-	**52,528**
Claims from Banks	213,681	165,184	404,882	249,062	10,677	**1,043,486**
Claims on Corporate	-	3,821	-	8,110	-	**11,931**
Equity Portfolio	24	-	-	-	-	**24**
Other exposures	13,695	203	4,312	-	-	**18,210**
Total funded exposure	**230,913**	**169,208**	**458,209**	**257,172**	**10,677**	**1,126,179**
Unfunded exposures	**-**	**404**	**305,214**	**284**	**-**	**305,902**
Gross credit exposures	**230,913**	**169,612**	**763,423**	**257,456**	**10,677**	**1,432,081**

6.3 Industrial sector analysis of exposures is summarized below:

US$ '000	**Gross credit exposure**	**Funded exposure**	**Unfunded exposure**
Sovereign	52,528	52,528	-
Banks & financial institutions	1,348,724	1,043,510	305,902
Other sector	30,829	30,141	-
Total	**1,432,081**	**1,126,179**	**305,902**

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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	-	52,528	-	**52,528**
Claims from Banks	1,043,486	-	-	**1,043,486**
Claims on Corporate	-	-	11,931	**11,931**
Equity Portfolio	24	-	-	**24**
Other exposures	-	-	18,210	**18,210**
Total funded exposure	**1,043,510**	**52,528**	**30,141**	**1,126,179**
Unfunded exposures	**305,902**	-	-	**305,902**
Gross credit exposures	**1,349,412**	**52,528**	**30,141**	**1,432,081**

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	52,528	-	3,513	-	49,015
Claims on banks	1,043,486	305,902	97,220	366,940	885,228
Claims on corporate	11,931	-	-	-	11,931
Equity portfolio	24	-	-	24	-
Other exposures	18,210	-	-	-	18,210
Total	**1,126,179**	**305,902**	**100,733**	**366,964**	**964,384**

6. Risk Management (continued)

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*	*1-5 years*	*5-10 years*	*10-20 years*	*Undated*	*Total*
Claims on Sovereigns	1,434	-	319	**1,753**	7,945	1,000	41,830	-	**52,528**
Claims on Banks	583,579	189,892	263,029	**1,036,500**	6,986	-	-	-	**1,043,486**
Claims on Corporate	5,110	-	1	**5,111**	4,507	2,313	-	-	**11,931**
Equity Portfolio	-	-	-	**-**	-	-	-	24	**24**
Other exposures	17,695	268	-	**17,963**	247	-	-	-	**18,210**
Total	**607,818**	**190,160**	**263,349**	**1,061,327**	**19,685**	**3,313**	**41,830**	**24**	**1,126,179**

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

6.6 Maturity analysis of unfunded exposures

US$ '000	*Notional principal*	*Within 1 month*	*1-3 months*	*3-12 months*	*Total within 1 year*	*Over one year*	*Total*
Claims on Banks-contingent items	305,902	19,939	72,326	117,412	**209,677**	96,225	**305,902**

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 2012 US$ '000
Exposures to related parties:	104,106
Liabilities to related parties:	
Connected deposits	252,530

7.Other Disclosures (continued)

7.2 Impaired loans and relative provision:

	30 June 2012
	US$ '000
Gross impaired loans	2,468
Less: Specific provision	(2,468)
Net impaired loans	**-**

Movement in impairment provision:

	Specific	**Collective**	**Total**
Opening provision	**3,500**	**1,244**	**4,744**
Specific charge for the year	**-**	-	**-**
Closing specific provision	**3,500**	**1,244**	**4,744**

The impaired loans and provisions against it relates to commercial and business loans in Other GCC Countries. The collaterals consist of securities and properties which are managed by the syndicated agent and valued on an annual basis.

All past due loans are impaired and are past due for a period more than three years.

7.3 Restructured facilities:

	30 June 2012
	US$ '000
Balance of any restructured credit facilities as at 30 June 2012	45,650
Loans restructured during the six month 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 2012.

7.5 Equity positions in the Banking book :

	30 June 2012
	US$ '000
Quoted equities	24