

بنك اليوباف العربي الدولي ش.م.ب.م. (م)
ALUBAF ARAB INTERNATIONAL BANK B.S.C (C)



BASEL II PILLAR III DISCLOSURES

30 JUNE 2011

ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
As at 30 June 2011

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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 99.38%), 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 \$ 200 million as at 30 June 2011 comprising of 4 million shares of US\$ 50 each.

Break down of Capital Base

	US\$ '000s	US\$ '000s
	Tier I	Tier II
Share Capital	200,000	
Statutory reserve	4,262	
Retained earnings	10,319	
Current interim profits		12,384
Total	214,581	12,384

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US\$ '000s
Total Capital Base	226,965
Risk Weighted assets (RWA)	
Credit risk	479,646
Market risk	325
Operational risk	28,574
	508,545
Capital adequacy ratio	44.63%

The Bank's capital adequacy ratio of 44.63% 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	51,885	-	51,885	-	42,785	5,134
Claims on banks	978,427	423,501	1,401,928	84,567	421,180	50,542
Claims on corporate	3,751	-	3,751	-	3,751	450
Past due	675	-	675	-	675	81
Equity portfolio	24	-	24	-	24	3
Other exposures	11,231	-	11,231	-	11,231	1,348
Total	1,045,993	423,501	1,469,494	84,567	479,646	57,558

Gross credit exposure before credit risk mitigation

<u>US\$ '000</u>	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	51,885	51,374
Claims from Banks	978,427	934,978
Claims on Corporate	3,751	11,603
Past Due	675	4,081
Equity Portfolio	24	29
Other exposures	11,231	10,591
Total funded exposure	1,045,993	1,012,656
Unfunded exposures	423,501	455,064
Gross credit exposures	1,469,494	1,467,720

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2011.

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	325	39	325	166

5.3 Operational risk

Capital requirement for operational risk in accordance with basic indicator approach is US\$ 28,574 thousand.

6. Risk Management

6.1 Credit risk concentration and thresholds:

As at 30 June 2011, the Bank's exposures in excess of 15% of the obligor limits to individual counterparties are shown below:

US \$ '000	Funded exposure	Unfunded exposure	Total
Counterparty A *	65,000	Nil	65,000
Counterparty B *	42,462	Nil	42,462
Counterparty C	41,342	Nil	41,342
Counterparty D	9,423	31,818	41,241
Counterparty E	17,016	19,764	36,780

* These are interbank deposits maturing within 6 months from 30 June 2011.

6.2 Geographical distribution of exposures is summarized below:

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	255,528	255,528	-
Other GCC Countries	177,846	177,846	-
Other Middle East & Africa	827,834	404,333	423,501
Europe	201,812	201,812	-
Rest of the world	6,474	6,474	-
Total	1,469,494	1,045,993	423,501

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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	9,100	-	42,785	-	-	51,885
Claims from Banks	235,173	173,420	361,548	201,812	6,474	978,427
Claims on Corporate	-	3,751	-	-	-	3,751
Past Due	-	675	-	-	-	675
Equity Portfolio	24	-	-	-	-	24
Other exposures	11,231	-	-	-	-	11,231
Total funded exposure	255,528	177,846	404,333	201,812	6,474	1,045,993
Unfunded exposures	-	-	423,501	-	-	423,501
Gross credit exposures	255,528	177,846	827,834	201,812	6,474	1,469,494

6.3 Industrial sector analysis of exposures is summarized below:

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	51,885	51,885	-
Banks & financial institutions	1,401,952	978,451	423,501
Other sector	15,657	15,657	-
Total	1,469,494	1,045,993	423,501

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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	-	51,885	-	51,885
Claims from Banks	978,427	-	-	978,427
Claims on Corporate	-	-	3,751	3,751
Past Due	-	-	675	675
Equity Portfolio	24	-	-	24
Other exposures	-	-	11,231	11,231
Total funded exposure	978,451	51,885	15,657	1,045,993
Unfunded exposures	423,501	-	-	423,501
Gross credit exposures	1,401,952	51,885	15,657	1,469,494

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:

6. Risk Management (continued)

6.4 Exposure by external credit rating (Continued)

US\$ '000	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	51,885	-	9,100	-	42,785
Claims on banks	978,427	423,501	302,172	237,812	861,944
Claims on corporate	3,751	-	-	-	3,751
Past due	675	-	-	-	675
Equity portfolio	24	-	-	24	-
Other exposures	11,231	-	-	-	11,231
Total	1,045,993	423,501	311,272	237,836	920,386

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	1,537	-	6,447	7,984	2,506	-	41,342	53	51,885
Claims on Banks	672,889	150,530	153,022	976,441	1,986	-	-	-	978,427
Claims on Corporate	-	-	-	-	-	3,751	-	-	3,751
Past Due	-	-	-	-	-	-	-	675	675
Equity Portfolio	-	-	-	-	-	-	-	24	24
Other exposures	-	-	-	-	-	-	-	11,231	11,231
Total	674,426	150,530	159,469	984,425	4,492	3,751	41,342	11,983	1,045,993

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

6. Risk Management (continued)

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	423,501	246	26,055	187,750	214,051	209,450	423,501

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 2011

US\$ '000

Exposures to related parties:	116,719
Liabilities to related parties:	
Connected deposits	249,828

7.2 Impaired loans and relative provision:

30 June 2011

US\$ '000

Gross impaired loans	2,250
Less: Specific provision	(1,575)
Net impaired loans	675

Movement in impairment provision:

	Specific	Collective	Total
Opening provision	2,487	677	3,164
Specific charge for the year	338	-	338
Closing specific provision	<u>2,825</u>	<u>677</u>	<u>3,502</u>

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 of one to three years.

7. Other Disclosures (continued)

7.3 Restructured facilities:

30 June 2011
US\$ '000

Balance of any restructured credit facilities as at 30 June 2011	46,536
Loans restructured during the six month period	3,751

7.4 Assets sold under recourse agreements: The Bank did not enter into any recourse agreements during the six month period ended 30 June 2011.

7.5 Equity positions in the banking book :

30 June 2011
US\$ '000

Quoted equities	24
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