

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 2016

Alubaf Arab International Bank B.S.C. (c)
Basel III Pillar III Disclosures
As at 30 June 2016

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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 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.

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.

Break down of Capital Base	<i>US\$ '000</i>	<i>US\$ '000</i>
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	20,174	-
Retained earnings	50,337	-
Current interim net loss	(6,261)	-
Unrealized loss on Available for sale financial instruments	(2,289)	-
Total CET I capital prior to regulatory adjustments	311,961	
Less: intangibles other than mortgage rights	(162)	
Total CET I capital after regulatory adjustment	311,799	
General loan loss provision	-	3,500
Total	311,799	3,500
Total available capital	315,299	

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

CAR Calculation	<i>US\$ '000</i>
Total Capital Base	315,299
Risk Weighted assets (RWA)	
Credit risk	1,012,187
Market risk	513
Operational risk	107,149
	1,119,849
CET I ratio	27.84%
Capital adequacy ratio	28.16%

The Bank's capital adequacy ratio of **28.16%**, 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

Exposures	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted assets	Capital charge
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Claims on sovereigns	445,636	20,693	466,329	18,254	512,689	64,086
Claims on banks	619,793	45,889	665,682	17,502	326,294	40,787
Claims on corporate	113,272	35,210	148,482	3,075	115,840	14,480
Past due	40,543	-	40,543	-	43,628	5,454
Equity portfolio	602	-	602	-	602	75
Other exposures	13,134	-	13,134	-	13,134	1,642
Total	1,232,980	101,792	1,334,772	38,831	1,012,187	126,524

Gross credit exposure before credit risk mitigation

Exposures	Gross credit exposure	Average monthly gross exposure
	US\$ '000	US\$ '000
Claims from Sovereigns	445,636	378,752
Claims from Banks	619,793	963,124
Claims on Corporate	113,272	121,166
Past due	40,543	47,022
Equity Portfolio	602	345
Other exposures	13,134	14,628
Total funded exposure	1,232,980	1,525,037
Unfunded exposures	101,792	128,476
Gross credit exposures	1,334,772	1,553,513

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Average monthly gross exposure represents an average of six month end balance for period ended 30 June 2016.

5.2 Market risk

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

Exposure	Risk weighted exposures	Capital charge	Maximum value	Minimum value
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Foreign exchange risk	513	64	4,175	513

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 2016.

Currency	Sensitivity of net Interest income
	<i>US\$ '000</i>
USD	(+/-) 4,654
EUR	(+/-) 181
AED	(+/-) 1,848
Other currencies	(+/-) 237

The decrease in the basis points will have an opposite impact on the net interest income.

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5.2 Market risk (continued)

The details of interest rate sensitive assets and liabilities are as follows:

Particulars	Less than 3 months	Three months to one year	Over one year	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets				
Balances and deposits with banks and other financial institutions	653,623	37,207	-	690,830
Loans & advances	67,795	88,852	192,916	349,563
Total	721,418	126,059	192,916	1,040,393
Liabilities				
Deposits from banks and other financial institutions	380,914	80,622	200,000	661,536
Due to Banks and other financial institutions	188,385	-	-	188,385
Due to Customers	48,298	4,723	-	53,021
Total	617,597	85,345	200,000	902,942
On Balance sheet gap	103,821	40,714	(7,084)	137,451

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 13,394 thousand on operational risk weighted exposure of US\$ 107,149 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 2016, 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 *	209,028	Nil	209,028
Counterparty B *	46,720	12,165	58,885

* Comprise of exempted large exposures to Sovereign.

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

Geographic Area	Gross Credit Exposure	Funded Exposure	Unfunded Exposure
	US\$ '000	US\$ '000	US\$ '000
Bahrain	455,735	455,735	-
Other GCC Countries	182,479	178,232	4,247
Other Middle East and African Countries	347,384	262,070	85,314
Europe	329,088	324,429	4,659
Rest Of the world	20,086	12,514	7,572
Total	1,334,772	1,232,980	101,792

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The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

Exposures	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest Of the world	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Claims from Sovereigns	286,270	21,618	130,365	-	7,383	445,636
Claims from Banks	151,432	141,005	71,843	255,453	60	619,793
Claims on Corporate	5,056	15,191	19,143	68,976	4,906	113,272
Past due	-	-	40,543	-	-	40,543
Equity Portfolio	19	418	-	-	165	602
Other exposures	12,958	-	176	-	-	13,134
Total funded exposure	455,735	178,232	262,070	324,429	12,514	1,232,980
Unfunded exposures	-	4,247	85,314	4,659	7,572	101,792
Gross credit exposures	455,735	182,479	347,384	329,088	20,086	1,334,772

6.3 Industrial sector analysis of exposures is summarized below:

Exposure	Gross credit exposure	Funded exposure	Unfunded exposure
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Sovereign	466,329	445,636	20,693
Banks & financial institutions	694,632	648,743	45,889
Other sector	173,811	138,601	35,210
Total	1,334,772	1,232,980	101,792

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

Exposures	Banks & financial institutions	Sovereign	Other Sector	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Claims from Sovereigns	-	445,636	-	445,636
Claims from Banks	619,793	-	-	619,793
Claims on Corporate	-	-	113,272	113,272
Past due	28,637	-	11,906	40,543
Equity Portfolio	137	-	465	602
Other exposures	176	-	12,958	13,134
Total funded exposure	648,743	445,636	138,601	1,232,980
Unfunded exposures	45,889	20,693	35,210	101,792
Gross credit exposures	694,632	466,329	173,811	1,334,772

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:

Exposure	Funded exposure	Unfunded exposure	Rated-High grade exposure	Rated-Standard exposure	Unrated exposure
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Claims on sovereigns	445,636	20,693	7,582	52,469	406,278
Claims on banks	619,793	45,889	100,052	328,591	237,039
Claims on corporate	113,272	35,210	11,179	29,128	108,175
Past due	40,543	-	-	-	40,543
Equity portfolio	602	-	229	233	140
Other exposures	13,134	-	-	-	13,134
Total	1,232,980	101,792	119,042	410,421	805,309

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6.5 Maturity analysis of funded exposures

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

Exposure	<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>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Claims on Sovereigns	52,909	206,874	32,923	286,706	114,673	44,257	-	445,636
Claims on Banks	439,769	75,078	68,774	583,621	31,141	5,031	-	619,793
Claims on Corporate	18,373	11,968	30,211	60,552	38,471	14,249	-	113,272
Past due	-	-	-	-	40,543	-	-	40,543
Equity Portfolio	-	602	-	602	-	-	-	602
Other exposures	140	303	19	462	1,020	-	11,652	13,134
Total	511,191	288,825	131,927	931,943	225,848	63,537	11,652	1,232,980

6.6 Maturity analysis of unfunded exposures

Exposures	<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>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Claims on Banks-contingent items	45,889	2,017	27,801	15,465	45,283	606	45,889
Claims on Non-Banks: contingent items	55,903	19,687	10,011	22,739	52,437	3,466	55,903
Total	101,792	21,704	37,812	38,204	97,720	4,072	101,792

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.

Related Party Transactions	30 June 2016
	US\$ '000
Assets	
Cash and balances with banks	11,183
Deposits with banks and other financial institutions	14,998
Loans and advances	266
Interest receivable	1
Other assets	226
Liabilities	
Deposits from banks and other financial institutions	502,690
Due to banks and other financial institutions	14,688
Interest payable	831
Other liabilities	1,766
Contingent liabilities	
Assets under management	21,491
Letters of credit & guarantee	293
Interest & similar income	96
Interest expenses	3,762
Fee and commission income	509

7.2 Impaired loans and relative provision:

Impaired Loans	Up to one year	More than One less than three years	Total
	US\$ '000	US\$ '000	US\$ '000
Gross impaired loans	82,034	-	82,034
Less: Specific Provision	(41,491)	-	(41,491)
Net outstanding 30 June 2016	40,543	-	40,543

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Movement in impairment provision:

Impairment Provision	Specific	Collective	Total
	US\$ '000	US\$ '000	US\$ '000
Opening provision	28,443	3,765	32,208
Exchange difference	84	-	84
Charge and reallocation for the period	12,964	(265)	12,699
Closing provision	41,491	3,500	44,991

Specific Provision by Geographic and Sector:

Geographic and Sector	Other Middle East and Africa	Total
	US\$ '000	US\$ '000
Banks & Financial Institutions	41,491	41,491

Collective impairment provision of US\$ 3,500 thousand as at 30 June 2016 is towards Middle East and Africa region.

7.3 Restructured facilities:

	30 June 2016
	US\$ '000
Balance of any restructured credit facilities as at 30 June 2016	72,565
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. 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 2016.

7.5 Equity positions in the Banking book :

	30 June 2016
	US\$ '000
Quoted equities	<u>2,268</u>
Realized gain/(loss) from Trading Equities	7
Unrealized gain /(loss) from Trading Equities	(33)
Total reported in Tier 1 Capital	<u>(26)</u>