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 2019

ALUBAF Arab International Bank B.S.C. (c)
Basel II -Pillar III disclosures
As at 30 June 2019

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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	22,757	-
Retained earnings	26,352	-
Current interim net profit	8,353	-
Cumulative fair value changes on FVOCI Investments (Debt)	(2,995)	-
Total CET I capital prior to regulatory adjustments	**304,467**	-
Less: intangibles other than mortgage rights	**(1,464)**	-
Add: Cash Flow hedge reserve	**268**	
Total CET I capital after regulatory adjustment	**303,271**	-
Expected credit losses (ECL) Stage 1 & 2	-	5,372
Total	**303,271**	**5,372**
Total available capital		**308,643**

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US$ '000s
Total Capital Base	**308,643**
Risk Weighted assets (RWA)	
Credit risk	772,788
Market risk	100
Operational risk	66,528
	839,416
CET I ratio	**36.13%**
Capital adequacy ratio	**36.77%**

The Bank's capital adequacy ratio of 36.77 % 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

US$ '000	**Funded exposures**	**Unfunded exposures**	**Gross credit exposures**	**Eligible collateral**	**Risk weighted assets**	**Capital charge**
Claims on sovereigns	513,826	-	513,826	-	84,793	10,599
Claims on banks	567,946	43,853	611,799	4,422	596,867	74,608
Claims on corporate	53,624	23,064	76,688	3,604	64,789	8,099
Equity portfolio	-	-	-	-	-	-
Other exposures	26,338	-	26,339	-	26,338	3,292
Total	**1,161,734**	**66,917**	**1,228,651**	**8,026**	**772,787**	**96,598**

Gross credit exposure before credit risk mitigation

US$ '000	**Gross credit exposure**	**Average monthly gross exposure**
Claims on sovereigns	513,826	495,399
Claims on banks	567,946	545,395
Claims on Corporate	53,624	62,983
Equity Portfolio	-	-
Other exposures	26,338	28,359
Total funded exposure	**1,161,734**	**1,132,137**
Unfunded exposures	**66,917**	**88,476**
Gross credit exposures	**1,228,651**	**1,220,613**

Average monthly balance represents the average of the sum of six-month end balance for the six-month period ended 30 June 2019.

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	100	12.5	2,375	100

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 2019.

Currency	**Sensitivity of net Interest income**
	US$'000
USD	2,249
EUR	(2)
AED	(583)
Other currencies	(212)
	1,452

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	707,136	80,490	-	787,626
Loans & advances	31,352	5,000	90,530	126,882
Total	**738,488**	**85,490**	**90,530**	**914,508**
Liabilities				
Deposits from banks and other financial institutions	434,968	190,000	-	624,968
Due to Banks and other financial institutions	134,353	-	-	134,353
Due to Customers	82,600	-	-	82,600
Total	**651,921**	**190,000**	**-**	**841,921**
On Balance sheet gap	**86,567**	**(104,510)**	**90,530**	**72,587**

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 8,316 thousand on operational risk weighted exposure of US$ 66,528 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 2019, 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 *	356,683	Nil	356,683
Counterparty B *	46,925	Nil	46,925
Counterparty C *	46,704	Nil	46,704

*Comprise of exempted large exposures to Sovereigns and a bank.

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

USD '000s	Gross Credit Exposure	Funded Exposure	Unfunded Exposure
Bahrain	552,975	552,975	-
Europe	152,241	147,186	5,055
GCC	278,987	260,969	18,018
Middle East & Africa	181,908	138,182	43,726
Rest of the World	62,540	62,422	118
Total	**1,228,651**	**1,161,734**	**66,917**

The geographical distribution of gross credit exposures by major type of credit exposures:

US$ '000	Bahrain	Other GCC	Middle East and Africa	Europe	Rest Of the world	Total
Claims on Sovereigns	397,443	47,749	68,634	**-**	**-**	**513,826**
Claims on Banks	140,219	199,729	67,844	97,732	62,421	**567,946**
Claims on Corporate	5,040	13,491	0.02501	35,093	-	**53,624**
Equity Portfolio	-	-	-	-	-	**-**
Other exposures	10,273	-	1,704	14,361	-	**26,338**
Total funded exposure	**552,975**	**260,969**	**138,183**	**147,186**	**62,421**	**1,161,734**
Unfunded exposures	**-**	**18,018**	**43,726**	**5,055**	**118**	**66,917**
Gross credit exposures	**552,975**	**278,987**	**181,909**	**152,241**	**62,539**	**1,228,651**

6.3 Industrial sector analysis of exposures is summarized below:

US$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	**513,826**	513,826	-
Banks & financial institutions	**611,799**	567,946	43,853
Other sector	**103,026**	79,962	23,064
Total	**1,228,651**	**1,161,734**	**66,917**

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 on Sovereigns	-	513,826	-	**513,826**
Claims on Banks	567,946	-	-	**567,946**
Claims on Corporate	-	-	53,624	**53,624**
Equity Portfolio	-	-	-	**-**
Other exposures			26,338	**26,338**
Total funded exposure	**567,946**	**513,826**	**79,962**	**1,161,734**
Unfunded exposures	**43,853**	**-**	**23,064**	**66,917**
Gross credit exposures	**611,799**	**513,826**	**103,026**	**1,228,651**

6.4 Exposure by external credit rating

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 grade exposure**	**Rated-Standard exposure**	**Unrated exposure**
Claims on sovereigns	513,826	-	11,619	427,616	75,041
Claims on banks	567,946	43,853	175,146	345,753	90,900
Claims on corporate	53,624	23,064	-	45,824	30,864
Equity portfolio	-	-	-	-	-
Other exposures	26,338	-	-	-	26,338
Total	**1,161,734**	**66,917**	**186,315**	**819,192**	**223,144**

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*	*1-10 years*	*More than 10 years*	*Undated*	*Total*
Claims on Sovereigns	42,709	206,542	72,599	**321,850**	191,976	-	-	**513,826**
Claims on Banks	418,945	76,372	30,060	**525,377**	42,569	-	-	**567,946**
Claims on Corporate	5,243	268	10,101	**15,612**	33,218	4,794	-	**53,624**
Equity Portfolio	-	-	-	**-**	-	-	-	**-**
Other exposures	37	376	28	**442**	16,512	-	9,384	**26,338**
Total	**466,934**	**283,558**	**112,788**	**863,280**	**284,275**	**4,794**	**9,384**	**1,161,734**

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	43,853	6,992	23,366	12,729	**43,087**	766	**43,853**
Claims on Non-Banks: contingent items	23,064	18	18,000	5,046	**23,064**	-	**23,064**
Total	**66,917**	**7,011**	**41,366**	**17,775**	**66,151**	**766**	**66,917**

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-19
	US$'000
Assets	
Cash and balances with banks	31,860
Loans and advances	4,611
Interest receivable	38
Other assets	40
Liabilities	
Deposits from banks and other financial institutions	485,381
Due to banks and other financial institutions	19,957
Interest payable	1,725
Other liabilities	468
Contingent liabilities	
Assets under management	21,854
Letters of credit & guarantee	1,146
Forward Foreign exchange contracts	-
Interest & similar income	163
Interest expenses	8,226
Fee and commission income	67

7.2 Impaired loans and relative provision [Stage 3]:

USD '000s	**3 months to 1 Year**	**1 to 3 years**	**Over 3 years**	**Total**
Gross impaired loans [Stage 3]	20,418	38,389	61,627	**120,434**
Less: Specific Provision [Stage 3]	(6,057)	(38,389)	(59,923)	**104,369**
Net outstanding 30 June 2019	**14,361**	**-**	**1,704**	**16,065**

Movement in impairment provision including
Expected credit losses- Loans and advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans				
At beginning of the year	3,651	2,636	99,471	**105,758**
Transfer to Stage 1	1	(1)	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	(2,635)	2,635	**-**
Net re-measurement loss allowance	727	-	2,291	**3,018**
Write back/ recoveries	(1,594)	-	-	(1,594)
Write off during the period	-	-	-	**-**
Exchange difference	-	-	(28)	**(28)**
Balance as at 30 June 2019	**2,785**	**-**	**104,369**	**107,154**

Movement in Expected credit losses :

USD'000s	Stage 1	Stage 2	Stage 3	Total
Investments				
At beginning of the year	463	1,488	-	**1,951**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(54)	54	-	**-**
Transfer to Stage 3	-	-	-	**-**
Net re-measurement loss allowance	(132)	(32)	-	**(100)**
Write back/ recoveries	-	-	-	**-**
Write off during the period	-	-	-	**-**
Exchange difference	-	-	-	**-**
Balance as at 30 June 2019	**277**	**1,574**	**-**	**1,851**

Movement in Expected credit losses :

-

USD'000s	Stage 1	Stage 2	Stage 3	Total
Other Financial assets and off Balance sheet items				
At beginning of the year	808	-	-	**808**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Net re-measurement loss allowance	(72)	-	-	**(72)**
Write back/ recoveries	-	-	-	**-**
Write off during the period	-	-	-	**-**
Exchange difference	-	-	-	**-**
Balance as at 30 June 2019	**736**	**-**	**-**	**736**

Specific Provision by Geographic and Sector:

USD '000s	MENA		Europe		Total
	Gross	**Provision**	**Gross**	**Provision**	
Sovereign	29,229	(29,229)	-	-	**-**
Banks	41,772	(41,772)	-	-	**-**
Corporate	29,015	(27,311)	20,418	(6,057)	**16,065**
Total	**100,016**	**(98,312)**	**20,418**	**(6,057)**	**16,065**

Expected Credit loss (Stage 1 & 2) provision of US$ 5,372 thousand as at 30 June 2019 is not for any specific geographic region.

7.3 Restructured facilities:

	30 June 2019 ***US$ '000***
Balance of any restructured credit facilities as at 30 June 2019	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 agreements during the six-month period ended 30 June 2019.

7.5 Equity positions in the Banking book :

	30 June 2019 *US$ '000*
Quoted equities	
Realized gain from Trading Equities	
Unrealized gain from Trading Equities	
Total reported in Tier 1 Capital	Nil