

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



BASEL II - PILLAR III DISCLOSURES
30 JUNE 2009

ALUBAF Arab International Bank B.S.C. (c)
 Basel II -Pillar III Disclosures
 For the six-month period ended 30 June 2009

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1. Introduction

Central Bank of Bahrain (the "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 the quantitative information of the disclosures 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 interim condensed 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 frame work. 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 majorly owned (shareholding 97.11%) by Libyan Foreign Bank, a bank registered in Libya.

3. Capital Structure

Break down of Capital Base

	US\$ '000	
	<i>Tier I</i>	<i>Tier II</i>
Paid-up share capital	100,000	-
Statutory reserve	1,830	-
Retained earnings	682	-
Current period profit	-	2,906
Total Capital base	102,512	2,906
Less: Regulatory deductions	-	-
Net Available Capital base	102,512	2,906
<u>Total Eligible capital base –Tier I and Tier II</u>		<u>105,418</u>

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	<i>US\$ '000</i>
Total Capital Base	105,418
Risk weighted exposures:	
Credit risk	254,667
Market risk	344
Operational risk	13,340
	<u>268,351</u>
Capital adequacy ratio	39.28%

The Bank's capital adequacy ratio of 39.28% is well above the minimum regulatory requirement of 12%

5. Profile of risk-weighted exposures and capital requirement

The Bank has adopted the standardised approach for credit risk and 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:

Gross credit exposures subject to credit risk mitigants and credit risk exposures post credit risk mitigation and credit conversion

	<i>US\$ '000</i>					
	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted exposures	Capital requirement
Claims on sovereigns	45,856	-	45,856	-	43,303	5,196
Claims on banks	456,270	44,801	501,071	44,798	191,737	23,007
Claims on corporate	10,000	-	10,000	-	10,000	1,200
Past due	1,850	-	1,850	-	2,775	333
Equity portfolio	32	-	32	-	32	4
Other exposures	6,820	-	6,820	-	6,820	818
TOTAL	520,828	44,801	565,629	44,798	254,667	30,559

Credit exposure and risk weighted exposures

	<i>US\$ '000</i>	
	Gross credit exposures	Average monthly balance
Claims on sovereigns	45,856	44,610
Claims on banks	456,270	379,210
Claims on corporate	10,000	10,000
Past due	1,850	2,183
Equity portfolio	32	40
Other exposures	6,820	6,239
TOTAL FUNDED EXPOSURES	520,828	442,282
Unfunded exposures	44,801	31,881
GROSS CREDIT EXPOSURES	565,629	474,163

5. Profile of risk-weighted exposures and capital requirement (continued)

5.2 Market risk:

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

	<i>US\$ '000</i>			
	Risk weighted exposures	Capital requirement	Maximum value	Minimum value
Foreign exchange risk	312	37	312	125
Equities position risk	32	4	49	32
TOTAL	344	41		

5.3 Operational risk:

Capital requirement for operational risk in accordance with basic indicator approach is US \$ 1,601 thousand.

6 Risk Management

6.1 Geographical distribution of gross credit exposures is summarised below:

	<i>US\$ '000</i>		
	Gross credit exposures	Funded exposures	Unfunded exposures
Bahrain	143,844	143,844	-
Other GCC Countries	118,061	118,061	-
Other Middle East and Africa	201,717	156,916	44,801
Europe	94,229	94,229	-
Rest of the world	7,778	7,778	-
TOTAL	565,629	520,828	44,801

6.2 Sectoral classification of gross credit exposures is summarised below:

	<i>US\$ '000</i>		
	Gross credit exposures	Funded exposures	Unfunded exposures
Government	45,856	45,856	-
Banks and financial institutions	501,103	456,302	44,801
Commercial and business	11,850	11,850	-
Others	6,820	6,820	-
TOTAL	565,629	520,828	44,801

6 Risk Management (continued)

6.3 Credit risk exposures in excess of 15% single obligor limit to individual counterparty is summarised below:

	<i>US\$ '000</i>		Total
	Funded exposures	Unfunded exposures	
Counter party A	40,482	-	40,482
Counter party B *	65,000	-	65,000
Counter party C *	-	33,788	33,788
Counter party D *	-	18,525	18,525
Counter party E *	16,154	-	16,154

* Interbank exposures maturing within six months.

6 Risk Management (continued)

6.4 Residual contractual maturity

Residual contractual maturity 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>1-5 years</i>	<i>10-20 years</i>	<i>Undated</i>	<i>Total</i>
Claims on sovereigns	-	-	-	-	5,321	40,482	53	45,856
Claims on banks	429,587	13,052	3,464	446,103	10,167	-	-	456,270
Claims on corporates	-	-	-	-	10,000	-	-	10,000
Past due exposures	-	-	1,850	1,850	-	-	-	1,850
Equity portfolio	-	-	-	-	-	-	32	32
Other exposures	58	1,964	124	2,146	4,674	-	-	6,820
Total funded exposures	429,645	15,016	5,438	450,099	30,162	40,482	85	520,828
Unfunded exposures	-	-	-	-	-	-	224,006	224,006
TOTAL	429,645	15,016	5,438	450,099	30,162	40,482	224,091	744,834

7 Related party transactions

Related parties represent associated companies, shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management and are carried out during the ordinary course of the business on an arms length basis. Summary of related party transactions during the period are as follows:

	<i>US\$ '000</i>
	<i>30 June 2009</i>
Interest income from related parties	13
Interest expense to related parties	222
Exposures to related parties	3,552
Connected deposits	194,163

8 Impaired loans and related provision

Impaired loans and its related provision is a commercial loan in GCC, which is past due by more than 3 months and less than one year:

	<u>US\$ '000</u>
	<u>30 June</u>
	<u>2009</u>
Gross loan	2,250
Less: Specific provision	(400)
TOTAL	<u>1,850</u>
Movement in impairment provision:	
Opening specific provision	-
Specific charge for the period	400
Closing specific provision	<u>400</u>

9 Restructured credit facilities

	<u>US\$ '000</u>
	<u>30 June</u>
	<u>2009</u>
Balance of any restructured credit facilities as at the period end	42,408
Loans restructured during the period	1,850
Impact of restructured credit facilities on present and future earnings	-

10 Interest rate risk

10.1 Interest rate repricing profile of assets and liabilities

	<i>US\$ '000</i>			<i>Total</i>
	<i>Less than 3 months</i>	<i>3-12 months</i>	<i>Over 12 months</i>	
ASSETS				
Cash and balances with banks and CBB	13,277	-	53	13,330
Deposits with banks and financial institutions	422,150	3,000	-	425,150
Loans and advances	7,212	2,314	65,970	75,496
	442,639	5,314	66,023	513,976
LIABILITIES				
Deposits from banks and financial institutions	251,366	3,000	-	254,366
Due to banks	160,503	-	-	160,503
	411,869	3,000	-	414,869
On-balance sheet gap	30,770	2,314	66,023	99,107
Off-balance sheet gap	-	-	-	-
Total interest sensitivity gap	30,770	2,314	66,023	99,107
Cumulative interest sensitivity gap	30,770	33,084	99,107	99,107

10.2 Sensitivity analysis - interest rate risk

	<i>US\$ '000</i>
at 200 bps increase / (decrease)	1,982
at 25 bps increase / (decrease)	171
at 15 bps increase / (decrease)	149
at 10 bps increase / (decrease)	99