



BASEL III PILLAR III DISCLOSURES

30 June 2021

ALUBAF Arab International Bank B.S.C. (c)
Basel III -Pillar III disclosures
As at 30 June 2021

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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 comprises of Common equity Tier I Capital, which mainly includes share capital, statutory reserve, retained earnings, current interim profit and unrealized losses on debt investments classified as fair value through other comprehensive income ("FVOCI") Investments and Tier II component of Expected credit loss ("ECL") 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	27,842	-
Retained earnings	44,621	-
Current interim net profit	5,002	-
Cumulative fair value changes on FVOCI Investments (Debt)	(1,087)	-
Total CET I capital prior to regulatory adjustments	326,378	-
Less: intangibles other than mortgage rights	(1,561)	-
Add: Expected Credit Loss 1&2 for period (1Apr-30 June) part of CET 1	2,921	-
Total CET I capital after regulatory adjustment	327,738	-
Add: Expected credit loss (ECL) Stage 1&2 in Tier 2	-	5,917
Total	327,738	5,917
Total available capital	333,655	

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US\$ '000
Credit risk weighted assets	549,876
Market risk weighted assets	88
Operational risk weighted assets	62,816
Total Risk weighted assets (RWA)	612,780
Total Eligible Capital Base	333,655
CET I ratio	53.48%
Capital adequacy ratio	54.45%

The Bank's capital adequacy ratio of 54.45 % 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 &PSE	597,357	-	597,357	-	135,906	16,988
Claims on banks	547,767	102,884	650,651	12,594	305,485	38,186
Claims on corporate	56,107	1,773	57,880	328	98,635	12,329
Other exposures	9,873	-	9,873	-	9,852	1,232
Past Due	-	-	-	-	-	-
Total	1,211,104	104,657	1,315,761	12,922	549,878	68,735

Gross credit exposure before credit risk mitigation

US\$ '000	Gross credit exposure	Average monthly gross exposure*
Claims from Sovereigns	597,357	551,163
Claims from Banks	547,767	537,574
Claims on Corporate	56,107	51,810
Other exposures	9,873	10,041
Past due	-	11
Total funded exposure	1,211,104	1,150,599
Unfunded exposures	104,657	73,840
Gross credit exposures	1,315,761	1,224,439

Average monthly balance represents the average of the sum of six-month end balance for the six-month period ended 30 June 2021.

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	88	11	138	88

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 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 2021.

US\$ '000	30-June-21
impact	Sensitivity of net Interest income
+/-	3,198

The decrease in the basis points will have an opposite equal impact on the net interest income. The details of interest rate sensitive assets and liabilities are as follows:

Interest Rate Risk Gap Report					
Balance Sheet Item	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over one year
Assets					
Balances and deposits with banks and financial institutions	397,789	308,243	59,353	-	-
Investment securities	-	-	-	20,346	233,197
Loans and advances	4,235	17,147	22,153	14,899	63,811
Interest Receivable	2,798	1,269	882	38	-
Other asset and Property, Equipment & Software	-	-	-	-	-
Total Assets	404,822	326,659	82,388	35,283	297,008
Liabilities					
Deposit from Bank and other financial institutions	254,263	223,597	177,061	40,000	-
Due to banks and other financial institutions	-	-	-	-	-
Due to customers	-	10,800	-	-	-
Interest payable	77	561	590	-	-
Other liabilities	-	-	-	-	-
Total Liabilities	254,340	234,958	177,651	40,000	-
Interest Rate Gap (A-B)	150,482	91,701	(95,263)	(4,717)	297,008
Cumulative Gap	150,482	242,183	146,920	142,203	439,211

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 7,852 thousand on operational risk weighted exposure of US\$ 62,816 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 (US\$ 33,502 thousand), 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 2021, 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 *	412,125	Nil	412,125
Counterparty B **	32,146	19,905	52,051

*Comprise of exempted large exposures to Sovereigns.

**Comprise of exempted large exposures to Banks.

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

US\$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	610,377	610,377	-
Other GCC Countries	134,965	129,396	5,569
Other Middle east & Africa	252,093	153,976	98,117
Europe	242,006	241,873	133
Rest of the world	76,320	75,482	838
Total	1,315,761	1,211,104	104,657

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

US\$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims from Banks	188,379	176,421	56,857	64,760	61,350	547,767
Claims from Sovereigns	412,125	24,410	57,474	89,216	14,132	597,357
Claims on Corporate	-	41,042	15,065	-	-	56,107
Other exposures	9,873	-	-	-	-	9,873
Past due	-	-	-	-	-	-
Total funded exposure	610,377	241,873	129,396	153,976	75,482	1,211,104
Unfunded exposures	-	133	5,569	98,117	838	104,657
Gross credit exposures	610,377	242,006	134,965	252,093	76,320	1,315,761

6.3 Industrial sector analysis of exposures is summarized below:

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	597,357	597,357	-
Banks & financial institutions	650,651	547,767	102,884
Commercial & other business	67,753	65,980	1,773
Total	1,315,761	1,211,104	104,657

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

USD '000s	Banks & financial institutions	Commercial & other businesses	Sovereign	Total
Claims from Banks	547,767	-	-	547,767
Claims from Sovereigns	-	-	597,357	597,357
Claims on Corporate	-	56,107	-	56,107
Other exposures	-	9,873	-	9,873
Past due	-	-	-	-
Total funded exposure	547,767	65,980	597,357	1,211,104
Unfunded exposures	102,884	1,773	-	104,657

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 standard grade exposure	Rated Standard grade exposure	Unrated exposure	Eligible collateral	Risk weighted assets	Capital charge
Claims on Banks	547,767	102,884	215,405	291,740	143,506	12,594	305,485	38,186
Claims on Sovereigns	597,357	-	11,162	568,314	17,881	-	135,906	16,988
Claims on Corporate	56,107	1,773	-	33,005	24,875	328	98,635	12,329
Other exposures	9,873	-	-	-	9,873	-	9,852	1,232
Past due	-	-	-	-	-	-	-	-
Total	1,211,104	104,657	226,567	893,059	186,554	12,922	549,878	68,735

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	Total
Claims on Sovereigns	82,001	221,673	72,643	376,317	221,040	597,357
Claims on Banks	383,792	89,936	41,557	515,285	32,482	547,767
Claims on Corporate	93	174	18,346	18,613	37,494	56,107
Other exposures	23	3	48	74	9,799	9,873
Past Due	-	-	-	-	-	-
Total	465,909	311,786	132,594	910,289	300,815	1,211,104

6.6 Maturity analysis of unfunded exposures

US\$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	Total
Claims on Banks	6,212	60,337	36,335	102,884	102,884
Claims on Corporates	-	673	1,100	1,773	1,773
Total	6,212	61,010	37,435	104,657	104,657

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-21
	US\$'000
Assets	
Cash and balances with banks	1,490
Loans and advances	4,770
Interest receivable	21
Other assets	50
Liabilities	
Deposits from banks and other financial institutions	509,536
Due to banks and other financial institutions	77,671
Interest payable	1,154
Other liabilities	207
Contingent liabilities	
Letters of credit & guarantee	6,110
Interest & similar income	58
Interest expenses	1,581
Fee and commission income	213

7.2 Impaired loans and relative provision for expected credit losses (Stage 3):

USD'000s	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	20,418	59,363	79,781
Less: Specific Provision (stage 3)	(20,418)	(59,363)	(79,781)
Net outstanding 30 June 2020	-	-	-

I. Movement in provision for expected credit losses - Loans and advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
At beginning of the year	2,124	-	79,761	81,885
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net re-measurement loss allowance	114	-	20	134

II. Movement in expected credit losses – Investments

USD'000s	Stage 1	Stage 2	Total
Investments			
At beginning of the year	974	4,288	5,262
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Net re-measurement loss allowance	493	(2,389)	(1,896)
Balance as at 30 June 2021	1,467	1,899	3,366

III. Movement in expected credit losses - Other Financial Assets and Off-Balance Sheet Items:

USD'000s	Stage 1	Stage 2	Total
At beginning of the year	478	-	478
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(125)	125	-
Transfer to Stage 3	-	-	-
Net re-measurement loss allowance	141	2,617	2,758
(Write back)/(Recoveries)/Write off	-	-	-
Balance as at 30 June 2021	494	2,742	3,236

Specific Provision by Geographic and Sector:

USD '000s	Europe	Other Middle East and Africa
Banks & Financial Institutions	-	41,772
Sovereigns	-	-
Corporate	20,418	17,591
Total	20,418	59,363

Expected Credit loss (Stage 1 & 2) provision of US\$ 8,838 thousand as at 30 June 2021 is not for any specific geographic region.

7.1 Restructured facilities:

	30 June 2021
	US\$ '000
Balance of any restructured credit facilities as at 30 June 2021	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 agreement during the six-month period ended 30 June 2021.

7.5 Equity positions in the banking book : Nil

7.6 Leverage Ratio

US\$ '000	30-June-2021
Total exposure on-balance sheet (all unweighted)	1,189,168
Total Off Balance Sheet items - with relevant Credit Conversion Factors	20,931
Total	1,210,099
Tier One Capital	327,738
Leverage Ratio	27.08%