

اليوباف
alubaf

بنك اليوباف العربي الدولي ش.م.ب (م)
Alubaf Arab International Bank B.S.C (c)



BASEL II PILLAR III DISCLOSURES

30 JUNE 2014

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ALUBAF Arab International Bank B.S.C (c)
Basel II -Pillar III disclosures
As at 30 June 2014

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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 Alubaf Tower , Al Seef District, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank (Shareholding 99.44%), 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.

Break down of Capital Base	US\$ '000s	US\$ '000s
	Tier I	Tier II
Share Capital	250,140	-
Statutory reserve	13,597	-
Retained earnings	28,642	-
Current interim profits	-	22,851
Collective impairment loss provision	-	7,197
Total	292,379	30,048
Total Available Capital	322,427	

4. Capital Adequacy Ratio (CAR)

Capital adequacy ratio calculation:

	US\$ '000s
Total Capital Base	322,427
Risk Weighted assets (RWA)	
Credit risk	670,936
Market risk	1,625
Operational risk	76,892
	749,453
Tier I ratio	39.01%
Capital adequacy ratio	43.02%

The Bank's capital adequacy ratio of 43.02% , 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 & PSEs	118,614	-	118,614	-	85,529	10,263
Claims on banks	873,073	238,700	1,111,773	80,047	492,625	59,115
Claims on corporate	80,208	25,613	105,821	524	77,543	9,305
Equity portfolio	1,161	-	1,161	-	1,161	139
Other exposures	14,078	-	14,078	-	14,078	1,689
Total	1,087,134	264,313	1,351,447	80,571	670,936	80,511

Gross credit exposure before credit risk mitigation

<u>US\$ '000</u>	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	118,614	121,159
Claims from Banks	873,073	832,010
Claims on Corporate	80,208	97,905
Equity Portfolio	1,161	2,423
Other exposures	14,078	14,332
Total funded exposure	1,087,134	1,067,829
Unfunded exposures	264,313	266,575
Gross credit exposures	1,351,447	1,334,404

Average monthly balance represents the average of the sum of six month end balance for the six month period ended 30 June 2014.

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	1,625	195	1,625	800

5.2 Market risk (continued)

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 reprice 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 2014.

Currency	Sensitivity of net Interest income
	US\$'000
USD	3,128
EUR	33
AED	(402)
Other currencies	211
	2,970

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				
Deposits with banks and other financial institutions	396,396	15,000	-	411,396
Loans & advances	196,896	200,279	89,784	486,959
Total	593,292	215,279	89,784	898,355
Liabilities				
Deposits from banks and other financial institutions	487,922	-	-	487,922
Due to Banks and other financial institutions	240,130	-	-	240,130
Due to Customers	21,795	-	-	21,795
Total	749,847	-	-	749,847
On Balance sheet gap	(156,555)	215,279	89,784	148,508

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 9,227 thousand on operational risk weighted exposure of US\$ 76,892 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 2014, 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 *	65,000	Nil	65,000

* These are interbank deposits/Nostro balances maturing within 6 months from 30 June 2014.

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

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	219,552	219,552	-
Other GCC Countries	113,694	109,498	4,196
Other Middle East & Africa	755,170	495,985	259,185
Europe	215,803	215,803	-
Rest of the world	47,228	46,296	932
Total	1,351,447	1,087,134	264,313

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	22,528	24,196	56,465	-	15,425	118,614
Claims from Banks	177,591	64,281	428,887	176,336	25,978	873,073
Claims on Corporate	5,317	19,898	10,633	39,467	4,893	80,208
Equity Portfolio	38	1,123	-	-	-	1,161
Other exposures	14,078	-	-	-	-	14,078
Total funded exposure	219,552	109,498	495,985	215,803	46,296	1,087,134
Unfunded exposures	-	4,196	259,185	-	932	264,313
Gross credit exposures	219,552	113,694	755,170	215,803	47,228	1,351,447

6.3 Industrial sector analysis of exposures is summarized below:

US\$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	118,614	118,614	-
Banks & financial institutions	1,112,307	873,607	238,700
Other sector	120,526	94,913	25,613
Total	1,351,447	1,087,134	264,313

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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	-	118,614	-	118,614
Claims from Banks	873,073	-	-	873,073
Claims on Corporate	-	-	80,208	80,208
Equity Portfolio	534	-	627	1,161
Other exposures	-	-	14,078	14,078
Total funded exposure	873,607	118,614	94,913	1,087,134
Unfunded exposures	238,700	-	25,613	264,313
Gross credit exposures	1,112,307	118,614	120,526	1,351,447

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:

US\$ '000	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	118,614	-	41,064	31,232	46,318
Claims on banks	873,073	238,700	21,619	327,517	762,637
Claims on corporate	80,208	25,613	14,527	31,144	60,150
Equity portfolio	1,161	-	309	852	-
Other exposures	14,078	-	-	-	14,078
Total	1,087,134	264,313	77,519	390,745	883,183

6. Risk Management (continued)

6.5 Maturity analysis of funded exposures

Residual contractual maturities 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>1-10 years</i>	<i>More than 10 years</i>	<i>Undated</i>	<i>Total</i>
Claims on Sovereigns	2,745	546	8,263	11,554	64,120	42,940	-	118,614
Claims on Banks	340,451	248,722	208,549	797,722	70,318	5,033	-	873,073
Claims on Corporate	7,434	9,692	10,054	27,180	37,788	15,240	-	80,208
Equity Portfolio	-	-	-	-	-	-	1,161	1,161
Other exposures	-	359	9	368	878	-	12,832	14,078
Total	350,630	259,319	226,875	836,824	173,104	63,213	13,993	1,087,134

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	238,700	27,480	46,719	135,596	209,795	28,905	238,700
Claims on Non-Banks: contingent items	25,613	842	214	24,557	25,613	-	25,613
Total	264,313	28,322	46,933	160,153	235,408	28,905	264,313

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 2014
	US\$'000
Assets	
Cash and balances with banks	946
Deposits with banks and other financial institutions	94,000
Loans and advances	7,940
Interest receivable	201
Other assets	258
Liabilities	
Deposits from banks and other financial institutions	230,237
Due to banks and other financial institutions	17,135
Interest payable	838
Other liabilities	883
Assets under management	
Contingent liabilities	26,226
Letters of credit	9,940
Interest & similar income	365
Interest expenses	375
Fee and commission income	20

7.2 Impaired loans and relative provision:

US\$ '000	Over 3 Years	Total
Gross impaired loans	2,250	2,250
Less: Specific Provision	2,250	2,250
Net outstanding 30 June 2014	-	-

Movement in impairment provision:

	Specific	Collective	Total
Opening provision	5,384	5,700	11,084
Charge (write back) for the year	(1,517)	1,497	(20)
Closing provision	<u>3,867</u>	<u>7,197</u>	<u>11,064</u>

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7. Other Disclosures (Continued)

Specific Provision by Geographic and Sector:

US\$ '000	Other GCC Countries	Other Middle East and Africa	Total
Banks & Financial Institutions	-	367	367
Other Sector	3,500	-	3,500
Total	3,500	367	3,867

Collective impairment provision is towards Middle east and Africa region.

7.3 Restructured facilities:

30 June 2014

US\$ '000

Balance of any restructured credit facilities as at 30 June 2014 42,941
Loans restructured during the six month period -

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 2014.

7.5 Equity positions in the Banking book :

30 June 2014

US\$ '000

Quoted equities

1,161

Realized gain/(loss) from Trading Equities

400

Unrealized gain /(loss) from Trading Equities

(80)

Total reported in Tier 2 Capital

320