

Basel III Pillar III Disclosure

*(For the six month period ended 30 June
2017)*

Basel III Pillar III Disclosure

(For the six month period ended 30 June 2017)

Table No.	Content	Page no.
1 .	Statement of financial position under the Regulatory Scope of Consolidation	3
2 .	Capital Ratios - Consolidated & Subsidiaries Above 5% of Group Capital	3
3 .	Regulatory Capital Components	4
4 .	Capital Requirement for Risk Weighted Exposure	5
5 .	Operational Risk	6
6 .	Funded and Unfunded Total Credit Exposure	7
7 .	Average credit exposure	8
8 .	Concentration of Credit Risk by Region	9
9 .	Concentration of Credit Risk by Industry	10
10 .	Concentration of Credit Risk by Maturity	11
11 .	Impaired Loans and Provisions	12
12 .	Reconciliation of changes in Expected credit losses	12
13 .	Ageing of impaired and past due loans by region	13
14 .	Ageing of impaired and past due loans by industry	13
15 .	Restructured Loans	13
16 .	Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios	14
17 .	Currency Risk	16
18 .	Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15%	16
19 .	Derivatives	17
20 .	Credit Derivatives Exposure	17
21 .	Equity Positions in the Banking Book	18
22 .	Gains on equity instruments	18
23 .	Legal risk and claims	19
24 .	Interest rate risk in the banking book (IRRBB)	19

1 Statement of financial position under the Regulatory Scope of Consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of financial position as in published financial statements	Statement of financial position as per Regulatory Reporting	Reference
	BD '000	BD '000	
Assets			
Cash and balances with central banks	237,022	237,022	
Treasury bills	415,908	415,908	
Deposits and amounts due from banks and other financial institutions	255,391	255,391	
Loans and advances to customers	1,695,530	1,695,530	
Of which collective impairment provisions		(30,170)	a
Of Which net loans and advances (gross of collective impairment provisions)	1,695,530	1,725,700	
Investment securities	765,485	765,485	
Of which related to equity investments in financial entities		35,342	
Of which investments in financial entities under CET1		29,218	b
Of which investments in financial entities under Tier 2		6,124	c
Of which related to other investments		694,801	
Investments in associated companies and joint ventures	44,478	47,007	
Of which Investment in own shares	839	839	d
Of which equity investments in financial entities	30,877	30,877	e
Of which other investments	12,762	15,291	
Interest receivable and other assets	54,071	52,744	
Of which deferred tax assets due to temporary differences	2,176	2,176	f
Of which Interest receivable and other assets	51,895	50,568	
Premises and equipment	25,964	25,792	
Total assets	3,493,849	3,494,879	
Liabilities and Equities			
Liabilities			
Deposits and amounts due to banks and other financial institutions	378,874	378,874	
Borrowings under repurchase agreement	184,082	184,082	
Term borrowings	198,294	198,294	
Customers' current, savings and other deposits	2,171,377	2,173,282	
Interest payable and other liabilities	81,981	81,479	
Total liabilities	3,014,608	3,016,011	
Equity			
Share capital	108,165	108,165	g
Treasury stock	(883)	(883)	h
Perpetual tier 1 convertible capital securities	86,098	86,098	i
Share premium	41,016	41,016	j
Statutory reserve	54,082	54,082	k
General reserve	54,082	54,082	l
Cumulative changes in fair values	(6,409)	(6,409)	
of which cumulative changes in fair values on bonds and equities	(6,630)	(6,630)	m
of which Fair value changes in cash flow hedges	222		n
Foreign currency translation adjustments	(9,834)	(9,834)	
Of which related to unconsolidated subsidiary		(75)	o
Of which related to Parent		(9,759)	p
Retained earnings	151,012	151,012	
Of which employee stock options	2,684	2,684	
Of which Retained earnings	148,328	148,328	q
Appropriations	-	-	r
ATTRIBUTABLE TO THE OWNERS OF THE BANK	477,329	477,329	
Non-controlling interest	1,912	1,539	
Total equity	479,241	478,868	
Total Liabilities and equities	3,493,849	3,494,879	

• Legal entities included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Name	Principle activities	Total Assets	Total Equities
Invita B.S.C. (c)	Business process outsourcing services	3,404	2,902

2. Capital Adequacy

Capital ratios - consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK - GROUP	18.92%	17.79%
CrediMax	70.32%	70.32%

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Basel III Pillar III Disclosure
**3 Capital Components - Consolidated
Regulatory Capital Components**

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in the previous table between accounting and regulatory statement of financial positions.

		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial positions under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves				
1	Directly issued qualifying common share capital plus related stock surplus	148,298		g+h+j
2	Retained earnings	148,252		o+q+r
3	Accumulated other comprehensive income and losses (and other reserves)	91,997		k+l+m+n+p
6	Common Equity Tier 1 capital before regulatory adjustments	388,547	-	
Common Equity Tier 1 capital :regulatory adjustments				
11	Cash flow hedge reserve	222.00		n
16	Investments in own shares	839		d
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	29,218	b
28	Total regulatory adjustments to Common equity Tier 1	1,061.00	29,218.00	
29	Common Equity Tier 1 capital (CET1)	387,486.00		
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	86,098.00		
31	of which: classified as equity under applicable accounting standards	86,098.00		
36	Additional Tier 1 capital before regulatory adjustments	86,098.00	-	
Additional Tier 1 capital: regulatory adjustments				
43	Total regulatory adjustments to Additional Tier 1 capital	-	-	
44	Additional Tier 1 capital (AT1)	86,098.00	-	
45	Tier 1 capital (T1 = CET1 + AT1)	473,584.00		
Tier 2 capital: instruments and provisions				
50	Provisions	30,170		
51	Tier 2 capital before regulatory adjustments	30,170.00		
Tier 2 capital: regulatory adjustments				
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	6,124	c
57	Total regulatory adjustments to Tier 2 capital	-	6,124	
58	Tier 2 capital (T2)	30,170.00		
59	Total capital (TC = T1 + T2)	503,754.00		
60	Total risk weighted assets	2,662,232.00		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.55%		
62	Tier 1 (as a percentage of risk weighted assets)	17.79%		
63	Total capital (as a percentage of risk weighted assets)	18.92%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.00%		
65	of which: capital conservation buffer requirement	2.50%		
66	of which: bank specific countercyclical buffer requirement	N/A		
67	of which: G-SIB buffer requirement	N/A		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	14.55%		
National minima (where different from Basel III)				
69	CBB Common Equity Tier 1 minimum ratio (Excluding Capital Conservation Buffer)	6.50%		
70	CBB Tier 1 minimum ratio (Excluding Capital Conservation Buffer)	8.00%		
71	CBB total capital minimum ratio (Excluding Capital Conservation Buffer)	10.00%		
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	35,342		
73	Significant investments in the common stock of financials	30,877		e
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,176		f
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	38,234		
77	Cap on inclusion of provisions in Tier 2 under standardised approach	30,170		a

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

4 . Capital Requirement for Risk Weighted Exposure*BD '000*

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 12.5%
Sovereign	996,960	-	996,960	21,302	2,663
Public Sector Entities	19,274	-	19,274	-	-
Banks	493,008	-	493,008	287,548	35,944
Corporates	1,476,100	17,294	1,458,806	1,395,805	174,476
Regulatory retail	370,158	280	369,878	277,409	34,676
Mortgage	89,687	98	89,589	67,192	8,399
Investment in securities	100,464	-	100,464	152,590	19,074
Past Due	80,569	365	80,204	83,766	10,471
Real Estate	39,753	-	39,753	64,895	8,112
Other assets and Cash items	79,143	-	79,143	63,081	7,885
Total Credit Risk	3,745,116	18,037	3,727,079	2,413,588	301,700
Market Risk	-	-	-	22,225	2,778
Operational Risk	-	-	-	226,419	28,302
Total Risk Weighted Exposure	3,745,116	18,037	3,727,079	2,662,232	332,780

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

5. Operational Risk

				<i>BD '000</i>
Year	2014	2015	2016	Total
1) Gross Income	113,720	116,732	131,818	362,270
2) Number of years with positive Gross Income				3
3) Average (1/2)				120,757
4) Alpha relating the industry wide level of required capital to the industry wide level of the indicator				15%
5) Capital Charge under the Basic Indicator Approach-K-BIA (3*4)				18,114
6) Multiplier				12.5
Risk Weighted Exposure (5*6)				226,419

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

6 . Funded and Unfunded Total Credit Exposure*BD '000*

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure
Sovereign	996,710	250
Public sector entities	19,259	15
Banks	446,679	46,329
Corporates	1,299,638	176,462
Regulatory retail	370,155	3
Mortgage	89,687	-
Investment in securities	100,464	-
Past due	80,569	-
Real estate	39,753	-
Other assets and Cash items	79,143	-
Total credit risk	3,522,057	223,059

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

7. Average credit exposure

The following are the average quarterly balances for the six months ended 30 June 2017:

	<i>BD'000</i>
Sovereign	1,014,781
Public sector entities	21,448
Banks	484,583
Corporates	1,506,507
Regulatory retail	364,032
Mortgage	89,035
Investment in securities	101,471
Past Due	61,085
Real estate	39,521
Other assets and Cash items	79,890
Total credit risk	3,762,353

BBK B.S.C.**Basel III Pillar III Disclosure****(For the six month period ended 30 June 2017)****8 . Concentration of credit risk by region (Exposures subject to risk weighting)***BD'000*

	GCC	North America	Europe	Asia	Others	Total
Cash and balances with central banks	233,387	-	-	3,635	-	237,022
Treasury bills	406,175	-	-	9,733	-	415,908
Deposits in banks & other financial institutions	171,005	19,703	26,644	37,985	54	255,391
Loans & advances to customers	1,540,639	-	59,752	99,574	25,300	1,725,265
Investments in associated companies	43,003	-	636	-	-	43,639
Investment securities	512,069	13,813	121,628	77,415	41,184	766,109
Other assets	69,404	-	152	5,491	3,676	78,723
Total funded exposure	2,975,682	33,516	208,812	233,833	70,214	3,522,057
Unfunded commitments and contingencies	170,948	82	6,338	24,906	20,784	223,059
Total credit risk	3,146,630	33,598	215,150	258,739	90,998	3,745,116

Allocated based on the location in which the assets are located.

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

9 . Concentration of credit risk by industry (Exposures subject to risk weighting)**BD '000**

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
Cash and balances with central banks	-	23,056	-	213,966	-	-	237,022
Treasury bills	-	-	-	415,908	-	-	415,908
Deposits in banks & other financial institutions	-	236,728	-	18,663	-	-	255,391
Loans & advances to customers	551,265	187,326	381,039	12,281	418,626	174,728	1,725,265
Investments in associated companies	-	39,800	-	-	-	3,839	43,639
Investment securities	44,045	200,194	20,861	492,160	-	8,849	766,109
Other assets	-	-	-	-	-	78,723	78,723
Total funded exposure	595,310	687,104	401,900	1,152,978	418,626	266,139	3,522,057
Unfunded commitments and contingencies	71,766	59,403	63,307	305	625	27,653	223,059
Total credit risk	667,076	746,507	465,207	1,153,283	419,251	293,792	3,745,116

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Basel III Pillar III Disclosure

(For the six month period ended 30 June 2017)

10 . Concentration of credit risk by maturity (Exposures subject to risk weighting)

BD '000

	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
Cash and balances with central banks	157,431	-	-	-	-	-	-	79,591	237,022
Treasury bills	33,926	189,412	98,959	93,611	-	-	-	-	415,908
Deposits in banks & other financial institutions	249,028	6,363	-	-	-	-	-	-	255,391
Loans & advances to customers	83,766	135,741	118,947	158,366	651,312	284,337	46,200	246,596	1,725,265
Investments in associated companies	-	-	-	-	-	-	-	43,639	43,639
Investment securities	20,959	28,617	14,347	15,408	283,161	259,877	22,259	121,481	766,109
Other assets	48,505	-	-	-	26,077	833	1,569	1,739	78,723
Total funded exposure	593,615	360,133	232,253	267,385	960,550	545,047	70,028	493,046	3,522,057
Unfunded commitments and contingencies	7,588	13,112	21,684	92,442	83,446	3,453	586	748	223,059
Total credit risk	601,203	373,245	253,937	359,827	1,043,996	548,500	70,614	493,794	3,745,116

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

*BD '000***11 . Impaired loans and provisions**

	Principle outstanding	Impaired loans	Stage 3: Lifetime ECL credit- impaired	Net Specific charges during the period	Write off during the period
Trading and manufacturing	587,887	79,555	32,523	5,512	10,412
Banks & other financial institutions	190,002	-	974	11	-
Construction & real estate	404,210	35,481	20,082	3,216	10,944
Government & public sector	19,545	16,293	7,240	886	-
Individuals	426,613	9,083	8,984	1,243	1,076
Others	174,153	1,169	1,131	19	8,291
Total	1,802,410	141,581	70,934	10,887	30,723

12 . Reconciliation of changes in Expected credit losses*BD'000*

	Stage 3: Lifetime ECL credit- impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired
At beginning of the period	77,646	50,736
Amounts written off	(30,723)	-
Write backs/cancellation due to improvement	(3,355)	-
Additional provisions made	1,470	12,700
Exchange adjustment and other movements	25,896	(25,202)
Notional interest on impaired loans	-	-
Balance at reporting date	70,934	38,234

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

Ageing of impaired and past due loans**13 . by region****BD '000**

	GCC	North America	Europe	Asia	Others	Total
3 months up to 1 year	93,793	-	-	7	-	93,800
1 to 3 years	25,501	-	-	-	-	25,501
Over 3 years	22,263	-	-	16	-	22,279
Total past due and impaired loans	141,557	-	-	23	-	141,581
Stage 3: Lifetime ECL credit- impaired	(70,418)	-	-	(516)	-	(70,934)
Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	(35,946)	-	-	-	-	(35,946)

14 . Ageing of impaired and past due loans by industry**BD '000**

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
3 months up to 1 year	63,514	-	10,746	16,293	3,225	22	93,800
1 to 3 years	11,118	-	10,498	-	2,759	1,126	25,501
Over 3 years	4,923	-	14,237	-	3,101	21	22,281
Total past due and impaired loans	79,555	-	35,481	16,293	9,084	1,169	141,583
Stage 3: Lifetime ECL credit- impaired	(32,523)	(974)	(20,082)	(7,240)	(8,984)	(1,131)	(70,934)
Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	(11,486)	(3,903)	(7,939)	(256)	(8,722)	(3,640)	(35,946)

15 . Restructured Loans**BD'000**

Loans restructured during the period	29,361
Impact of restructured facilities and loans on provisions	31

The above restructuring did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

16 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios

The “Market Risk Internal Model” is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading Book. The VaR Model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to handle Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period January 2017 to June 2017 is as follows:

**VaR Results for 2017 (10 day 99%)
Global (BAHRAIN & KUWAIT)
1 January 2017 to 30 June 2017**

Asset class	Limit	VaR			<i>BD '000</i>
		30 June 2017	High VaR	Low VaR	Average VaR
Foreign exchange	641.00	135.69	270.19	124.27	168.74
Interest rate	151.00	1.33	6.24	0.11	1.04
	792.00	137.01	271.35	124.50	169.79

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit & Loss basis and also hypothetical Profit & Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period January-June 2016 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

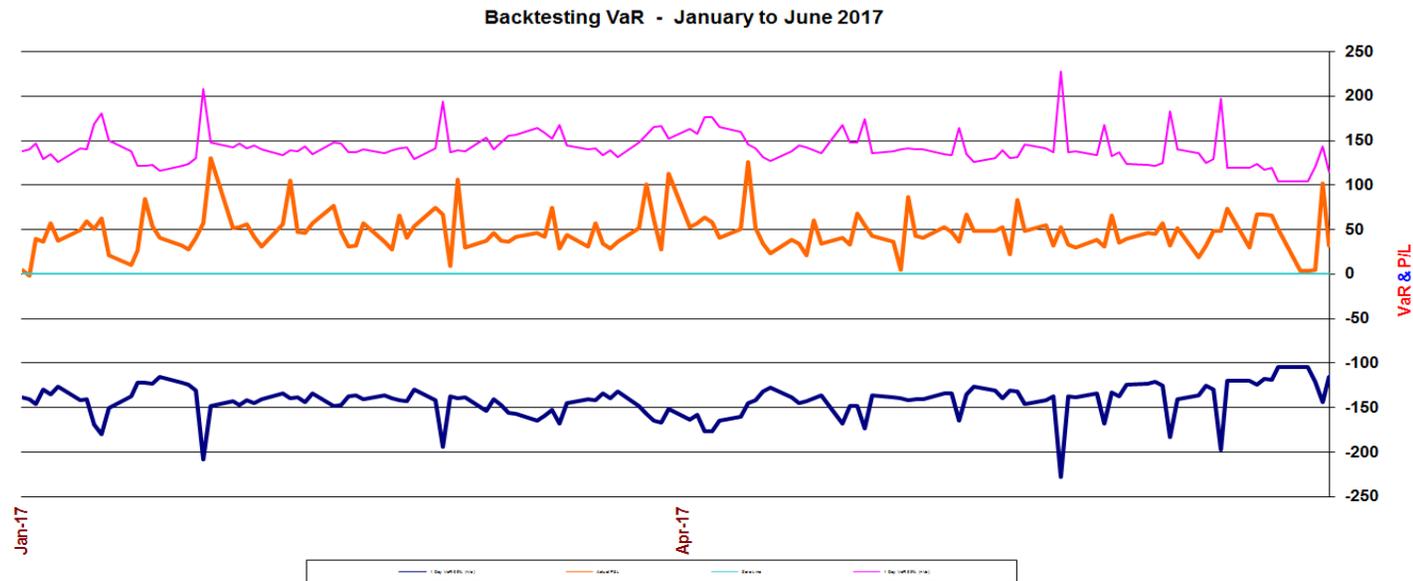
16 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios (continued)

Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2017	175
February 2017	231
March 2017	181
April 2017	162
May 2017	159
June 2017	137

The following graph shows that the daily average Profit & Loss (Actual Average P & L basis) vis-à-vis one day VaR, for the review period.

Value-at-Risk Backtesting January – June 2017



BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

17 . Currency Risk

The functional currency of the Bank together with their subsidiaries ("the Group") is the Bahraini Dinar.

The Group has the following significant non - strategic net exposures denominated in foreign currencies as of 30 June 2017:

	<u><i>BD '000</i></u>
US Dollars	69,896
EURO	(503)
G.C.C. Currencies (pegged to the USD)	974
Kuwaiti Dinars	(8,147)
Others	242
Total	62,462

* All of the above currency positions are unhedged

18 . Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15%

	<u><i>BD '000</i></u>
Sovereign	692,431
Total	692,431

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

19 . Derivatives

	<i>BD '000</i>		
Derivatives	Positive fair value	Negative fair value	Notional Amount
<i>Derivatives held for Trading</i>			
Interest rate swap	-	-	-
Forward foreign exchange contracts	355	458	158,406
Options	-	-	-
<i>Derivatives held as fair value hedges</i>			
Interest rate swap	4,519	9,539	535,828
Forward foreign exchange contracts	0	0	0
<i>Derivatives held as cash flow hedges</i>			
Interest rate swap	125	0	49,010
Forward foreign exchange contracts	-	-	-
Total	4,999	9,997	743,244

20 . Credit Derivatives Exposure

BBK is not exposed to any credit derivatives as at 30 June 2017.

BBK B.S.C.**Basel III Pillar III Disclosure**

(For the six month period ended 30 June 2017)

21 . Equity positions in the banking book

	<i>BD '000</i>
Publicly traded equity shares	48,431
Privately held equity shares	25,612
Total	74,043
Capital required	9,255

22 . Gains on equity instruments

	<i>BD '000</i>
Realised Gains/ Losses in the statement of profit or loss	442
Unrealised Gains/ Losses in CET1 Capital	(13,571)

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Basel III Pillar III Disclosure

(For the six month period ended 30 June 2017)

23 . Legal risk and claims

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed sufficient preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are avoided. The Group also has well established legal procedures to scrutinize product offerings and manage risks arising out of its transactions.

As at 30 June 2017, there were legal suits pending against the Group aggregating to BD 795 thousand. Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these suits and does not consider it necessary to carry any provisions in this regard.

24 . Interest rate risk in the banking book (IRRBB)

An increase of 200 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 5.33%. Similarly, a decrease of 200 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 5.33%.