

Basel III Pillar III Disclosures

*(For the six month period ended 30 June
2020)*

Basel III Pillar III Disclosures

(For the six month period ended 30 June 2020)

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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
	<i>BD Millions</i>	<i>BD Millions</i>	
Assets			
Cash and balances with central banks	426.4	426.4	
Treasury bills	472.1	472.1	
Deposits and amounts due from banks and other financial institutions	449.3	449.1	
Loans and advances to customers	1,602.8	1,602.8	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)	28.3	28.3	a
Of which net loans and advances (gross of collective impairment provisions)	1,574.5	1,574.5	
Investment securities	897.3	897.3	
Of which equity investments in financial entities under CET1		22.8	b
Of which equity investments in financial entities under Tier 2		2.4	c
Of which related to other investments		872.1	
Investments in associated companies and joint ventures	70.7	74.0	
Of which Investment in own shares	1.1	1.1	d
Of which equity investments in financial entities	41.5	41.5	e
Of which other investments	28.1	31.4	
Interest receivable and other assets	78.2	77.1	
Of which deferred tax assets due to temporary differences	1.9	1.9	f
Of which Intangibles	4.5	4.5	g
Of which Interest receivable and other assets	71.8	70.7	
Premises and equipment	36.1	35.4	
Total assets	4,032.9	4,034.2	
Liabilities and Equities			
Liabilities			
Deposits and amounts due to banks and other financial institutions	447.3	447.3	
Borrowings under repurchase agreement	395.2	395.2	
Term borrowings	188.5	188.5	
Customers' current, savings and other deposits	2,376.7	2,379.9	
Interest payable and other liabilities	183.2	181.7	
Total liabilities	3,590.9	3,592.6	
Equity			
Share capital	136.2	136.2	h
Treasury stock	(3.4)	(3.4)	i
Perpetual tier 1 convertible capital securities	-	-	j
Share premium	105.6	105.6	k
Statutory reserve	61.6	61.6	l
General reserve	61.6	61.6	m
Cumulative changes in fair values	(63.9)	(63.9)	
of which cumulative changes in fair values on bonds and equities	(63.5)	(63.5)	n
of which Fair value changes in cash flow hedges	(0.4)	(0.4)	o
Foreign currency translation adjustments	(14.5)	(14.5)	
Of which related to unconsolidated subsidiary		(0.1)	p
Of which related to Parent		(14.4)	q
Retained earnings	156.5	156.5	
Of which employee stock options	3.1	3.1	
Of which related to modification loss and COVID 19 ECL net of government assistance		(20.2)	
Of which Retained earnings	153.4	173.6	r
ATTRIBUTABLE TO THE OWNERS OF THE BANK	439.7	439.7	
Non-controlling interest	2.3	1.9	
Total equity	442.0	441.6	
Total Liabilities and equities	4,032.9	4,034.2	

• 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	5.3	3.8

2. Capital ratios of subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
CrediMax	63.64%	63.64%

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3. Regulatory Capital Components - Consolidated

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	Source based on reference letters of the statement of financial positions under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	238.3	h+i+k
Retained earnings	173.0	p+r+s
Accumulated other comprehensive income and losses (and other reserves)	44.9	l+m+n+o+q
Common Equity Tier 1 capital before regulatory adjustments	456.2	
Common Equity Tier 1 capital :regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	4.5	g
Cash flow hedge reserve	(0.4)	o
Investments in own shares	1.1	d
Total regulatory adjustments to Common equity Tier 1	5.2	
Common Equity Tier 1 capital (CET1)	451.0	
Additional Tier 1 capital: instruments		
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	-	
Additional Tier 1 capital (AT1)	-	
Tier 1 capital (T1 = CET1 + AT1)	451.0	
Tier 2 capital: instruments and provisions		
Provisions	28.3	
Tier 2 capital before regulatory adjustments	28.3	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	28.3	
Total capital (TC = T1 + T2)	479.3	
Total risk weighted assets	2,571.8	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	17.54%	
Tier 1 (as a percentage of risk weighted assets)	17.54%	
Total capital (as a percentage of risk weighted assets)	18.64%	
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)	10.50%	
of which: capital conservation buffer requirement	2.50%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: G-SIB buffer requirement	1.50%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	17.54%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.50%	
CBB Tier 1 minimum ratio	12.00%	
CBB total capital minimum ratio	14.00%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	25.2	b+c
Significant investments in the common stock of financials	41.5	e
Deferred tax assets arising from temporary differences (net of related tax liability)	1.9	f
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	32.1	
Cap on inclusion of provisions in Tier 2 under standardised approach	28.3	a
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	N/A	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	
Current cap on AT1 instruments subject to phase out arrangements	N/A	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	
Current cap on T2 instruments subject to phase out arrangements	N/A	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	

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

(For the six month period ended 30 June 2020)

4 . Capital Requirement for Risk Weighted Exposure*BD millions*

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 14.0%
Sovereign	1,326.1	-	1,326.1	53.6	8.0
Public Sector Entities	6.9	-	6.9	-	-
Banks	664.3	-	664.3	352.7	49.0
Corporates	1,360.5	60.6	1,299.9	1,036.4	145.0
Regulatory retail	482.9	4.3	478.6	349.7	49.0
Mortgage	94.7	0.2	94.5	70.9	10.0
Investment in securities	98.5	-	98.5	165.3	23.0
Past Due	27.3	1.3	26.0	28.1	4.0
Real Estate	65.3	-	65.3	115.7	16.0
Other assets and Cash items	111.4	-	111.4	89.8	13.0
Total	4,237.9	66.4	4,171.5	2,262.2	317.0
Total Credit Risk	4,237.9	66.4	4,171.5	2,262.2	317.0
Market Risk	-	-	-	27.0	4.0
Operational Risk*	-	-	-	282.6	40.0
Total Risk Weighted Exposure	4,237.9	66.4	4,171.5	2,571.8	361.0

* The bank is currently using the Basic Indicator Approach whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 per cent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the year 2020 is BD 150.7 million

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

(For the six month period ended 30 June 2020)

5 . Funded and Unfunded Total Credit Exposure***BD millions***

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereign	1,326.1	-	670.4
Public sector entities	6.9	-	4.4
Banks	644.7	19.6	347.0
Corporates	1,204.9	155.7	669.4
Regulatory retail	482.9	-	235.1
Mortgage	94.7	-	43.8
Investment in securities	98.4	-	45.4
Past due	27.3	-	15.5
Real estate	65.3	-	32.1
Other assets and Cash items	111.4	-	48.0
Total credit risk	4,062.6	175.3	2,111.1

BBK B.S.C.**Basel III Pillar III Disclosures****(For the six month period ended 30 June 2020)****6 . Concentration of credit risk by region (Exposures subject to risk weighting)***BD millions*

	GCC	North America	Europe	Asia	Others	Total
Cash and balances with central banks	421.5	-	-	4.9	-	426.4
Treasury bills	467.6	-	-	4.5	-	472.1
Deposits in banks & other financial institutions	198.5	150.2	67.7	32.7	-	449.1
Loans & advances to customers	1,413.9	-	61.6	116.0	49.2	1,640.7
Investments in associated companies	48.4	-	21.2	-	-	69.6
Investment securities	677.1	10.5	88.3	93.1	28.3	897.3
Other assets	99.1	-	1.2	7.1	-	107.4
Total funded exposure	3,326.1	160.7	240.0	258.3	77.5	4,062.6
Unfunded commitments and contingencies	143.3	0.3	15.2	15.4	1.1	175.3
Total credit risk	3,469.4	161.0	255.2	273.7	78.6	4,237.9

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

(For the six month period ended 30 June 2020)

7 . Concentration of credit risk by industry (Exposures subject to risk weighting)*BD millions*

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
Cash and balances with central banks	-	20.8	-	405.6	-	-	426.4
Treasury bills	-	-	-	472.1	-	-	472.1
Deposits in banks & other financial institutions	-	449.1	-	-	-	-	449.1
Loans & advances to customers	515.9	167.0	259.4	7.3	546.2	144.9	1,640.7
Investments in associated companies	-	48.6	21.0	-	-	-	69.6
Investment securities	124.6	159.6	16.8	508.6	-	87.7	897.3
Other assets	-	-	-	-	-	107.4	107.4
Total funded exposure	640.5	845.1	297.2	1,393.6	546.2	340.0	4,062.6
Unfunded commitments and contingencies	92.7	26.4	34.5	0.1	0.1	21.5	175.3
Total credit risk	733.2	871.5	331.7	1,393.7	546.3	361.5	4,237.9

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

(For the six month period ended 30 June 2020)

8 . Concentration of credit risk by maturity (Exposures subject to risk weighting)*BD millions*

	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	369.4	-	-	-	-	-	-	57.0	426.4
Treasury bills	55.9	158.2	111.2	146.8	-	-	-	-	472.1
Deposits in banks & other financial institutions	412.3	13.1	23.7	-	-	-	-	-	449.1
Loans & advances to customers	192.2	169.6	94.2	134.2	697.2	269.5	49.9	33.9	1,640.7
Investments in associated companies	-	-	-	-	-	-	-	69.6	69.6
Investment securities	73.1	11.0	20.3	17.5	297.2	310.6	126.7	40.9	897.3
Other assets	59.4	0.1	0.1	0.1	40.0	1.8	4.4	1.5	107.4
Total funded exposure	1,162.3	352.0	249.5	298.6	1,034.4	581.9	181.0	202.9	4,062.6
Unfunded commitments and contingencies	73.7	31.4	32.3	27.5	7.2	2.5	0.1	0.6	175.3
Total credit risk	1,236.0	383.4	281.8	326.1	1,041.6	584.4	181.1	203.5	4,237.9

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

(For the six month period ended 30 June 2020)

*BD millions***9 . Impaired loans and provisions**

	Impaired loans	Stage 3: Lifetime ECL credit-impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Net Specific charges during the period	Write off during the period
Trading and manufacturing	51.9	37.4	19.0	5.4	-
Banks & other financial institutions	7.6	4.7	0.2	(0.8)	0.6
Construction & real estate	18.9	18.2	2.7	(1.2)	-
Government & public sector	16.2	8.9	-	-	-
Individuals	7.0	7.1	6.1	0.7	0.9
Others	5.6	3.2	0.9	0.9	0.1
Total	107.2	79.5	28.9	5.0	1.6

10 . Reconciliation of changes in Expected credit losses*BD millions*

	Stage 3: Lifetime ECL credit-impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired
At beginning of the period	76.8	26.5
Amounts written off	(1.6)	-
Write backs/cancellation due to improvement	(2.3)	-
Additional provisions made	3.9	3.5
Transfers between stages	0.8	(0.8)
Exchange adjustment and other movements	1.9	(0.3)
Balance at reporting date	79.5	28.9

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

(For the six month period ended 30 June 2020)

11 . Ageing of impaired and past due loans by region*BD million*

	GCC	North America	Europe	Asia	Others	Total
3 months up to 1 year	21.1	-	3.0	0.4	-	24.5
1 to 3 years	35.4	-	-	3.5	-	38.9
Over 3 years	43.9	-	-	-	-	43.9
Total past due and impaired loans	100.4	-	3.0	3.9	-	107.3
Stage 3: Lifetime ECL credit- impaired	(77.1)	-	-	(2.4)	-	(79.5)
Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	(28.3)	-	-	(0.4)	(0.2)	(28.9)

12 . Ageing of impaired and past due loans by industry*BD million*

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
3 months up to 1 year	9.1	4.5	4.7	0.0	4.3	1.9	24.5
1 to 3 years	18.5	3.1	12.6	0.0	0.9	3.8	38.9
Over 3 years	24.4	0.0	1.6	16.2	1.7	0.0	43.9
Total past due and impaired loans	52.0	7.6	18.9	16.2	6.9	5.7	107.3

13 . Restructured Loans*BD million*

Loans restructured during the period	34.9
Impact of restructured facilities and loans on provisions	5.1

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.

19 . 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 Manage Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Administration Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

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 2020 to June 2020 is as follows:

**VaR Results for 2020 (10 day 99%)
Global (BAHRAIN and KUWAIT)
1 January 2020 to 30 June 2020**

Asset class	Limit	VaR			<i>BD millions</i>
		30 June 2020	High VaR	Low VaR	Average VaR
Foreign exchange	0.64	0.22	0.27	0.16	0.22
Interest rate	0.15	0.00	0.00	0.00	0.00
	0.79	0.22	0.27	0.16	0.22

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 and Loss basis and also hypothetical Profit and 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 2020 confirmed that there was Nil occasion on which a daily trading loss exceeded VaR figure.

Stress Testing

The Bank conducts stress testing of VaR, under various ‘What If’ scenarios such as increasing volatility and varying correlations. The stress testing methodology uses historical data capturing periods of significant disturbance and covering all types of risks associated with the asset classes which are included in the trading book of the Bank. The stress VaR are then tabulated under each “what if” scenario and compared with corresponding Capital Adequacy Ratio (CAR). It was observed that the CAR was within the norm prescribed by CBB, under each stressed scenario.

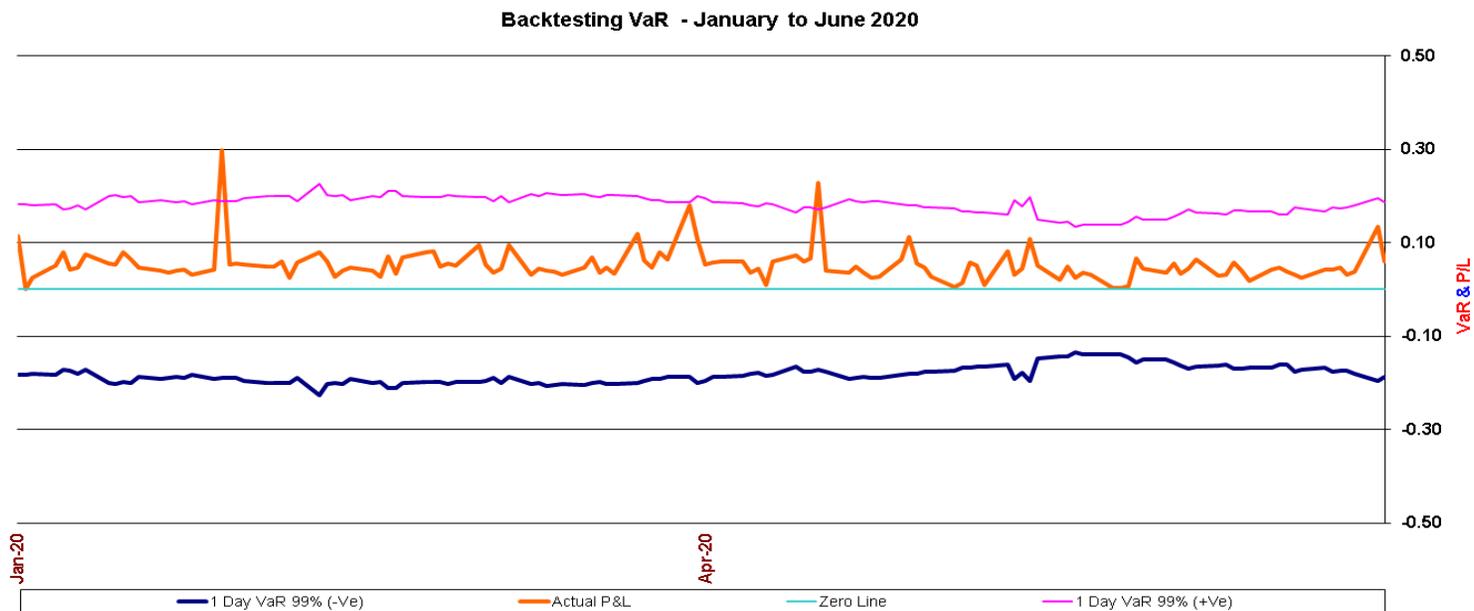
19 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios (continued)

Month end VaR (10 day 99%)

Month	VaR in BD millions
January 2020	0.233
February 2020	0.237
March 2020	0.238
April 2020	0.209
May 2020	0.179
June 2020	0.224

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

Value-at-Risk Backtesting January – June 2020 (USD Millions)



BBK B.S.C.**30 June 2020**

(For the six month period ended 30 June 2020)

20 . 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 2020:

	<u><i>BD Million</i></u>
US Dollars	99.7
EURO	1.6
G.C.C. Currencies (pegged to the USD)	8.5
Kuwaiti Dinars	0.0
Others	0.3
Total	110.1

* All of the above currency positions are unhedged

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

	<u><i>BD Million</i></u>
Sovereign	1,189.0
Total	1,189.0

22 . Derivatives

	<u><i>BD Million</i></u>		
Derivatives	Positive fair value	Negative fair value	Notional Amount
<i>Derivatives held for Trading</i>			
Forward foreign exchange contracts	1.3	1.7	360.4
<i>Derivatives held as fair value hedges</i>			
Interest rate swap	0.2	73.3	586.2
Total	1.5	75.0	946.6

23 . Credit Derivative Exposures

BBK is not exposed to any credit derivatives as at 30 June 2020.

BBK B.S.C.**30 June 2020**

(For the six month period ended 30 June 2020)

24 . Equity positions in the banking book

	<i>BD millions</i>
Publicly traded equity shares	41.0
Privately held equity shares	21.3
Total	62.3
Capital required	7.8

25 . Gain on equity instruments

	<i>BD millions</i>
Realised Gains/ Losses in the statement of profit or loss	0.0
Realised Gains/ Losses in retained earnings	0.6
Unrealised Gains/ Losses in CET1 Capital	(10.9)

26 . 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 2020, there were legal suits pending against the Group aggregating to BD 2.8 million. 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.

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

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 6.68%. Similarly, a decrease of 200 basis points in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 6.68%.

28 . Leverage Ratio

In November 2018, the Central Bank of Bahrain (CBB) issued its final Leverage regulation, which an effective date of 30th June 2019. The leverage ratio is a simple ratio that serves as a supplementary measure to the risk-based capital requirements. It aims to constrain the build-up of leverage in banking sector, reinforce the risk-based requirements with a simple non-risk based “backstop” measure, and serve as a broad measure of both the on and off-balance sheet sources of bank leverage.

The leverage ratio is measured as Tier 1 capital divided by Total Exposures. Total exposures consist of on-balance sheet, off-balance sheet, derivatives and securities financing transactions exposures. As per CBB regulations, Bahraini banks must meet a 3% leverage ratio minimum requirement at all times, except for Domestic Systemically Important Banks (DSIBs) where the minimum ratio is higher at 3.75%. Accordingly, as a DSIB bank, the minimum ratio for BBK is 3.75%. As of 30th June 2020, the leverage ratio for BBK stood at 10.30%.