

# **Basel II Pillar III Disclosure**

*(For the six months ended 30 June 2014)*

# **BBK B.S.C.**

## **Basel II Pillar III Disclosure**

**(For the six months ended 30 June 2014)**

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**1. Capital Components - Consolidated**

	<b>BD'000</b>
<b>Tier 1 capital</b>	
Share capital	100,000
General reserves	46,825
Statutory reserves	46,825
Share premium	39,919
Retained earnings and others	63,616
Non-controlling interest	1,381
Unrealized losses arising from fair valuing equities	(38)
Deductions from tier 1 capital	(16,132)
<b>Total tier 1 capital</b>	<b>282,396</b>
<b>Tier 2 capital</b>	
Current year profit	27,184
45% of unrealized gains arising from fair valuing equities	8,711
Collective impairment provisions	26,409
Subordinated term debt	3,404
Deductions from tier 2 capital	(16,132)
<b>Total tier 2 capital</b>	<b>49,576</b>
<b>Total available capital (tier 1 + tier 2)</b>	<b>331,972</b>
Aggregation	31,414
<b>Total eligible capital</b>	<b>363,386</b>

**2. Capital Adequacy****Capital ratios - consolidated and subsidiaries above 5% of group capital**

	<u>Total capital ratio</u>	<u>Tier 1 capital ratio</u>
BBK - GROUP	15.31%	13.22%
CrediMax	59.21%	48.03%

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**3. 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%
Sovereign	784,101	-	45,323	25,184	3,022
Public Sector Entities	246,654	-	96,184	43,552	5,226
Banks	644,000	-	644,000	294,364	35,324
Corporates	1,251,865	24,710	1,160,809	1,158,567	139,028
Regulatory retail	231,240	382	230,858	173,143	20,777
Mortgage	86,280	83	86,197	64,701	7,764
Equity	105,182	-	-	118,925	14,271
Investment in Funds	2,390	-	2,390	3,586	430
Past Due	85,290	2,666	82,624	111,758	13,411
Real Estate	38,993	-	-	62,050	7,446
Other assets	57,081	-	57,081	57,081	6,850
Cash Items	17,882	-	-	-254	-30
<b>Total</b>	<b>3,550,958</b>	<b>27,841</b>	<b>2,405,466</b>	<b>2,112,657</b>	<b>253,519</b>
Aggregation	55,779	-	55,779	55,779	6,693
<b>Total Credit Risk</b>	<b>3,606,737</b>	<b>27,841</b>	<b>2,461,245</b>	<b>2,168,436</b>	<b>260,212</b>
<b>Market Risk</b>	-	-	-	11,802	1,416
<b>Operational Risk</b>	-	-	-	192,722	23,127
<b>Total Risk Weighted Exposure</b>	<b>3,606,737</b>	<b>27,841</b>	<b>2,461,245</b>	<b>2,372,960</b>	<b>284,755</b>

# Included in the equity category investment in insurance entity that is risk weighted rather than deducted from eligible capital, this if deducted will reduce the eligible capital to BD 358,866 thousands:

Entity	Nationality	Ownership %	Risk weighted asset	Impact on regulatory capital
Bahrain and Kuwait Insurance Company B.S.C. © "BKIC"	Bahrain	6.82%	3,465	416

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

<b>Total gross credit exposures</b>	<b>Total funded credit exposure</b>	<b>Total un-funded credit exposure</b>
Sovereign	778,864	5,237
Public sector entities	245,120	1,534
Banks	591,346	52,654
Corporates	1,051,741	200,124
Regulatory retail	231,227	13
Mortgage	86,280	-
Equity	105,182	-
Investment in funds	2,390	-
Past due	85,290	-
Real estate	38,993	-
Securitisation	-	-
Other assets	57,081	-
Cash items	17,882	-
<b>Total</b>	<b>3,291,396</b>	<b>259,562</b>
Aggregation	55,779	-
<b>Total credit risk</b>	<b>3,347,175</b>	<b>259,562</b>

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#### 5. Average credit exposure

The following are the average quarterly balances for the six months ended 30 June 2014:

	<i>BD'000</i>
Sovereign	788,465
Public sector entities	209,449
Banks	674,023
Corporates	1,242,293
Regulatory retail	226,900
Mortgage	84,629
Equity	102,056
Investment in funds	2,482
Past Due	76,360
Real estate	38,983
Securitisation	-
Other assets	56,591
Cash items	18,922
<b>Total</b>	<b>3,521,153</b>
Aggregation	52,520
<b>Total credit risk</b>	<b>3,573,673</b>

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(For the six months ended 30 June 2014)

**6. Concentration of credit risk by region***BD'000*

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	253,448	-	-	1,924	-	<b>255,372</b>
Treasury bills	232,949	-	-	10,167	-	<b>243,116</b>
Deposits in banks & other financial institutions	149,680	2,131	21,306	17,703	-	<b>190,820</b>
Loans & advances to customers	1,458,043	9,651	-	270,705	1,648	<b>1,740,047</b>
Investments in associated companies	20,718	-	-	-	6,202	<b>26,920</b>
Investment securities	471,788	33,029	81,722	132,370	43,336	<b>762,245</b>
Other assets	70,314	-	-	2,562	-	<b>72,876</b>
<b>Total funded exposure</b>	<b>2,656,940</b>	<b>44,811</b>	<b>103,028</b>	<b>435,431</b>	<b>51,186</b>	<b>3,291,396</b>
Unfunded commitments & contingencies	210,399	449	7,865	19,852	20,997	<b>259,562</b>
Aggregation	55,779	-	-	-	-	<b>55,779</b>
<b>Total credit risk</b>	<b>2,923,118</b>	<b>45,260</b>	<b>110,893</b>	<b>455,283</b>	<b>72,183</b>	<b>3,606,737</b>

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**7 . Concentration of credit risk by industry***BD '000*

	<b>Trading and manufacturing</b>	<b>Banks &amp; other financial institutions</b>	<b>Construction &amp; real estate</b>	<b>Government &amp; public sector</b>	<b>Individuals</b>	<b>Others</b>	<b>Total</b>
Cash and balances with central banks	-	6,944	-	248,428	-	-	<b>255,372</b>
Treasury bills	-	-	-	243,116	-	-	<b>243,116</b>
Deposits in banks & other financial institutions	-	190,820	-	-	-	-	<b>190,820</b>
Loans & advances to customers	552,104	284,867	408,714	31,979	247,800	214,583	<b>1,740,047</b>
Investments in associated companies	9,610	-	6,202	-	-	11,108	<b>26,920</b>
Investment securities	18,632	292,188	16,613	434,064	-	748	<b>762,245</b>
Other assets	-	-	-	-	-	72,876	<b>72,876</b>
<b>Total funded exposure</b>	<b>580,346</b>	<b>774,819</b>	<b>431,529</b>	<b>957,587</b>	<b>247,800</b>	<b>299,315</b>	<b>3,291,396</b>
Unfunded commitments & contingencies	99,374	62,133	51,634	8,589	2,129	35,703	<b>259,562</b>
Aggregation		55,779					<b>55,779</b>
<b>Total credit risk</b>	<b>679,720</b>	<b>892,731</b>	<b>483,163</b>	<b>966,176</b>	<b>249,929</b>	<b>335,018</b>	<b>3,606,737</b>

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**8 . Concentration of credit risk by maturity***BD '000*

	<b>Within 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>5 to 10 years</b>	<b>10 to 20 years</b>	<b>Above 20 years</b>	<b>Total</b>
Cash and balances with central banks	183,367	-	-	-	-	-	-	72,005	<b>255,372</b>
Treasury bills	41,951	105,942	45,692	49,530	-	-	-	-	<b>243,116</b>
Deposits in banks & other financial institutions	163,837	26,983	-	-	-	-	-	-	<b>190,820</b>
Loans & advances to customers	133,244	123,663	89,162	129,175	778,497	243,222	38,183	204,900	<b>1,740,047</b>
Investments in associated companies	-	-	-	-	-	-	-	26,920	<b>26,920</b>
Investment securities	16,813	15,653	26,622	84,450	245,846	267,830	11,832	93,199	<b>762,245</b>
Other assets	43,796	46	9	17	3,494	-	-	25,514	<b>72,876</b>
<b>Total funded exposure</b>	<b>583,008</b>	<b>272,287</b>	<b>161,485</b>	<b>263,173</b>	<b>1,027,837</b>	<b>511,052</b>	<b>50,014</b>	<b>422,538</b>	<b>3,291,396</b>
Unfunded commitments & contingencies	65,997	31,422	101,535	45,844	8,455	6,247	11	52	<b>259,562</b>
Aggregation	-	-	-	-	-	-	-	55,779	<b>55,779</b>
<b>Total credit risk</b>	<b>649,005</b>	<b>303,709</b>	<b>263,021</b>	<b>309,017</b>	<b>1,036,292</b>	<b>517,299</b>	<b>50,026</b>	<b>478,370</b>	<b>3,606,737</b>

**9 . Impaired loans and provisions**

	Principle & interest outstanding	Impaired loans	Specific provisions
Manufacturing	336,787	9,519	5,924
Mining and quarrying	28,757	2,233	385
Agriculture, fishing and forestry	5,474	10	10
Construction	167,085	9,097	3,426
Financial	312,543	30,403	21,239
Trade	200,029	3,738	1,937
Personal / Consumer finance	223,210	10,170	10,089
Credit cards	38,255	847	1,111
Commercial real estate financing	167,459	32,102	8,765
Residential mortgage	94,743	5,902	1,132
Government	32,289	-	-
Technology, media and telecommunications	109,966	122	115
Transport	16,318	-	-
Other sectors	91,376	1,312	543
<b>Total</b>	<b>1,824,291</b>	<b>105,456</b>	<b>54,676</b>

**10 . Reconciliation of changes in impaired loans and provisions**

	Specific impairment provisions	Collective impairment provisions
At beginning of the year	52,758	24,118
Amounts written off	(863)	-
Write backs/cancellation due to improvement	(897)	-
Additional provisions made	3,708	5,434
Exchange adjustment and other movements	505	18
Notional interest on impaired loans	(534)	-
<b>Balance at reporting date</b>	<b>54,676</b>	<b>29,570</b>

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**11 . Impaired and past due loans by region***BD '000*

	<b>GCC</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total</b>
Past Due loans	35,915	-	-	9,689	-	<b>45,604</b>
Impaired loans	100,140	-	-	5,316	-	<b>105,456</b>
Specific impairment provisions	52,386	-	-	2,290	-	<b>54,676</b>
Collective impairment provisions	29,193	-	-	377	-	<b>29,570</b>

**12 . Ageing of impaired past due loans***BD '000*

	<b>3 months up to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
Impaired past due loans	13,986	42,107	49,363	<b>105,456</b>
Less: specific provisions	4,366	10,409	39,901	<b>54,676</b>
<b>Net outstanding</b>	<b>9,620</b>	<b>31,698</b>	<b>9,462</b>	<b>50,780</b>
<b>Market value of collateral</b>	2,877	49,692	51,140	<b>103,709</b>

**13 . Restructured Loans***BD'000*

Loans restructured during the period	<b>26,799</b>
Impact of restructured facilities and loans on provisions	<b>2,413</b>

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.

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**14 . 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 monitored by Middle Office (reporting to Risk Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the 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 2014 to June 2014 is as follows:

**VaR Results for the January 2014 to June 2014 (10 day 99%)  
Global (BAHRAIN & KUWAIT)  
1 January 2014 to 30 June 2014**

<b>Asset class</b>	<b>Limit</b>	<b>VaR</b>			<i>BD '000</i>
		<b>30 June 2014</b>	<b>High VaR</b>	<b>Low VaR</b>	<b>Average VaR</b>
<b>Foreign exchange</b>	641	41	174	13	40
<b>Interest rate</b>	151	0	1	0	1
	<b>792</b>	<b>41</b>	<b>174</b>	<b>13</b>	<b>41</b>

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

The Backtesting results for the period January- June 2014 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

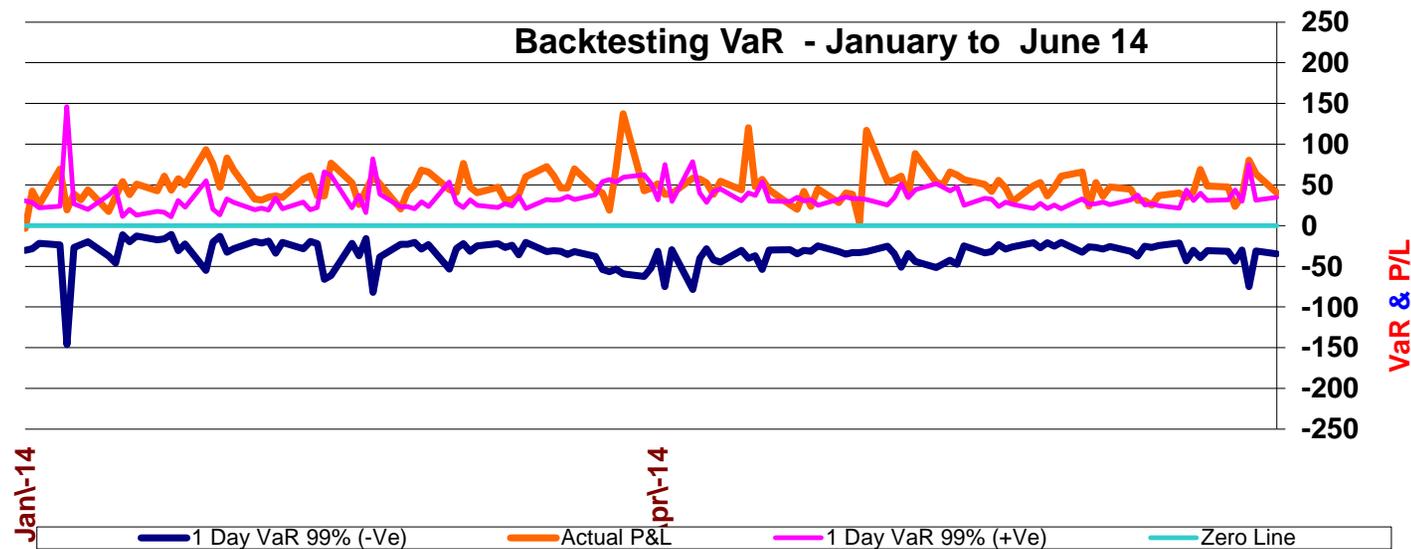
**14 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios (continued)**

**Month end VaR (10 day 99%)**

Month	VaR in BD'000
January 2014	34
February 2014	28
March 2014	75
April 2014	39
May 2014	25
June 2014	41

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 2014**



**15 . Currency Risk**

The functional currency of the Group is the Bahraini Dinar.

The Group has the following significant non - strategic net exposures denominated in foreign currencies as of 30 June 2014:

	<i><b>BD '000</b></i>
USD Dollars	39,306
EURO	(107)
G.C.C. Currencies	15,942
Kuwaiti Dinars	550
Others	201
<b>Total</b>	<b>55,892</b>

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

	<i><b>BD '000</b></i>
Sovereign	581,543
<b>Total</b>	<b>581,543</b>

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**17 . Derivatives**

	<u>BD '000</u>		
Derivatives	Positive fair value	Negative fair value	Notional Amount
<i>Derivatives held for Trading</i>			
Interest rate swap	-	-	339
Forward foreign exchange contracts	206	51	18,465
Options	-	-	626
<i>Derivatives held as fair value hedges</i>			
Interest rate swap	3,909	8,968	503,859
Forward foreign exchange contracts	339	157	229,611
<i>Derivatives held as cash flow hedges</i>			
Interest rate swap	110	13	57,519
Forward foreign exchange contracts	-	-	-
<b>Total</b>	<b>4,564</b>	<b>9,189</b>	<b>810,419</b>

**18 . Credit Derivatives Exposure**

	<u>BD '000</u>
Credit debt obligations	805
<b>Credit Derivatives Products sold</b>	<b>805</b>

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**19 . Related Party Transactions**

				<i>BD '000</i>
	Major shareholders	Associated & others	Directors and key management	
Loans and advances to customers	-	10,905	1,049	11,954
Customer Current, Saving and other deposits	363,611	11,311	8,405	383,327

No provision is required in respect of loans given to related parties

*The income and expenses in respect of related parties included in the consolidated income statement are as follows:*

Interest and similar income	-	190	9	199
Interest and similar expense	1,770	41	46	1,857

**20 . Compensation of the key management personnel including directors**

	<i>BD '000</i>
Salaries and other short term benefits	3,485
Post employment benefits	15
Share based payments	78
<b>Total compensation paid to key management personnel</b>	<b>3,578</b>

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**21 . Equity positions in the banking book**

	<i><b>BD '000</b></i>
Publicly traded equity shares	77,698
Privately held equity shares	23,130
<b>Total</b>	<b>100,828</b>
<b>Capital required</b>	<b>12,099</b>

**22 . Gains on equity instruments**

	<i><b>BD '000</b></i>
<b>Realised Gains/ Losses in statement of income</b>	<b>2,318</b>
<b>Unrealised Gains/ Losses in tier 1 Capital (eligible portion)</b>	<b>(38)</b>
<b>Unrealised Gains/ Losses in tier 2 Capital (eligible portion)</b>	<b>8,711</b>

## **BBK B.S.C.**

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#### **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 2014, there were legal suits pending against the Group aggregating BD 0.824million. 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)**

A increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 2.72%

Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 2.72%