

Basel III Pillar III Disclosure

*(For the six month period ended 30 June
2016)*

BBK B.S.C.

Basel III Pillar III Disclosure

(For the six month period ended 30 June 2016)

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	6
5 .	Operational Risk	7
6 .	Funded and Unfunded Total Credit Exposure	8
7 .	Average credit exposure	9
8 .	Concentration of Credit Risk by Region	10
9 .	Concentration of Credit Risk by Industry	11
10 .	Concentration of Credit Risk by Maturity	12
11 .	Impaired Loans and Provisions	13
12 .	Reconciliation of Changes in Impaired Loans and Provisions	13
13 .	Impaired and past due loans by region	14
14 .	Impaired and past due loans by industry	14
15 .	Aging of impaired past due loans	14
16 .	Restructured Loans	14
17 .	Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios	15
18 .	Currency Risk	17
19 .	Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15%	17
20 .	Derivatives	18
21 .	Credit Derivatives Exposure	18
22 .	Related Party Transactions	19
23 .	Compensation of the key management personnel including directors	19
24 .	Equity Positions in the Banking Book	20
25 .	Gains on equity instruments	20
26 .	Legal risk and claims	21
27 .	Interest rate risk in the banking book (IRRBB)	21

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	338,935	338,935	
Treasury bills	419,286	419,286	
Deposits and amounts due from banks and other financial institutions	315,687	315,687	
Loans and advances to customers	1,734,516	1,773,238	
Of which general provisions	(38,722)		
of Which net loans and advances (gross of general provisions)	1,773,238	1,773,238	
Non-trading investment securities	799,653	799,653	
Of which investments in financial entities under CET1		29,016	b
Of which investments in financial entities under Tier 1		1,885	c
Of which investments in financial entities under Tier 2		8,929	d
Of which related to other investments		759,823	
Investments in associated companies and joint ventures	45,417	47,877	
Of which equity investments in financial entities	37,633	37,633	e
Of which other investments	7,784	10,244	
Interest receivable and other assets	60,158	58,927	
Of which deferred tax assets due to temporary differences	2,258	2,258	f
Of which Interest receivable and other assets	57,900	56,669	
Premises and equipment	24,050	23,822	
Total assets	3,737,702	3,777,425	
Liabilities and Equities			
Liabilities			
Deposits and amounts due to banks and other financial institutions	169,066	169,066	
Borrowings under repurchase agreement	174,508	174,508	
Term borrowings	205,391	205,391	
Customers' current, savings and other deposits	2,640,910	2,642,753	
Interest payable and other liabilities	111,302	110,858	
Total liabilities	3,301,177	3,302,576	
Equity			
Share capital	108,165	108,165	g
Treasury stock	(1,009)	(1,009)	h
Perpetual Tier 1 Convertible Capital Securities	86,098	86,098	i
Share premium	39,919	39,919	j
Statutory reserve	54,082	54,082	k
General reserve	54,082	54,082	l
Cumulative changes in fair values	(29,146)	(29,146)	m
of which cumulative changes in fair values on bonds and equities	(20,570)	(20,570)	
of which Fair value changes in cash flow hedges	(494)	(494)	
Foreign currency translation adjustments	(10,598)	(10,527)	n
Retained earnings	133,326	133,255	
Of which employee stock options	1,962	1,962	
Of which Retained earnings	131,364	131,293	o
Appropriations		-	
General provisions		38,722	
Of which amount eligible for Tier 2 (1.25% of RWA)		30,107	a
Of which amount Ineligible		8,615	
Attributable to the Owners of the Bank	434,919	473,641	
Non-controlling interest	1,606	1,208	
Total equity	436,525	474,849	
Total Liabilities and equities	3,737,702	3,777,425	

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	3,301	2,857

2. Capital Adequacy

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

	Total capital ratio	Tier 1 capital ratio
BBK - GROUP	17.40%	16.28%
CrediMax	68.95%	68.95%

3 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	147,075		g+h+j
2	Retained earnings	131,363		o
3	Accumulated other comprehensive income and losses (and other reserves)	68,421		k+l+m+n
4	<i>Not applicable</i>			
5	Common shares issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	Common Equity Tier 1 capital before regulatory adjustments	346,859	-	
Common Equity Tier 1 capital :regulatory adjustments				
11	Cash flow hedge reserve	(770)		
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)	1,477	27,539	b
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	1,207		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		c
28	Total regulatory adjustments to Common equity Tier 1	1,914	27,539	
29	Common Equity Tier 1 capital (CET1)	344,945	- 27,539	
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	86,098		
31	of which: classified as equity under applicable accounting standards	86,098		
32	of which: classified as liabilities under applicable accounting standards			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)			
35	of which: instruments issued by subsidiaries subject to phase out			
36	Additional Tier 1 capital before regulatory adjustments	86,098	-	
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	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)	96	1,789	
40	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	CBB specific regulatory adjustments			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	Total regulatory adjustments to Additional Tier 1 capital	96	1,789	
44	Additional Tier 1 capital (AT1)	86,002	- 1,789	
45	Tier capital (T1 = CET1 + AT1)	430,947	- 29,328	
Tier 2 capital: instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus			
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>			
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49	of which: instruments issued by subsidiaries subject to phase out			
50	Provisions	30,107		
51	Tier 2 capital before regulatory adjustments	30,107		
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
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)	454	8,475	d
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	454	8,475	
58	Tier 2 capital (T2)	29,653	- 8,475	
59	Total capital (TC = T1 + T2)	460,600	- 37,803	
60	Total risk weighted assets	2,647,392	-	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.03%		

62	Tier 1 (as a percentage of risk weighted assets)	16.28%		
63	Total capital (as a percentage of risk weighted assets)	17.40%		
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)	13.03%		
National minima (where different from Basel III)				
69	CBB Common Equity Tier 1 minimum ratio	6.50%		
70	CBB Tier 1 minimum ratio	8.00%		
71	CBB total capital minimum ratio	10.00%		
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	37,803		
73	Significant investments in the common stock of financials	36,426		e
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,258		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)	38,722		a
77	Cap on inclusion of provisions in Tier 2 under standardised approach	30,107		

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

(For the six month period ended 30 June 2016)

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	1,108,691	-	1,108,691	18,473	2,309
Public Sector Entities	22,876	-	22,876	-	-
Banks	569,311	-	569,311	267,970	33,496
Corporates	1,539,115	21,425	1,517,690	1,456,691	182,086
Regulatory retail	325,961	237	325,724	244,293	30,537
Mortgage	93,405	230	93,175	69,881	8,735
Equity #	106,009	-	106,009	166,442	20,805
Investment in Funds	1,424	-	1,424	2,136	267
Past Due	37,681	1,485	36,196	48,220	6,028
Real Estate	41,587	-	41,587	68,121	8,515
Other assets	63,090	-	63,090	66,477	8,310
Cash Items	18,037	-	18,037	(116)	(15)
Total Credit Risk	3,927,187	23,377	3,903,810	2,408,588	301,073
Market Risk	-	-	-	26,950	3,369
Operational Risk	-	-	-	211,854	26,482
Total Risk Weighted Exposure	3,927,187	23,377	3,903,810	2,647,392	330,924

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

(For the six month period ended 30 June 2016)

5. Operational Risk

				<i>BD '000</i>
Year	2013	2014	2015	Total
1) Gross Income	108,514	113,720	116,732	338,966
2) Number of years with positive Gross Income				3
3) Average (1/2)				112,989
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)				16,948
6) Multiplier				12.5
Risk Weighted Exposure (5*6)				211,854

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

(For the six month period ended 30 June 2016)

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

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure
Sovereign	1,108,445	246
Public sector entities	22,876	-
Banks	556,462	12,849
Corporates	1,388,914	150,201
Regulatory retail	325,955	6
Mortgage	93,405	-
Equity	106,009	-
Investment in funds	1,424	-
Past due	37,681	-
Real estate	41,587	-
Other assets	63,090	-
Cash items	18,037	-
Total credit risk	3,763,885	163,302

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Basel III Pillar III Disclosure

(For the six month period ended 30 June 2016)

7. Average credit exposure

The following are the average quarterly balances for the six months ended 30 June 2016:

	<i>BD'000</i>
Sovereign	1,087,850
Public sector entities	23,449
Banks	618,234
Corporates	1,540,407
Regulatory retail	318,406
Mortgage	93,312
Equity	103,422
Investment in funds	1,456
Past Due	35,058
Real estate	41,947
Other assets	61,922
Cash items	17,305
Total credit risk	3,942,768

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

(For the six month period ended 30 June 2016)

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

	GCC	North America	Europe	Asia	Others	Total
Cash and balances with central banks	336,173	-	-	2,762	-	338,935
Treasury bills	375,300	37,692	-	6,294	-	419,286
Deposits in banks & other financial institutions	238,338	14,008	40,367	22,930	44	315,687
Loans & advances to customers	1,532,240	12,063	255	195,558	24,506	1,764,622
Investments in associated companies	39,869	-	-	-	4,341	44,210
Investment securities	500,690	16,473	144,092	90,771	45,600	797,626
Investment in unconsolidated Subsidiaries	617	-	-	-	-	617
Other assets	78,307	-	-	4,595	-	82,902
Total funded exposure	3,101,534	80,236	184,714	322,910	74,491	3,763,885
Unfunded commitments & contingencies	139,384	101	6,884	13,726	3,207	163,302
Total credit risk	3,240,918	80,337	191,598	336,636	77,698	3,927,187

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

(For the six month period ended 30 June 2016)

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

	Trading and manufacturing	Banks & other financial institutions	Construction & real estate	Government & public sector	Individuals	Others	Total
Cash and balances with central banks	-	18,617	-	320,318	-	-	338,935
Treasury bills	-	-	-	419,286	-	-	419,286
Deposits in banks & other financial institutions	-	315,687	-	-	-	-	315,687
Loans & advances to customers	592,253	186,032	413,450	22,467	370,346	180,074	1,764,622
Investments in associated companies	-	34,331	6,437	-	-	3,442	44,210
Investment securities	33,260	239,627	17,433	495,605	-	11,701	797,626
Investment in unconsolidated Subsidiaries	-	-	-	-	-	617	617
Other assets	-	-	-	-	-	82,902	82,902
Total funded exposure	625,513	794,294	437,320	1,257,676	370,346	278,736	3,763,885
Unfunded commitments & contingencies	88,525	16,916	28,776	240	190	28,655	163,302
Total credit risk	714,038	811,210	466,096	1,257,916	370,536	307,391	3,927,187

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

(For the six month period ended 30 June 2016)

10 . Concentration of credit risk by maturity*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	258,811	-	-	-	-	-	-	80,124	338,935
Treasury bills	96,454	135,906	75,166	109,864	1,896	-	-	-	419,286
Deposits in banks & other financial institutions	225,496	48,337	41,854	-	-	-	-	-	315,687
Loans & advances to customers	89,017	144,968	108,675	130,664	775,992	266,860	56,192	192,254	1,764,622
Investments in associated companies	-	-	-	-	-	-	-	44,210	44,210
Investment securities	8,559	18,544	26,015	55,024	289,525	261,974	-	137,985	797,626
Investment in unconsolidated Subsidiaries	-	-	-	-	-	-	-	617	617
Other assets	49,889	114	47	-	28,068	1,216	1,728	1,840	82,902
Total funded exposure	728,226	347,869	251,757	295,552	1,095,481	530,050	57,920	457,030	3,763,885
Unfunded commitments & contingencies	30,189	33,431	30,395	52,752	11,994	3,619	-	922	163,302
Total credit risk	758,415	381,300	282,152	348,304	1,107,475	533,669	57,920	457,952	3,927,187

Basel III Pillar III Disclosure

(For the six month period ended 30 June 2016)

BD '000

11 . Impaired loans and provisions

	Principle outstanding	Impaired loans	Specific provisions
Manufacturing	313,716	15,358	12,292
Mining and quarrying	22,475	-	-
Agriculture, fishing and forestry	1,748	10	10
Construction	154,404	16,253	7,248
Financial	198,337	-	10,952
Trade	271,371	7,781	801
Personal / Consumer finance	332,992	7,041	7,720
Credit cards	45,464	1,201	1,527
Commercial real estate financing	181,565	23,985	14,987
Residential mortgage	103,378	5,944	855
Government	22,434	-	-
Technology, media and telecommunications	107,068	13,187	9,394
Transport	12,325	-	-
Other sectors	71,751	-	4
Total	1,839,028	90,760	65,790

12 . Reconciliation of changes in impaired loans and provisions

BD'000

	Specific impairment provisions	Collective impairment provisions
At beginning of the period	61,643	37,197
Amounts written off	(4,179)	(149)
Write backs/cancellation due to improvement	(1,606)	-
Additional provisions made	10,193	1,591
Exchange adjustment and other movements	(259)	83
Notional interest on impaired loans	(2)	-
Balance at reporting date	65,790	38,722

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

(For the six month period ended 30 June 2016)

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

	GCC	North America	Europe	Asia	Others	Total
Past Due loans	64,650	-	-	3,033	-	67,683
Impaired loans	86,841	-	-	3,919	-	90,760
Specific impairment provisions	61,786	-	-	4,004	-	65,790
Collective impairment provisions	38,722	-	-	-	-	38,722

14 . 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
Past Due loans	18,064	8,920	5,360	14,776	20,378	185	67,683
Impaired loans	36,336	-	46,182	-	8,242	-	90,760
Specific impairment provisions	22,497	10,952	23,090	-	9,247	4	65,790

15 . Aging of impaired past due loans**BD '000**

	3 months up to 1 year	1 to 3 years	Over 3 years	Total
Impaired past due loans	23,393	26,666	40,701	90,760
Less: specific provisions	7,572	16,569	41,649	65,790
Net outstanding	15,821	10,097	(948)	24,970
Market value of collateral	2,807	6,470	45,347	54,624

16 . Restructured Loans**BD'000**

Loans restructured during the period	12,044
Impact of restructured facilities and loans on provisions	991

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.

17 . 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 Treasury Middle Office (reporting to Risk and Credit Management 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 2016 to June 2016 is as follows:

**VaR Results for 2016 (10 day 99%)
Global (BAHRAIN & KUWAIT)
1 January 2016 to 30 June 2016**

Asset class	Limit	VaR			<i>BD '000</i>
		30 June 2016	High VaR	Low VaR	Average VaR
Foreign exchange	640.90	144.20	230.26	78.27	152.69
Interest rate	150.80	0.72	4.24	0.12	0.79
	791.70	144.92	231.24	80.32	153.48

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.

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

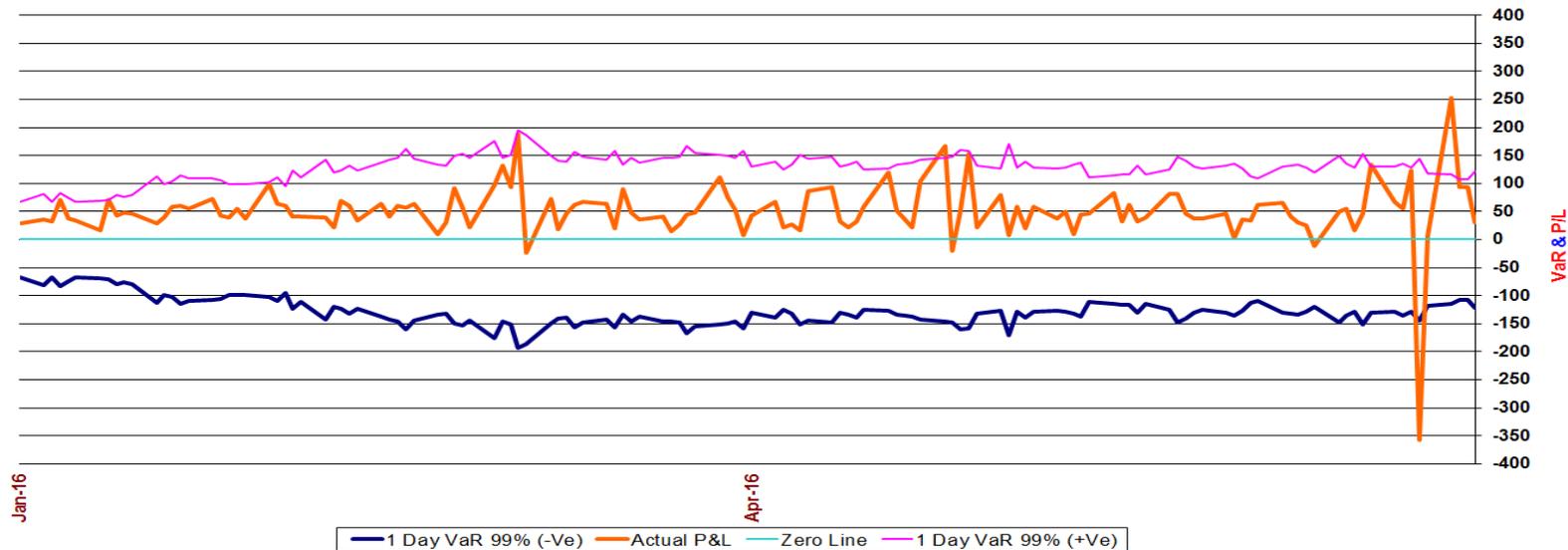
Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2016	117
February 2016	209
March 2016	189
April 2016	158
May 2016	161
June 2016	145

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 2016

Backtesting VaR - January to June 2016



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

(For the six month period ended 30 June 2016)

18 . 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 2016:

	<u>BD '000</u>
US Dollars	59,338
EURO	39
G.C.C. Currencies (pegged to the USD)	(96)
Kuwaiti Dinars	1,780
Others	1,498
Total	62,559

* All of the above currency positions are unhedged

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

	<u>BD '000</u>
Sovereign 1	749,578
Sovereign 2	72,853
Total	822,430

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

(For the six month period ended 30 June 2016)

20 . Derivatives

	<u>BD '000</u>		
Derivatives	Positive fair value	Negative fair value	Notional Amount
<i>Derivatives held for Trading</i>			
Interest rate swap	-	-	-
Forward foreign exchange contracts	169	31	35,866
Options	-	-	-
<i>Derivatives held as fair value hedges</i>			
Interest rate swap	54	36,219	559,650
Forward foreign exchange contracts	516	60	112,617
<i>Derivatives held as cash flow hedges</i>			
Interest rate swap	24	517	57,519
Forward foreign exchange contracts	-	-	-
Total	763	36,827	765,652

21 . Credit Derivatives Exposure

BBK is not exposed to any credit derivatives as at 30 June 2016.

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

(For the six month period ended 30 June 2016)

22 . Related Party Transactions

	Major shareholders	Associated & others	Directors and key management	<i>BD '000</i>
Loans and advances to customers	-	15,903	1,198	17,101
Customer Current, Saving and other deposits	249,839	7,018	8,798	265,655

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	-	207	8	215
Interest and similar expense	1,694	51	56	1,801

23 . Compensation of the key management personnel including directors

	<i>BD '000</i>
Salaries and other short term benefits	3,906
Post employment benefits	299
Share based payments	(382)
Total compensation paid to key management personnel	3,823

Basel III Pillar III Disclosure

(For the six month period ended 30 June 2016)

24 . Equity positions in the banking book

	<i>BD '000</i>
Publicly traded equity shares	60,094
Privately held equity shares	23,972
Total	84,066
Capital required	10,508

25 . Gains on equity instruments

	<i>BD '000</i>
Realised Gains/ Losses in the statement of profit or loss	716
Unrealised Gains/ Losses in CET1 Capital	2,611

BBK B.S.C.

Basel III Pillar III Disclosure

(For the six month period ended 30 June 2016)

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 2016, there were legal suits pending against the Group aggregating to BD 814 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.

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

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 1.54%. 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 1.54%.