بنك البحرين والكويت

Basel III Pillar III Disclosures

(For the six month period ended 30 June 2019)

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(For the six month period ended 30 June 2019)

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	**497,888**	**497,888**	
Treasury bills	**418,255**	**418,255**	
Deposits and amounts due from banks and other financial institutions	**358,673**	**358,649**	
Loans and advances to customers	**1,653,469**	**1,653,469**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)	29,345	29,345	a
Of which net loans and advances (gross of collective impairment provisions)	1,624,124	1,624,124	
Investment securities	**851,147**	**851,147**	
Of which equity investments in financial entities under CET1		26,367	b
Of which equity investments in financial entities under Tier 2		2,367	c
Of which related to other investments		822,413	
Investments in associated companies and joint ventures	**63,682**	**66,888**	
Of which Investment in own shares	699	699	d
Of which equity investments in financial entities	38,832	38,832	e
Of which other investments	24,151	27,357	
Interest receivable and other assets	**82,574**	**81,350**	
Of which deferred tax assets due to temporary differences	1,243	1,243	f
Of which Intangibles	3,227	3,227	g
Of which Interest receivable and other assets	78,104	76,880	
Premises and equipment	**33,403**	**33,181**	
Total assets	**3,959,091**	**3,960,827**	
Liabilities and Equities			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**347,042**	**347,042**	
Borrowings under repurchase agreement	**198,997**	**198,997**	
Term borrowings	**144,542**	**144,542**	
Customers' current, savings and other deposits	**2,646,424**	**2,649,647**	
Interest payable and other liabilities	**125,262**	**124,397**	
Total liabilities	**3,462,267**	**3,464,625**	
Equity			
Share capital	**129,689**	**129,689**	h
Treasury stock	**(5,452)**	**(5,452)**	i
Perpetual tier 1 convertible capital securities	**-**	**-**	j
Share premium	**105,590**	**105,590**	k
Statutory reserve	**54,082**	**54,082**	l
General reserve	**54,082**	**54,082**	m
Cumulative changes in fair values	**(17,374)**	**(17,374)**	
of which cumulative changes in fair values on bonds and equities	(17,453)	(17,453)	n
of which Fair value changes in cash flow hedges	79	79	o
Foreign currency translation adjustments	**(11,443)**	**(11,443)**	
Of which related to unconsolidated subsidiary		(76)	p
Of which related to Parent		(11,367)	q
Retained earnings	**172,047**	**171,899**	
Of which employee stock options	2,754	2,754	
Of which Retained earnings	169,293	169,145	r
Appropriations	**12,839**	**12,839**	s
ATTRIBUTABLE TO THE OWNERS OF THE BANK	**494,060**	**493,912**	
Non-controlling interest	**2,764**	**2,290**	
Total equity	**496,824**	**496,202**	
Total Liabilities and equities	**3,959,091**	**3,960,827**	

- **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	4,693	3,828

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

	Total capital ratio	Tier 1 capital ratio
CrediMax	59.34%	59.34%

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	229,827	h+i+k
Retained earnings	181,908	p+r+s
Accumulated other comprehensive income and losses (and other reserves)	79,423	l+m+n+o+q
Common Equity Tier 1 capital before regulatory adjustments	**491,158**	
Common Equity Tier 1 capital :regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	3,227	g
Cash flow hedge reserve	79	o
Investments in own shares	699	d
Total regulatory adjustments to Common equity Tier 1	**4,005**	
Common Equity Tier 1 capital (CET1)	**487,153**	
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)	**487,153**	
Tier 2 capital: instruments and provisions		
Provisions	29,345	
Tier 2 capital before regulatory adjustments	**29,345**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**29,345**	
Total capital (TC = T1 + T2)	**516,498**	
Total risk weighted assets	**2,645,651**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	18.41%	
Tier 1 (as a percentage of risk weighted assets)	18.41%	
Total capital (as a percentage of risk weighted assets)	**19.52%**	
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)	18.41%	
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	28,734	b+c
Significant investments in the common stock of financials	38,832	e
Deferred tax assets arising from temporary differences (net of related tax liability)	1,243	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)	38,815	
Cap on inclusion of provisions in Tier 2 under standardised approach	29,345	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	

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 14.0%
Sovereign	1,279,167	-	1,279,167	37,026	5,184
Public Sector Entities	11,347	-	11,347	-	-
Banks	614,245	-	614,245	315,882	44,223
Corporates	1,395,627	18,156	1,377,471	1,153,078	161,431
Regulatory retail	459,584	1,860	457,724	343,293	48,061
Mortgage	87,538	54	87,484	65,613	9,186
Investment in securities	102,033	-	102,033	163,944	22,952
Past Due	62,647	102	62,545	64,840	9,078
Real Estate	66,458	-	66,458	117,593	16,463
Other assets and Cash items	102,429	-	102,429	86,312	12,084
Total Credit Risk	**4,181,075**	**20,172**	**4,160,903**	**2,347,581**	**328,662**
Market Risk	-	-	-	30,200	4,228
Operational Risk*	-	-	-	267,870	37,502
Total Risk Weighted Exposure	**4,181,075**	**20,172**	**4,160,903**	**2,645,651**	**370,392**

* 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 2019 is BD 142,864 thousands

5. Funded and Unfunded Total Credit Exposure

BD '000

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereign	1,278,481	686	1,130,727
Public sector entities	11,347	-	11,624
Banks	587,797	26,448	547,613
Corporates	1,233,536	162,091	1,440,903
Regulatory retail	459,584	-	450,653
Mortgage	87,538	-	88,785
Investment in securities	102,033	-	103,358
Past due	62,647	-	59,433
Real estate	66,458	-	66,201
Other assets and Cash items	102,429	-	105,641
Total credit risk	**3,991,850**	**189,225**	**4,004,938**

6 . 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	493,148	-	-	4,740	-	**497,888**
Treasury bills	415,327	-	-	2,928	-	**418,255**
Deposits in banks & other financial institutions	245,362	60,765	31,475	19,039	1,698	**358,339**
Loans & advances to customers	1,419,577	-	102,950	127,521	40,034	**1,690,082**
Investments in associated companies	46,965	-	16,018	-	-	**62,983**
Investment securities	612,683	11,023	103,453	95,616	28,502	**851,277**
Other assets	104,362	-	756	7,908	-	**113,026**
Total funded exposure	**3,337,424**	**71,788**	**254,652**	**257,752**	**70,234**	**3,991,850**
Unfunded commitments and contingencies	158,383	213	7,433	17,346	5,850	**189,225**
Total credit risk	**3,495,807**	**72,001**	**262,085**	**275,098**	**76,084**	**4,181,075**

7 . 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	-	22,902	-	474,986	-	-	**497,888**
Treasury bills	-	-	-	418,255	-	-	**418,255**
Deposits in banks & other financial institutions	-	358,339	-	-	-	-	**358,339**
Loans & advances to customers	546,405	219,013	292,237	7,838	502,077	122,512	**1,690,082**
Investments in associated companies	-	47,157	15,826	-	-	-	**62,983**
Investment securities	75,438	179,535	20,682	534,516	-	41,106	**851,277**
Other assets	-	-	-	-	-	113,026	**113,026**
Total funded exposure	**621,843**	**826,946**	**328,745**	**1,435,595**	**502,077**	**276,644**	**3,991,850**
Unfunded commitments and contingencies	87,517	30,236	49,098	352	413	21,609	**189,225**
Total credit risk	**709,360**	**857,182**	**377,843**	**1,435,947**	**502,490**	**298,253**	**4,181,075**

8 . 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	417,333	-	-	-	-	-	-	80,555	**497,888**
Treasury bills	65,996	173,508	84,646	94,105	-	-	-	-	**418,255**
Deposits in banks & other financial institutions	301,731	56,608	-	-	-	-	-	-	**358,339**
Loans & advances to customers	227,004	131,225	108,457	150,122	725,292	282,860	21,232	43,890	**1,690,082**
Investments in associated companies	-	-	-	-	-	-	-	62,983	**62,983**
Investment securities	41,810	13,610	38,277	40,935	301,918	261,485	40,690	112,552	**851,277**
Other assets	67,324	-	-	-	42,711	280	1,100	1,611	**113,026**
Total funded exposure	**1,121,198**	**374,951**	**231,380**	**285,162**	**1,069,921**	**544,625**	**63,022**	**301,591**	**3,991,850**
Unfunded commitments and contingencies	65,747	37,999	28,561	42,841	10,334	3,147	212	384	**189,225**
Total credit risk	**1,186,945**	**412,950**	**259,941**	**328,003**	**1,080,255**	**547,772**	**63,234**	**301,975**	**4,181,075**

BD '000

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	88,610	52,950	22,569	4,817	9,646
Banks & other financial institutions	8,428	4,784	356	-	-
Construction & real estate	20,965	7,661	2,813	495	2,536
Government & public sector	16,195	8,860	-	-	-
Individuals	8,639	7,755	8,966	420	1,432
Others	5,152	3,332	1,910	1,221	-
Total	**147,989**	**85,342**	**36,614**	**6,953**	**13,614**

10 . 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	87,231	36,832
Amounts written off	(13,615)	-
Write backs/cancellation due to improvement	(1,773)	-
Additional provisions made	11,040	3,720
Transfers between stages	2,840	(2,840)
Exchange adjustment and other movements	(381)	(1,098)
Balance at reporting date	**85,342**	**36,614**

11 . Ageing of impaired and past due loans by region

BD '000

	GCC	North America	Europe	Asia	Others	Total
3 months up to 1 year	68,428	-	3,007	3,183	-	**74,618**
1 to 3 years	67,330	-	-	921	-	**68,251**
Over 3 years	4,862	-	-	258	-	**5,120**
Total past due and impaired loans	**140,620**	**-**	**3,007**	**4,362**	**-**	**147,989**
Stage 3: Lifetime ECL credit- impaired	(82,914)	-	-	(2,428)	-	**(85,342)**
Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	(35,939)	-	(55)	(569)	(51)	**(36,614)**

12 . 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	48,116	7,179	11,087	-	3,113	5,123	**74,618**
1 to 3 years	40,324	1,249	7,864	16,195	2,617	2	**68,251**
Over 3 years	170	0	2,014	-	2,909	27	**5,120**
Total past due and impaired loans	**88,610**	**8,428**	**20,965**	**16,195**	**8,639**	**5,152**	**147,989**

13 . Restructured Loans

BD'000

Loans restructured during the period	**57,337**
Impact of restructured facilities and loans on provisions	**4,726**

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

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 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 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 2019 to June 2019 is as follows:

VaR Results for 2019 (10 day 99%)
Global (BAHRAIN and KUWAIT)
1 January 2019 to 30 June 2019

BD '000

Asset class	Limit	VaR 30 June 2019	High VaR	Low VaR	Average VaR
Foreign exchange	641	253	289	167	**240**
Interest rate	151	1	5	0	**2**
	792	**255**	**291**	**170**	**242**

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 2019 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.

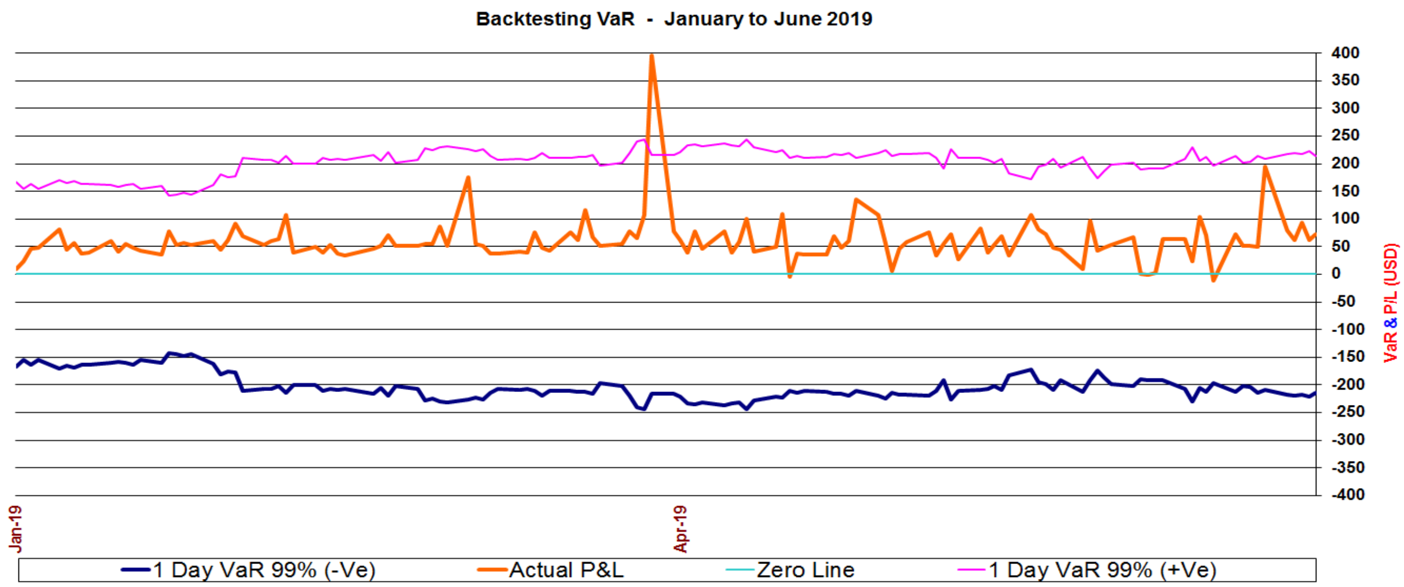
14 . Market Risk Disclosures for banks using the Internal Models Approach (IMA) for trading portfolios (continued)

Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2019	211
February 2019	274
March 2019	257
April 2019	268
May 2019	237
June 2019	255

The following graph shows that 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 2019



15 . 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 2019:

	BD '000
US Dollars	113,203
EURO	110
G.C.C. Currencies (pegged to the USD)	14,014
Kuwaiti Dinars	(3,403)
Others	1,239
Total	**125,163**

* All of the above currency positions are unhedged

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

	BD '000
Sovereign	1,127,858
Total	**1,127,858**

17 . Derivatives

BD '000

Derivatives	**Positive fair value**	**Negative fair value**	**Notional Amount**
Derivatives held for Trading			
Forward foreign exchange contracts	207	189	153,516
Derivatives held as fair value hedges			
Interest rate swap	949	24,272	597,600
Total	**1,156**	**24,461**	**751,116**

18 . Credit Derivative Exposures

BBK is not exposed to any credit derivatives as at 30 June 2019.

19 . Equity positions in the banking book

	BD '000
Publicly traded equity shares	47,907
Privately held equity shares	23,466
Total	71,373
Capital required	**8,922**

20 . Gain on equity instruments

	BD '000
Realised Gains/ Losses in the statement of profit or loss	**0**
Realised Gains/ Losses in retained earnings	**(838)**
Unrealised Gains/ Losses in CET1 Capital	**(7,005)**

21 . 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 2019, 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.

22 . 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 5.18%
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 5.18%

23 . 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 2019, the leverage ratio for BBK stood at 11.39%.