المدير التنفيذي للرقابة المصرفية
Executive Director - Banking Supervision

مصرف البحرين المركزي
Central Bank of Bahrain

EDBS/KH/98/2013
12 June 2013

Chief Executive Officer
All Locally Incorporated Banks
Manama
Kingdom of Bahrain

Dear Sir

Basel 3 Implementation Plan

Please find for your kind attention the high level implementation plan and phase-in arrangements for Basel 3 in the Kingdom of Bahrain. This plan has been drawn up following consultations and discussions with the banking sector over the past four years. In particular, the CBB wishes to note its appreciation of the valuable input received from the three working groups (Islamic, Retail and Wholesale) that met at the CBB during the Autumn of 2012.

As you are aware, the CBB asked all locally incorporated banks in 2010 and 2011 (using end June data) to participate in two separate Quantitative Impact Assessments (QIAs) which provided the CBB with valuable input on the potential impact of Basel 3 on banks' capital adequacy and balance sheets.

The formal implementation of the Basel 3 methodology commenced with the CBB circulars dated 27 November 2012. These circulars (to conventional and Islamic banks respectively) require formal reporting of the key Basel 3 capital adequacy and liquidity ratios. The first reports have been received and the proforma reporting process will continue on a quarterly basis throughout 2013 and 2014 alongside the routine PIR reporting (for current Basel 2 reporting purposes) that will continue for reporting periods until 31.12.2014.

The existing minimum required target capital adequacy ratio of 12.5% will remain in place but with adjustments to the definitions and contributions of the elements of capital.

ص.ب : ٢٧، المنـــامة - مملكـــة البـــحـــريـن
هاتف : ١٧٥٤٧٤٠٠ (+٩٧٣) - فاكس: ١٧٥٣٢٦٠٥ (+٩٧٣)
P.O. Box : 27, Manama - Kingdom of Bahrain
Tel: (+973) 17547400 - Fax: (+973) 17532605
website: www.cbb.gov.bh
E-mail: khalid.hamad@cbb.gov.bh

The attached phase-in table is provided in order to assist banks in allocating internal resources and revising their Internal Capital Adequacy Assessment Plans to ensure compliance with the new Basel 3 capital and liquidity requirements as they are incorporated into the Rulebooks. This table serves as a high level summary. Further more detailed definitions and explanations of the elements of Tier 1 and Tier 2 capital will be outlined in the consultation papers and the draft Rulebook modules which will follow in due course. The CBB reserves the right to set higher minimum CARs for certain banks based on the risk profile and systemic importance of the individual bank. The attached phase-in arrangements will be subject to ongoing review subject to regional and international developments.

The next material step in Basel 3 implementation will be the release of the modifications to Module CA (primarily changes to the definition of capital) which is scheduled to go ahead in the second half of 2013.

Yours sincerely

Khalid Hamad

Alternative CBB Phase-in arrangements for Basel III

(Shading indicates transition periods – all dates are as of 1 January)

	2013 – 2014	**2015**	**2016**	**2017**	**2018**	**2019**	**As of 1 January 2020**
Leverage Ratio	Basel 3 Reporting			Disclosure starts	Migration to Pillar 1		
Minimum Common Equity Capital Ratio	Basel 3 Reporting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer	Basel 3 Reporting	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)*		20%	40%	60%	80%	100%	100%
Minimum Total Capital plus conservation buffer	Basel 3 Reporting	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital		Phased out over 10 year horizon beginning 2015					
Liquidity coverage ratio (phase in)	Basel 3 Reporting	Introduce minimum 60% ratio	Introduce minimum 70% ratio	Introduce minimum 80% ratio	Introduce minimum 90% ratio	100% LCR	
Net stable funding ratio	Basel 3 Reporting					Introduce minimum standard	

Countercyclical and SIBs Buffers are not mentioned in this chart

* Deferred Tax Assets, Mortgage Servicing Rights and investments in financial institutions.