Basel III Regulatory Capital Disclosures

(For the six month period ended 30 June 2024)

Table No.	Contents	Page no.

All figures in BD millions

1 Statement of Financial Position under the Regulatory Scope of Consolidation

The table below shows the link between the consolidated statement of financial position in the published consolidated financial statements (accounting consolidated 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
Assets			
Cash and balances with central banks	**727.3**	**727.3**	
Treasury bills	**294.1**	**294.1**	
Deposits and amounts due from banks and other financial institutions	**337.1**	**337.1**	
Loans and advances to customers	**1,597.9**	**1,597.9**	
of which Expected Credit Loss (1.25% of Credit risk weighted assets)	25.6	25.6	a
of which net loans and advances (gross of Expected Credit Loss)	1,572.3	1,572.3	
Investment securities	**928.2**	**928.2**	
of which investments in financial entities under CET1	28.8	28.8	b
of which related to other investments	899.4	899.4	
Interest receivable, derivative and other assets	**131.2**	**130.3**	
of which deferred tax assets due to temporary differences	0.7	0.7	c
of which intangibles	7.6	7.6	d
of which interest receivable, derivative and other assets	122.9	122.0	
Investments in associates and joint ventures	**48.6**	**51.0**	
of which Investment in own shares	1.0	1.0	e
of which equity investments in financial entities	31.5	31.5	f
of which other investments	16.1	18.5	
Premises and equipment	**37.0**	**36.7**	
Total assets	**4,101.4**	**4,102.6**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**313.7**	**313.7**	
Borrowings under repurchase agreement	**330.5**	**330.5**	
Term borrowings	**471.2**	**471.2**	
Customers' current, savings and other deposits	**2,249.8**	**2,253.4**	
Interest payable, derivative and other liabilities	**120.4**	**118.4**	
Total liabilities	**3,485.6**	**3,487.2**	
Equity			
Share capital	**181.7**	**181.7**	g
Treasury stock	**(2.7)**	**(2.7)**	h
Share premium	**105.6**	**105.6**	i
Statutory reserve	**86.0**	**86.0**	j
General reserve	**64.2**	**64.2**	k
Cumulative changes in fair values	**27.3**	**27.3**	
of which cumulative changes in fair values on bonds and equities	27.0	27.0	l
of which fair value changes in cash flow hedges	0.3	0.3	m
Foreign currency translation adjustments	**(15.7)**	**(15.7)**	
of which related to unconsolidated subsidiary	-	-	n
of which related to Parent	(15.7)	(15.7)	o
Retained earnings	**144.2**	**143.8**	
of which employee stock options	3.2	3.2	p
of which related to unamortized modification loss	(9.7)	(9.7)	q
of which retained earnings	150.7	150.4	r
Proposed appropriations	**22.6**	**22.6**	s
Attributable to the owners of the Bank	**613.2**	**612.8**	
Non-controlling interests	**2.6**	**2.6**	
Total equity	**615.8**	**615.4**	
Total liabilities and equity	**4,101.4**	**4,102.6**	

- **Legal entities included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:**

Name	Principle activities	Total Assets	Total Equity
Invita Company W.L.L.	Business processing and outsourcing services	5.8	3.7

2 . Capital Ratios - consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
Bank of Bahrain and Kuwait B.S.C. Consolidated	27.2%	26.1%
CrediMax B.S.C. (c)	54.9%	54.9%

There are no restrictions on the transfer of funds or regulatory capital within the Group.

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.

All figures in BD millions

	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	284.6	g+h+i
Retained earnings	173.0	n+r+s
Accumulated other comprehensive income and losses (and other reserves)	161.8	j+k+l+m+o
Common Equity Tier 1 capital before regulatory adjustments	**619.4**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	7.6	d
Cash flow hedge reserve	0.3	m
Investments in own shares	1.0	e
Total regulatory adjustments to Common equity Tier 1	**8.9**	
Common Equity Tier 1 capital (CET1)	**610.5**	
Tier 1 capital (T1 = CET1 + AT1)	**610.5**	
Tier 2 capital: instruments and provisions		
Provisions	25.6	a
Tier 2 capital before regulatory adjustments	**25.6**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	**25.6**	
Total capital (TC = T1 + T2)	**636.1**	
Total risk weighted assets	**2,338.0**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	26.1%	
Tier 1 (as a percentage of risk weighted assets)	26.1%	
Total capital (as a percentage of risk weighted assets)	**27.2%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	1.5%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	26.1%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.5%	
CBB Tier 1 minimum ratio	12.0%	
CBB total capital minimum ratio	14.0%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	28.8	b
Significant investments in the common stock of financials	31.5	f
Deferred tax assets arising from temporary differences (net of related tax liability)	0.7	c
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)	33.4	
Cap on inclusion of provisions in Tier 2 under standardised approach	25.6	a

All figures in BD millions

4 . Capital Requirement for Risk Weighted Exposure

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 14.0%
Sovereign	1,610.0	-	1,610.0	58.8	8.2
Public sector entities	0.1	-	0.1	-	-
Banks	476.5	-	476.5	273.9	38.3
Corporates	1,268.4	50.7	1,217.7	883.9	123.7
Regulatory retail and SME	502.4	4.3	498.1	365.8	51.2
Mortgage	145.7	0.2	145.5	104.9	14.7
Investment in securities #	94.1	-	94.1	147.9	20.7
Past due exposures	27.5	-	27.5	30.3	4.2
Real estate	58.3	-	58.3	99.5	13.9
Other assets and cash items	113.2	-	113.2	82.8	11.6
Total Credit Risk	**4,296.2**	**55.2**	**4,241.0**	**2,047.8**	**286.5**
Market Risk	-	-	-	41.1	5.8
Operational Risk *	-	-	-	249.1	34.9
Total Risk Weighted Exposure	**4,296.2**	**55.2**	**4,241.0**	**2,338.0**	**327.2**

Included in the Investment in securities category investment in an insurance entity that is risk weighted rather than deducted from eligible capital. This, if deducted will reduce the eligible capital to BD 632.5 million.

Entity	Country of Domicile	Ownership %	Risk weighted asset	Regulatory capital required 14.0%
Bahrain Kuwait Insurance Company B.S.C. "BKIC"	Bahrain	6.82%	3.6	0.5

* 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 percent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the six months ended 30 June 2024 is BD 132.9 million.

Credit Risk Mitigation and Collateral Valuation Policy

BBK employs a range of techniques to mitigate risk in its credit portfolio. Credit risk mitigation includes an objective assessment of the counterparty’s capacity and willingness to meet its commitments in the normal course. The Bank strives to optimize facility structure, collateral, lending covenants, terms and conditions.

The Bank maintains detailed policies and procedures for valuing collateral/securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security. More frequent valuations are also considered if warranted by market volatility and declining trends in valuations are observed. The collaterals and support include mortgages, cash collaterals, marketable securities, personal and corporate guarantees and guarantees from sovereigns and financial institutions. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

All figures in BD millions

5 . Funded, Unfunded and Average Credit Exposure

Total gross credit exposures	Total funded credit exposures	Total un-funded credit exposures	Average quarterly credit exposures
Sovereign	1,608.8	1.2	1,634.0
Public sector entities	0.1	-	0.1
Banks	418.7	57.8	446.4
Corporates	1,108.7	159.7	1,264.5
Regulatory retail and SME	502.4	-	503.5
Mortgage	145.7	-	145.0
Investment in securities	94.1	-	94.5
Past due exposures	27.5	-	26.8
Real estate	58.3	-	59.4
Other assets and cash items	113.2	-	129.7
Total credit risk exposures	**4,077.5**	**218.7**	**4,303.9**

All figures in BD millions

6 . Concentration of Credit Risk by Region (Exposures Subject to Risk Weighting)

	Gulf Cooperation Council (GCC)	North America	Europe	Asia	Others	Total
Cash and balances with central banks	718.4	-	-	8.9	-	**727.3**
Treasury bills	294.1	-	-	-	-	**294.1**
Deposits and amounts due from banks and other financial institutions	161.3	104.2	35.8	35.8	-	**337.1**
Loans and advances to customers	1,471.0	-	53.6	78.3	24.7	**1,627.6**
Investments in associates and joint ventures	39.0	-	9.4	-	-	**48.4**
Investment securities	714.0	9.7	104.3	67.2	33.0	**928.2**
Interest receivable, derivative and other assets	107.5	-	1.5	5.8	-	**114.8**
Total funded exposure	**3,505.3**	**113.9**	**204.6**	**196.0**	**57.7**	**4,077.5**
Unfunded commitments and contingencies	153.0	0.4	47.5	17.5	0.3	**218.7**
Total credit risk	**3,658.3**	**114.3**	**252.1**	**213.5**	**58.0**	**4,296.2**

All figures in BD millions

7 . Concentration of Credit Risk by Industry (Exposures Subject to Risk Weighting)

	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
Cash and balances with central banks	-	23.5	-	703.8	-	-	**727.3**
Treasury bills	-	-	-	294.1	-	-	**294.1**
Deposits and amounts due from banks and other financial institutions	-	337.1	-	-	-	-	**337.1**
Loans and advances to customers	435.5	95.8	292.7	113.6	552.2	137.8	**1,627.6**
Investments in associates and joint ventures	-	39.0	9.4	-	-	-	**48.4**
Investment securities	103.6	140.8	13.1	625.2	-	45.5	**928.2**
Interest receivable, derivative and other assets	-	-	-	-	-	114.8	**114.8**
Total funded exposure	**539.1**	**636.2**	**315.2**	**1,736.7**	**552.2**	**298.1**	**4,077.5**
Unfunded commitments and contingencies	65.1	65.6	41.9	0.1	0.2	45.8	**218.7**
Total credit risk	**604.2**	**701.8**	**357.1**	**1,736.8**	**552.4**	**343.9**	**4,296.2**

All figures in BD millions

8 . Concentration of Credit Risk by Maturity (Exposures Subject to Risk Weighting)

	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	629.7	-	-	-	-	-	-	97.6	**727.3**
Treasury bills	21.4	47.5	121.0	104.2	-	-	-	-	**294.1**
Deposits and amounts due from banks and other financial institutions	292.5	43.4	-	-	0.9	0.3	-	-	**337.1**
Loans and advances to customers	225.2	117.9	83.2	131.4	801.0	184.8	65.3	18.8	**1,627.6**
Investments in associates and joint ventures	-	-	-	-	-	-	-	48.4	**48.4**
Investment securities	16.7	19.8	27.7	34.3	360.7	205.9	239.7	23.4	**928.2**
Interest receivable, derivative and other assets	59.1	0.1	0.1	0.2	50.6	1.5	1.9	1.3	**114.8**
Total funded exposure	**1,244.6**	**228.7**	**232.0**	**270.1**	**1,213.2**	**392.5**	**306.9**	**189.5**	**4,077.5**
Unfunded commitments and contingencies	8.9	9.1	5.5	6.3	154.9	23.7	3.2	7.1	**218.7**
Total credit risk	**1,253.5**	**237.8**	**237.5**	**276.4**	**1,368.1**	**416.2**	**310.1**	**196.6**	**4,296.2**

All figures in BD millions

9 . Impaired Loans and Provisions

	Impaired loans (Balance)	Stage 3: Lifetime ECL credit-impaired	Stage 1: 12-month ECL and stage 2: Lifetime ECL not credit- impaired	Stage 3: Net remeasurement of loss allowance for the period	Written off during the period
Trading and manufacturing	32.0	20.4	16.2	4.1	-
Banks and other financial institutions	0.6	0.6	0.7	(0.3)	0.2
Construction and real estate	14.6	5.3	4.5	0.4	0.2
Government and public sector	12.5	8.9	0.1	-	-
Individuals	10.3	9.3	5.4	1.6	2.0
Others	3.6	1.6	2.8	0.7	1.6
Total	**73.6**	**46.1**	**29.7**	**6.5**	**4.0**

10 . Reconciliation of Changes in Expected Credit Losses

For reconciliation of expected credit losses, refer note 6 to the interim condensed consolidated financial statements for the period ended in 30 June 2024.

All figures in BD millions

11 . Ageing of Impaired and Past Due Loans by Region

	GCC	Europe	Asia	Others	Total
3 months up to 1 year	25.6	-	-	7.3	**32.9**
1 to 3 years	6.4	-	0.8	-	**7.2**
Over 3 years	32.9	0.6	-	-	**33.5**
Total past due and impaired loans	**64.9**	**0.6**	**0.8**	**7.3**	**73.6**
Stage 1: 12-month ECL and stage 2: Lifetime ECL not credit- impaired	(28.9)	(0.4)	-	(0.4)	**(29.7)**
Stage 3: Lifetime ECL credit- impaired	(45.3)	-	(0.8)	-	**(46.1)**

12 . Ageing of Impaired and Past Due Loans by Industry

	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
3 months up to 1 year	21.3	-	5.3	-	4.9	1.4	**32.9**
1 to 3 years	1.8	-	1.7	-	3.7	-	**7.2**
Over 3 years	8.9	0.6	7.6	12.5	1.7	2.2	**33.5**
Total past due and impaired loans	**32.0**	**0.6**	**14.6**	**12.5**	**10.3**	**3.6**	**73.6**

13 . Restructured Loans

Loans restructured during the period	**61.1**
Impact of restructured facilities and loans on provisions	**1.7**

The above restructurings 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.

All figures in BD millions

14 . Market Risk Disclosures for Banks using the Internal Models Approach (IMA)/ Standardized Approach (SA) 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 1 January 2024 to 30 June 2024 is as follows:

VaR Results for 2024 (10 day 99%)
Global (BAHRAIN and KUWAIT)
1 January 2024 to June 2024

Asset class	Limit	VaR 30 June 2024	High VaR	Low VaR	Average VaR
Foreign exchange	0.64	0.36	0.40	0.30	0.36
Interest rate	0.15	0.00	0.01	0.00	0.00
	0.79	**0.37**	**0.40**	**0.30**	**0.36**

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 2024 to June 2024 confirmed that there was no 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.

All figures in BD millions

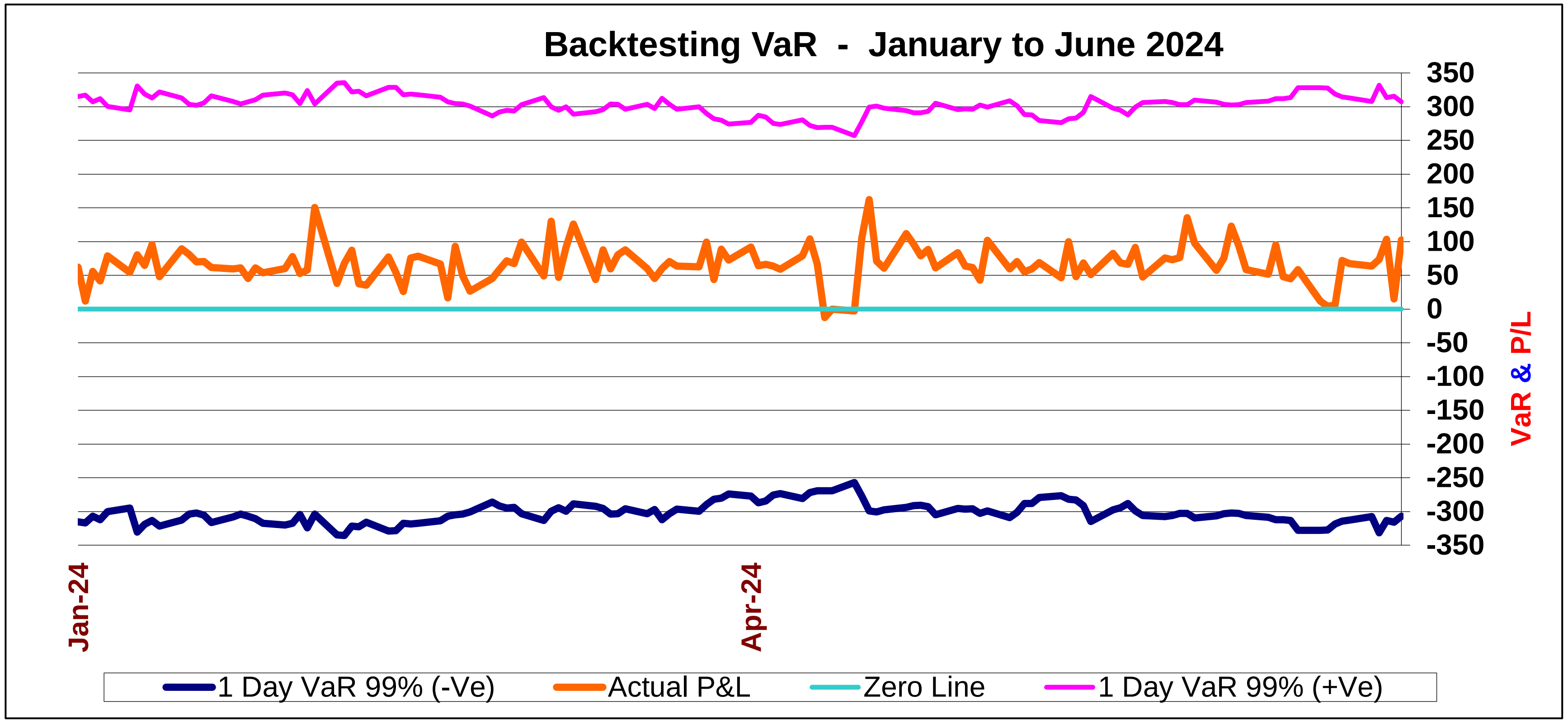
14 . Market Risk Disclosures for banks using the Internal Models Approach (IMA)/ Standardized Approach (SA) for trading portfolios (continued)

Month end VaR (10 day 99%)

Month	VaR
January 2024	0.36
February 2024	0.35
March 2024	0.33
April 2024	0.35
May 2024	0.37
June 2024	0.37

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 2024 (USD Millions)



All figures in BD millions

14 . Market Risk Disclosures for Banks Using the Internal Models Approach (IMA)/ Standardized Approach (SA) for trading portfolios (continued)

For India Operations

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities / implied volatilities in the market value of derivatives.

As banks in India are still in a nascent stage of developing internal risk management models, RBI has decided that, to start with, banks may adopt the standardised method and market risk shall be measured using “duration” method, which is considered as a more accurate method of measuring interest rate risk, as compared to maturity method. Accordingly, BBK India has adopted standardised duration method to arrive at the capital charge for market risk. As of 30 June 2024, Capital Charge calculated based on above parameters was as follows :

Capital charge	30 June 2024
Foreign exchange	0.05
Interest rate	0.30
	0.35

15 . Currency Risk

All figures in BD millions

The functional currency of the Bank together and its subsidiaries ("The Group") is Bahraini Dinar.

The Group has the following significant non - strategic net exposures denominated in foreign currencies as of 30 June 2024:

US Dollars	176.6
Euro	0.1
GCC Currencies (pegged to the USD)	12.3
Kuwaiti Dinars	7.6
Others	0.2
Total	**196.8**

All of the above currency positions are not hedged.

16 . Concentration Risk to Individuals Where the Total Exposure is in Excess of Single Obligor Limit of 15%

Bahrain Government	1,544.4
Bank	96.5
Total	**1,640.9**

17 . Derivatives

Derivatives	**Positive fair value**	**Negative fair value**	**Notional amount**
Derivatives held for trading			
Forward foreign exchange contracts	0.5	0.1	308.9
Derivatives held as fair value hedges			
Interest rate swap	44.7	1.5	560.9
Total	**45.2**	**1.6**	**869.8**

18 . Credit Derivative Exposures

BBK is not exposed to any credit derivatives as at 30 June 2024.

19 . Related Party Transactions

Exposures to related parties are disclosed in note 14 to the interim condensed consolidated financial statements for the period ended 30 June 2024.

20 . Equity Positions in the Banking Book

All figures in BD millions

Publicly traded equity shares	42.6
Privately held equity shares	25.0
Total	**67.6**
Regulatory capital required 14.0%	**9.5**

21 . Net Gain on Equity Instruments

Realised losses in retained earnings	**(2.0)**
Unrealised gains in CET1 Capital	**3.9**

22 . 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 2024, there were legal suits pending against the Group of more than BD 0.2 million. Based on the opinion of the Head of Legal Department, the risk that is likely to arise from these suits is remote.

23 . 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 6.9%.

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 6.9%.

24 . Leverage Ratio

In November 2018, the Central Bank of Bahrain (CBB) issued its final Leverage regulation, with an effective date of 30 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 applicable for BBK is 3.75%. As of 30 June 2024, the leverage ratio for BBK stood at a healthy position of 13.66%.