Basel III Regulatory Capital Disclosures

(For the year ended 31 December 2024)

1. Executive Summary

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, hereafter referred to as "CBB". The report has been designed to provide BBK Group’s stakeholders with detailed information on our approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision’s (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2024 presented in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Group Annual Report.

2 Introduction to the Basel III Framework

The CBB’s Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of Bank's capital. To this end, Tier 1 capital "T1" must be the main component of capital, and the predominant form of T1 capital must be common shares and reserves. Deductions from capital and prudential filters are generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital "T2" instruments are restricted and have a limit on their contribution to total regulatory capital. Furthermore, Basel III introduced a number of capital buffers to promote the conservation of capital (Capital Conservation Buffer or "CCB") and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer) and the high loss absorbency buffer for Domestic Systemically Important Banks (D-SIBs).

CBB minimum required total capital adequacy ratio (including CCB) is 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are limits and minima introduced by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB. BBK had been designated as a DSIB by the CBB. Consequently, BBK is required to maintain an effective minimum total capital adequacy ratio above 14.0 percent, i.e. inclusive of 1.5 percent as a D-SIB buffer.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB’s Basel III capital adequacy framework:

<table>
<tr><th>Credit Risk</th><th>Market Risk</th><th>Operational Risk</th></tr>
<tr><td rowspan="2">Standardised Approach</td><td>Standardised Approach</td><td>Basic Indicator Approach</td></tr>
<tr><td>Internal Models Approach</td><td>Standardised Approach</td></tr>
</table>

2 Introduction to the Basel III Framework (continued)

Pillar I (continued)

The approach applied by BBK for each risk type is as follows:

i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. Credit risk constitutes nearly 90 percent of the overall risk for the Bank. The Bank has a robust credit risk management architecture which is explained in greater details in notes 30 and 31 of the Annual Report. The credit RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

ii) Market Risk

The Group uses the standardised approach for allocating market risk capital. The standardised approach for market risk was adopted on 08 November 2024 as approved by the CBB from the internal model approach previously used.

iii) Operational Risk

All banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK 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.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain a total capital adequacy ratio above 12.5 percent, except those assigned as DSIB, the minimum would be 14.0 percent.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. BBK has developed an ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' funds and the corresponding capital requirement are estimated by the Bank as part of the 3 years strategy approved by the Board. In addition, the Bank also forecasts the Capital Base whenever there is likely reduction in the capital components, and necessary actions are taken in order to ensure regulatory compliance. Moreover, the Bank has a Dividend Policy in place as part of capital management strategy.
The Bank uses the Risk-Adjusted Return On Capital (RAROC) model in its credit decisions in order to assess risk-reward matrix for each credit exposure. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I includes liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

BBK conducts stress testing of its portfolio apart from the ICAAP process in line with CBB requirements from time to time.

2 Introduction to the Basel III Framework (continued)

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The Bank publishes regulatory disclosures periodically on its website and in its Annual Report.

The disclosures comprise of detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution’s risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3 Group Structure

The Group’s financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB’s capital adequacy methodology accommodates both normal and risk weighting consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100.00%	Full Consolidation
Invita Company W.L.L.	Kingdom of Bahrain	100.00%	Risk Weighted
973LABS W.L.L. *	Kingdom of Bahrain	100.00%	Full Consolidation
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	70.00%	Full Consolidation
Associates			
Invita Kuwait K.S.C.C.***	State of Kuwait	40.00%	Risk Weighted
Bahrain Liquidity Fund	Kingdom of Bahrain	23.52%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23.03%	Risk Weighted
The Benefit Company B.S.C. (c)	Kingdom of Bahrain	22.00%	Risk Weighted
Joint Venture			
Magnum Partners Holding Limited	Jersey	49.96%	Risk Weighted
LSE Jersey Holdings Limited Partnership	Jersey	45.00%	Risk Weighted
BBK Geojit Securities K.S.C.	State of Kuwait	40.00%	Risk Weighted
Evoque Holdings Jersey Limited	Jersey	24.99%	Risk Weighted

** CrediMax B.S.C. (c) and Invita Company W.L.L. hold 60% and 40% ownership in 973Labs W.L.L., respectively.*

*** Shareholding through CrediMax B.S.C. (c) Subsidiary*

**** Shareholding through Invita Company W.L.L. Subsidiary*

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure that minimum regulatory capital requirements are met for subsidiary companies.

All figures in BD millions

4 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 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
Assets			
Cash and balances with central banks	**687.7**	**687.7**	
Treasury bills	**399.2**	**399.2**	
Deposits and amounts due from banks and other financial institutions	**167.9**	**167.9**	
Loans and advances to customers	**1,794.1**	**1,794.1**	
of which Expected Credit Loss (1.25% of Credit risk weighted assets)	27.0	27.0	a
of which net loans and advances (gross of Expected Credit Loss)	1,767.1	1,767.1	
Investment securities	**939.4**	**939.4**	
of which investments in financial entities under CET1	31.4	31.4	b
of which related to other investments	908.0	908.0	
Interest receivable, derivative and other assets	**121.0**	**120.3**	
of which deferred tax assets due to temporary differences	0.9	0.9	c
of which intangibles	8.4	8.4	d
of which interest receivable, derivative and other assets	111.7	111.0	
Investments in associates and joint ventures	**45.2**	**47.6**	
of which Investment in own shares	0.3	0.3	e
of which equity investments in financial entities	31.4	31.4	f
of which other investments	13.5	15.9	
Premises and equipment	**38.1**	**37.8**	
Total assets	**4,192.6**	**4,194.0**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**375.5**	**375.5**	
Borrowings under repurchase agreement	**351.6**	**351.6**	
Term borrowings	**306.5**	**306.5**	
Customers' deposits	**2,411.3**	**2,415.4**	
Interest payable, derivative and other liabilities	**124.0**	**122.1**	
Total liabilities	**3,568.9**	**3,571.1**	
Equity			
Share capital	**181.7**	**181.7**	g
Treasury stock	**(5.0)**	**(5.0)**	h
Share premium	**105.6**	**105.6**	i
Statutory reserve	**90.8**	**90.8**	j
General reserve	**64.2**	**64.2**	k
Cumulative changes in fair values	**25.0**	**25.0**	
of which cumulative changes in fair values on bonds and equities	24.9	24.9	l
of which fair value changes in cash flow hedges	0.1	0.1	m
Foreign currency translation reserve	**(16.6)**	**(16.6)**	
of which related to unconsolidated subsidiary	-	-	n
of which related to Parent	(16.6)	(16.6)	o
Retained earnings	**132.3**	**131.5**	
of which employee stock options	3.1	3.1	p
of which related to unamortized modification loss	(6.5)	(6.5)	q
of which retained earnings	135.7	134.9	r
Proposed appropriations	**42.8**	**42.8**	s
Attributable to the owners of the Bank	**620.8**	**620.0**	
Non-controlling interests	**2.9**	**2.9**	
Total equity	**623.7**	**622.9**	
Total liabilities and equity	**4,192.6**	**4,194.0**	

- **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	6.1	4.2

5 Regulatory Capital Components - Consolidated

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1". CET1 capital consists of: (a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes, (b) Disclosed reserves including: i) General reserves; ii) Legal / statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses (including net profit / (loss) for the reporting period, whether reviewed or audited), (c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1. AT1 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in AT1, (b) Share premium resulting from the issue of instruments included in AT1, (c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and (d) Regulatory adjustments applied in the calculation of AT1. T2 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in T2, (b) premium resulting from the issue of instruments included in T2, (c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1, (d) Expected Credit Loss reserve for Stage 1 and 2 exposures, (e) Asset revaluation reserves which arise from the revaluation of premises and equipment and investment properties from time to time in line with the change in market values, and (f) Regulatory adjustments applied in the calculation of T2. At present, the T2 capital of BBK consists solely of Expected Credit Losses reserve for Stage 1 and 2 exposures.

The CBB applies various limits and minima to the components of the regulatory capital, as shown in the below table. There is also a restriction on the amount of Expected Credit Losses (ECL) reserve that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

Components of Consolidated CAR		
	Optional	Minimum Ratio
Core Equity Tier 1 (CET 1)		6.5%
Additional Tier 1 (AT1)	1.5%	
Tier 1 (T1)		8.0%
Tier 2 (T2)	2.0%	
Total Capital		10.0%
Capital Conservation Buffer (CCB)		2.5%
Domestically Systemic Important Bank (D-SIB) Buffer		1.5%
CAR including Buffers		
CET 1 plus Buffers		10.5%
Tier 1 plus Buffers		12.0%
Total Capital plus CCB		12.5%
Total Capital plus CCB and DSIB Buffer		14.0%
Components of Solo CAR		
	Optional	Minimum Ratio
Core Equity Tier 1 (CET 1)		4.5%
Additional Tier 1 (AT1)	1.5%	
Tier 1 (T1)		6.0%
Tier 2 (T2)	2.0%	
Total Capital		8.0%
Capital Conservation Buffer (CCB)		0.0%

In accordance with the CBB’s Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. The CBB's Basel III capital adequacy framework requires that most of the deductions to be made from the CET1.

5 Regulatory Capital Components - Consolidated (continued)

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	282.2	g+h+i
Retained earnings	177.7	n+r+s
Accumulated other comprehensive income and losses (and other reserves)	163.4	j+k+l+m+o
Common Equity Tier 1 capital before regulatory adjustments	**623.3**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	8.4	d
Cash flow hedge reserve	0.1	m
Investments in own shares	0.3	e
Total regulatory adjustments to Common equity Tier 1	**8.8**	
Common Equity Tier 1 capital (CET1)	**614.5**	
Tier 1 capital (T1 = CET1 + AT1)	**614.5**	
Tier 2 capital: instruments and provisions		
Provisions	27.0	a
Tier 2 capital before regulatory adjustments	**27.0**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	**27.0**	
Total capital (TC = T1 + T2)	**641.5**	
Total risk weighted assets	**2,418.0**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	25.4%	
Tier 1 (as a percentage of risk weighted assets)	25.4%	
Total capital (as a percentage of risk weighted assets)	**26.5%**	
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)	25.4%	
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	31.4	b
Significant investments in the common stock of financials	31.4	f
Deferred tax assets arising from temporary differences (net of related tax liability)	0.9	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)	27.6	
Cap on inclusion of provisions in Tier 2 under standardised approach	27.0	a

6 . Capital Adequacy

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and other discretionary payments and the issue of new shares and other capital instruments.

As per its ICAAP, BBK aims to maintain a minimum total capital adequacy ratio in excess of the capital assessed as per its ICAAP document (considering D-SIB and CCB). The CBB's current minimum total capital adequacy ratio (including CCB and D-SIB) for banks incorporated in Bahrain is set at 14.0 percent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

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	26.5%	25.4%
CrediMax B.S.C. (c)	62.3%	62.3%

7 . Credit risk – Pillar III Disclosures

This section describes the BBK’s exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB’s Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of consolidated financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB’s Basel III capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB’s Basel III capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

- Sovereign portfolio

The sovereigns portfolio comprises of exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero percent risk weighting.

- Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk weighted according to their external ratings.

- Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on certain investment firms which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

- Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

- Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75 percent, except for past due portfolio. As part of regulatory concessionary measures in response to COVID-19, risk weight for Bahraini based Small Medium Entities (SMEs) was reduced from 75 percent to 25 percent inline with CBB guidance, up till further notice.

- Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims on residential mortgage granted under Social Housing Scheme of the Kingdom of Bahrain are risk weighted at 25%. Claims secured by mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

- Equities portfolio

The equities portfolio comprises equity investments in the banking book. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent, unless subject to the following treatments. The amount of any significant investments in commercial entities (A “significant investment” in a commercial entity is defined as any investment in the capital instruments of a commercial entity by the bank which is equivalent to or more than 10 percent of the issued common share capital of the issuing commercial entity) above 15 percent (individually) and 60 percent (collectively) of the bank's capital (the "Total Capital materiality thresholds") must be risk weighted at 800 percent. Moreover, significant investments in the common shares of unconsolidated financial entities must be risk weighted at 250 percent.

7 . Credit risk – Pillar III Disclosures (continued)

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

- Investments in funds portfolio
The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100% if listed, and 150% if not listed.

- Past due exposures
This includes claims, for which the repayment is overdue for ninety days or more. The risk weight applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

- Holding of real estate
All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associates or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

- Other assets and holdings of securitisation tranches
Other assets are risk weighted at 100 percent, whereas securitisation exposures are risk weighted at 20 percent to 1,250 percent, depending on the external rating.

All BBK's holding of securitisations, if any is reported part of the Bank's investment portfolio.

Large exposures

The excess amount of any exposure above 15% of the bank's regulatory capital to any counterparty or a group of closely related counterparties must be risk weighted at 800%, unless it is an exempted exposure in accordance with the requirements of the CBB Rulebook.

External rating agencies
BBK uses ratings issued by Moody’s and Fitch to derive the risk weightings under the CBB’s Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel III
The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

• Under the CBB’s Basel III framework, statement of financial position exposures are converted into credit exposure equivalents by applying a Credit Conversion Factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.

• In case of Over-the-Counter (OTC) derivative contracts, in addition to the default risk capital requirements for counterparty credit risk, the bank must add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments or CVA).

• Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances to customers in the consolidated financial statements.

• Certain eligible collateral is applied to reduce exposure under the Basel III capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.

• Based on the CBB’s Basel III guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

All figures in BD millions

8 . 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	1,705.1	-	1,705.1	64.6	9.0
Public sector entities	9.5	-	9.5	4.7	0.7
Banks	373.5	-	373.5	224.0	31.4
Corporates	1,370.2	56.1	1,314.1	1,023.8	143.3
Regulatory retail and SME	516.9	2.8	514.1	375.1	52.5
Mortgage	148.9	0.2	148.7	108.1	15.1
Investment in securities #	98.2	-	98.2	151.7	21.2
Past due exposures	27.2	-	27.2	29.6	4.1
Real estate	59.0	-	59.0	100.9	14.1
Other assets and cash items	95.7	-	95.7	73.9	10.3
Total Credit Risk	**4,404.2**	**59.1**	**4,345.1**	**2,156.4**	**301.7**
Market Risk	-	-	-	12.5	1.8
Operational Risk *	-	-	-	249.1	34.9
Total Risk Weighted Exposure	**4,404.2**	**59.1**	**4,345.1**	**2,418.0**	**338.4**

Included in the Investment in securities category investment is an insurance entity that is risk weighted rather than deducted from eligible capital. This, if deducted will reduce the eligible capital to BD 638.2 million

Entity	Country of Domicile	Ownership %	Risk weighted asset	Regulatory capital required 14.0%
Bahrain and Kuwait Insurance Company B.S.C. "BKIC"	Bahrain	6.82%	3.4	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 year 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.

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All figures in BD millions

9 . Funded, Unfunded and Average Credit Exposure

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereign	1,705.0	0.1	1,700.2
Public sector entities	9.5	-	4.8
Banks	317.1	56.4	410.9
Corporates	1,189.8	180.4	1,277.9
Regulatory retail and SME	516.9	-	508.7
Mortgage	148.9	-	146.6
Investment in securities	98.2	-	96.2
Past due exposures	27.2	-	27.8
Real estate	59.0	-	59.1
Other assets and cash items	95.7	-	113.6
Total credit risk exposures	**4,167.3**	**236.9**	**4,345.8**

All figures in BD millions

10 . 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	680.3	-	-	7.4	-	**687.7**
Treasury bills	399.2	-	-	-	-	**399.2**
Deposits and amounts due from banks and other financial institutions	84.7	64.3	7.2	11.7	-	**167.9**
Loans and advances to customers	1,624.4	-	71.1	71.2	52.2	**1,818.9**
Investments in associates and joint ventures	36.5	-	8.5	-	-	**45.0**
Investment securities	693.1	9.8	128.8	61.5	46.3	**939.5**
Interest receivable, derivative and other assets	102.1	-	1.7	5.3	-	**109.1**
Total funded exposure	**3,620.3**	**74.1**	**217.3**	**157.1**	**98.5**	**4,167.3**
Unfunded commitments and contingencies	180.0	0.3	43.5	12.8	0.3	**236.9**
Total credit risk	**3,800.3**	**74.4**	**260.8**	**169.9**	**98.8**	**4,404.2**

All figures in BD millions

11 . 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	-	21.2	-	666.5	-	-	**687.7**
Treasury bills	-	-	-	399.2	-	-	**399.2**
Deposits and amounts due from banks and other financial institutions	-	167.9	-	-	-	-	**167.9**
Loans and advances to customers	415.7	157.9	379.8	137.8	579.9	147.8	**1,818.9**
Investments in associates and joint ventures	-	36.5	8.5	-	-	-	**45.0**
Investment securities	97.3	159.1	12.8	610.1	-	60.2	**939.5**
Interest receivable, derivative and other assets	-	-	-	-	-	109.1	**109.1**
Total funded exposure	**513.0**	**542.6**	**401.1**	**1,813.6**	**579.9**	**317.1**	**4,167.3**
Unfunded commitments and contingencies	70.8	83.0	48.6	7.0	0.3	27.2	**236.9**
Total credit risk	**583.8**	**625.6**	**449.7**	**1,820.6**	**580.2**	**344.3**	**4,404.2**

All figures in BD millions

12 . 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	579.4	-	-	-	-	-	-	108.3	**687.7**
Treasury bills	31.8	78.4	86.7	202.3	-	-	-	-	**399.2**
Deposits and amounts due from banks and other financial institutions	138.4	28.3	-	0.5	0.4	0.3	-	-	**167.9**
Loans and advances to customers	205.9	189.7	97.9	118.4	812.3	277.8	99.9	17.0	**1,818.9**
Investments in associates and joint ventures	-	-	-	-	-	-	-	45.0	**45.0**
Investment securities	3.7	15.8	31.7	42.5	311.9	180.9	327.1	25.9	**939.5**
Interest receivable, derivative and other assets	50.7	0.1	0.1	0.4	54.1	1.4	2.2	0.1	**109.1**
Total funded exposure	**1,009.9**	**312.3**	**216.4**	**364.1**	**1,178.7**	**460.4**	**429.2**	**196.3**	**4,167.3**
Unfunded commitments and contingencies	13.8	6.7	10.8	6.3	167.3	26.1	2.5	3.4	**236.9**
Total credit risk	**1,023.7**	**319.0**	**227.2**	**370.4**	**1,346.0**	**486.5**	**431.7**	**199.7**	**4,404.2**

All figures in BD millions

13 . 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 year	Written off during the year
Trading and manufacturing	41.3	27.1	11.1	4.4	8.5
Banks and other financial institutions	0.5	0.5	1.0	(0.5)	-
Construction and real estate	11.8	5.0	4.0	6.4	1.3
Government and public sector	12.6	8.9	0.1	-	-
Individuals	9.3	8.1	5.4	2.9	3.9
Others	2.4	1.1	3.2	2.2	0.1
Total	**77.9**	**50.7**	**24.8**	**15.4**	**13.8**

All figures in BD millions

14 . Ageing of Impaired and Past Due Loans by Region

	GCC	Europe	Asia	Others	Total
3 months up to 1 year	42.3	-	0.2	-	**42.5**
1 to 3 years	8.1	-	-	-	**8.1**
Over 3 years	26.8	-	0.5	-	**27.3**
Total past due and impaired loans	**77.2**	**-**	**0.7**	**-**	**77.9**
Stage 1: 12-month ECL and stage 2: Lifetime ECL not credit- impaired	(24.4)	(0.1)	-	(0.3)	**(24.8)**
Stage 3: Lifetime ECL credit- impaired	(50.5)	-	(0.2)	-	**(50.7)**

15 . 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	31.3	-	6.9	-	3.5	0.8	**42.5**
1 to 3 years	1.4	-	2.6	-	4.1	-	**8.1**
Over 3 years	8.6	0.5	2.3	12.6	1.7	1.6	**27.3**
Total past due and impaired loans	**41.3**	**0.5**	**11.8**	**12.6**	**9.3**	**2.4**	**77.9**

16 . Restructured Loans

Loans restructured during the year	**68.6**
Impact of restructured facilities and loans on provisions	**1.1**

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.

17 . Market Risk Disclosures

All figures in BD millions

For the regulatory market risk capital requirement, BBK has adopted the standardised approach on 08 November 2024 as approved by the Central Bank of Bahrain from the Internal Model Approach previously used in the group branches in the Kingdom of Bahrain and State of Kuwait. This aligns all branches with the same methodology, considering the Bank's branches in the Republic of India already adopted the standardised approach to calculate the capital charge for market risk.

	Capital Charge			
Asset class	**Amount**	**Maximum ***	**Minimum ***	**Average**
Foreign exchange risk	0.33	0.39	0.09	0.18
Interest rate position risk	0.66	0.98	0.68	0.78
Total minimum capital required for market risk	**1.00**			
Multiplier	12.50			
Market risk weighted exposure under the standardised method	**12.47**			

* The information in these columns show the minimum and maximum capital charge of each of the market risk categories during the period from 08 November 2024 to 31 December 2024, as the bank adopted the Standardised Approach for Market Risk as approved by the Central Bank of Bahrain from the Internal Model Approach previously used.

The Market Risk Internal Model (adopted up to 07 November 2024) is 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 from January 2024 to December 2024 is as follows:

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

Asset class	**Limit**	**VaR 31 December 2024**	**High VaR**	**Low VaR**	**Average VaR**
Foreign exchange risk	0.64	0.37	0.50	0.30	0.38
Interest rate position risk	0.15	0.00	0.01	0.00	0.00
	0.79	**0.38**	**0.50**	**0.30**	**0.38**

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 December 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.

17 . Market Risk Disclosures (continued)

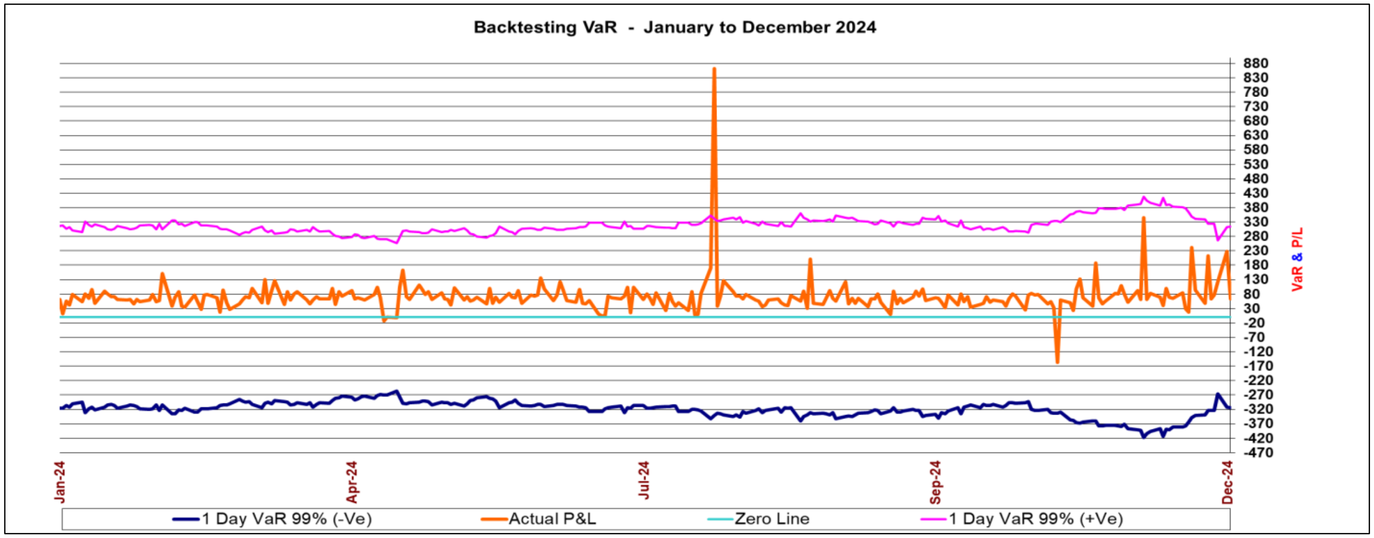
All figures in BD millions

Month end VaR (10 day 99%)

Month	VaR
January 2024	0.363
February 2024	0.350
March 2024	0.327
April 2024	0.354
May 2024	0.369
June 2024	0.366
July 2024	0.413
August 2024	0.420
September 2024	0.403
October 2024	0.385
November 2024	0.461
December 2024	0.375

The following graph shows the daily average Profit and Loss (Actual Average P & L basis) vis-à-vis one day VaR, for the year-ended 31 December 2024.

Value- at-Risk Backtesting January – December 2024 (USD Millions)



All figures in BD millions

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

Sovereign	1,592.6
Total	**1,592.6**

19 . Credit Derivatives Exposure

The bank is not exposed to any credit derivatives as at 31 December 2024.

20 . Equity Positions in the Banking Book

Publicly traded equity shares	49.2
Privately held equity shares	24.5
Total	**73.7**
Regulatory capital required 14.0%	**10.3**

21 . Net Gains on Equity Instruments

Realised gains in retained earnings (net)	**(1.69)**
Unrealised gains in CET1 Capital (net)	**3.9**

22 . 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 31 December 2024, the leverage ratio for BBK stood at a healthy position of 13.59%.