MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 December 2020

Update

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RATINGS

BBK B.S.C.

Domicile	Manama, Bahrain
Long Term CRR	B1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	B2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	B2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BBK B.S.C.

Update following rating action driven by change to sovereign ceiling

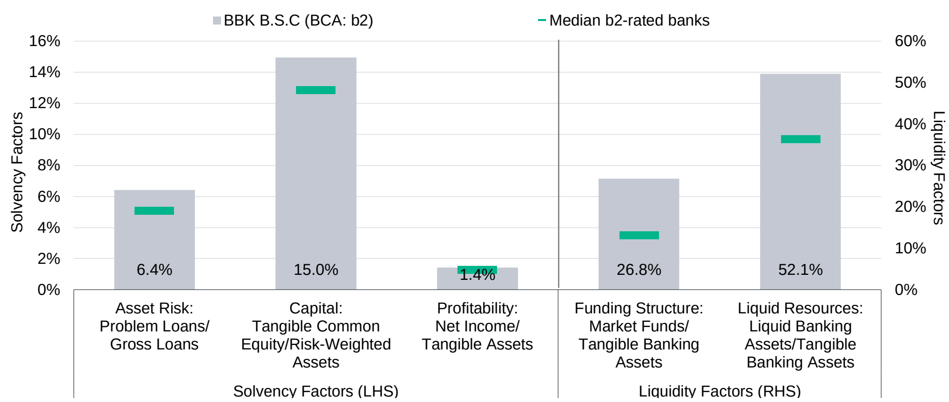
Summary

We assign B2 stable/Not-Prime long-term and short-term deposit ratings to BBK B.S.C. (BBK). The ratings capture the bank's standalone credit strength, reflected in its Baseline Credit Assessment (BCA) of b2, which is at the same level as the Government of Bahrain's (B2 stable) rating.

BBK's b2 BCA captures its (1) strong domestic franchise, which supports its sound profitability (2) solid liquidity buffers and resilient funding; and (3) adequate capital. These strengths are moderated by the bank's high deposit and credit concentrations in addition to pressures on asset-quality from an already-elevated position as some borrowers remain vulnerable.

BBK's long-term foreign-currency deposit rating of B2 is now in line with its local currency deposit rating, following the change in sovereign ceiling methodology available on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1225594.

Exhibit 1
Rating Scorecard - Key financial ratios



The problem loan and profitability ratios are the weaker of the average three-year ratios and the latest reported ratios. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Adequate capital, supported by BBK's recurring profitability

» Stable funding and solid liquidity, benefiting from the bank's strong domestic franchise

Credit challenges

» High exposure to sovereign credit risk, which links BBK's credit profile to that of the sovereign

» Asset-quality risks persist as some borrowers remain vulnerable

Outlook

BBK's long-term deposit and senior unsecured debt ratings have a stable outlook, in line with the stable outlook on the sovereign rating.

Factors that could lead to an upgrade

BBK's BCA and long-term ratings are currently at the same level as the sovereign's rating and, therefore, there is no upward rating pressure. An upgrade of the government's rating could result in an upgrade of BBK's BCA or long-term ratings, or both.

Factors that could lead to a downgrade

A downgrade of the Bahraini government's debt rating would weigh on BBK's ratings because it would signal a further deterioration in the domestic operating conditions, which in turn, would lead to a weakening of the bank's credit profile.

Furthermore, downward pressure could develop in the event of a deterioration in the operating environment, which could result in a lower Macro Profile for Bahrain, a deterioration in the bank's capitalisation or asset quality or a significant deterioration in liquidity.

Key indicators

Exhibit 2

BBK B.S.C. (Consolidated Financials) [1]

	09-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (BHD Million)	3,704.5	3,865.0	3,581.7	3,763.1	3,702.6	0.0[4]
Total Assets (USD Million)	9,822.4	10,250.6	9,503.1	9,979.1	9,819.8	0.0[4]
Tangible Common Equity (BHD Million)	509.2	532.7	436.7	420.9	400.0	6.6[4]
Tangible Common Equity (USD Million)	1,350.1	1,412.8	1,158.7	1,116.1	1,060.8	6.6[4]
Problem Loans / Gross Loans (%)	6.0	5.9	8.0	5.8	6.0	6.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.5	15.0	12.5	12.0	11.5	13.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.4	16.4	26.9	20.2	21.5	20.3[5]
Net Interest Margin (%)	2.1	2.9	3.0	2.5	2.3	2.5[5]
PPI / Average RWA (%)	1.6	2.7	3.0	2.5	2.5	2.5[6]
Net Income / Tangible Assets (%)	1.4	2.0	1.9	1.6	1.6	1.7[5]
Cost / Income Ratio (%)	51.1	41.7	36.8	39.3	40.8	41.9[5]
Market Funds / Tangible Banking Assets (%)	27.4	26.8	16.9	14.9	17.8	20.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	39.5	52.1	45.8	49.6	48.4	47.1[5]
Gross Loans / Due to Customers (%)	81.4	81.8	79.9	70.6	76.0	77.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

BBK B.S.C. (BBK) is one of the top three retail commercial banks in Bahrain. As of September-end 2020, the bank reported a consolidated asset base of BHD3.7 billion ($9.8 billion).

Together with its subsidiaries, BBK provides various commercial banking products and services, including retail, corporate, transactional and international banking, investment services and treasury facilities. The bank operates through 15 branches, including seven financial malls in Bahrain, one branch in Kuwait, four branches in India, and representative offices in Dubai and Turkey.

BBK was established in 1971 in accordance with a decree issued by His Highness the Emir of Bahrain, Shaikh Isa Bin Salman Al Khalifa, and commenced its operations the following year. The bank's shares are listed on the Bahrain Bourse (ticker: BBK). As of 31 December 2019, the bank's largest shareholder was the Social Insurance Organisation, which held a 32.97% stake in its total share capital.

For more information about the bank, please see Issuer Profile - BBK B.S.C. For more information about the banking system, please see Banking System Outlook - Bahrain.

Detailed credit considerations

High exposure to sovereign credit risk links BBK's credit profile to that of the sovereign

BBK's credit profile is closely linked to the Bahraini government's fiscal position through its direct holdings of Bahraini government securities and treasury bills, which were around 1.8x the bank's tangible common equity (TCE) as of December 2019. We expect the bank to maintain its high exposure to Bahraini sovereign debt as the government continues to run a high budget deficit and continues to seek funding from banks to balance its budget.

We also estimate that over 70% of BBK's loan book is granted in Bahrain, which makes the bank's asset quality susceptible to a potential weakening in the domestic operating environment. Despite the bank's ongoing geographical diversification efforts, its regional operations remain small.

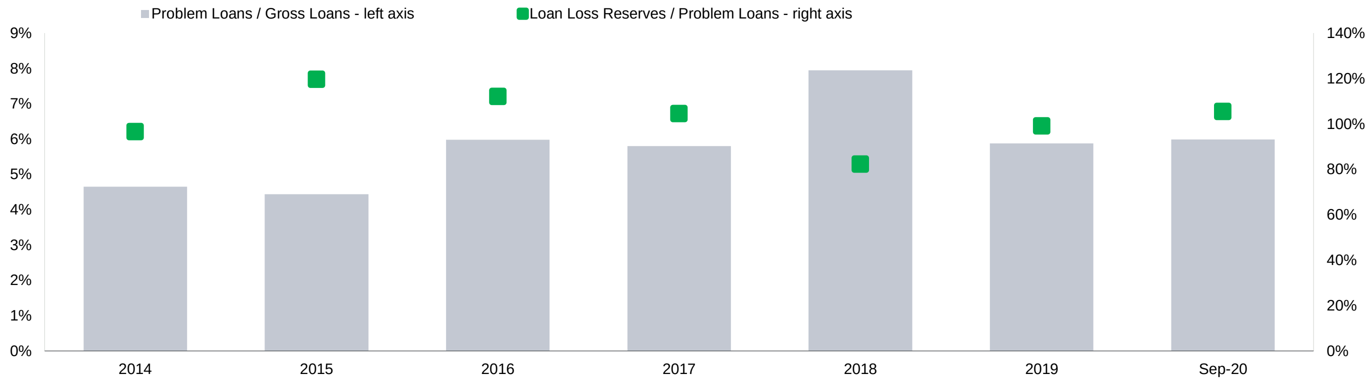
As a result of both of these factors, the bank's standalone credit profile is capped at the B2 sovereign rating.

Difficult operating conditions lead to elevated asset risks

A slowdown in economic growth on the back of the coronavirus spread, constrained government spending and subsidy cuts, will likely increase the pressure on domestic corporates and households. Such a scenario will likely lead to higher nonperforming loan (NPL) formation for BBK, only partly offset by the bank's ongoing initiatives to recover its legacy problem loans.

The bank's NPLs/gross loans was relatively stable at 6.0% as of September 2020 (5.9% as of year-end 2019), while the loan-loss reserves coverage increased slightly to 105% as of September 2020 (see Exhibit 3) compared to the 99% as of year-end 2019. BBK has sufficient loan loss absorption capacity (please see capital section below).

Exhibit 3
BBK's asset quality and provisioning coverage improved in Q3 2020



Sources: BBK and Moody's Investors Service

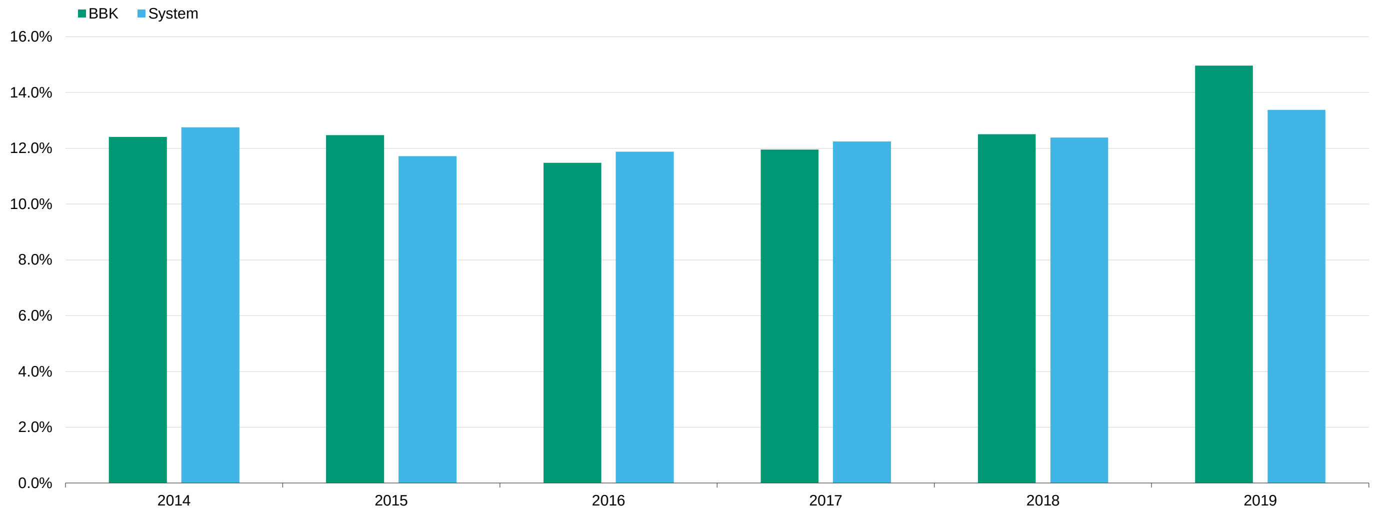
BBK's high borrower concentrations, a structural issue for the Gulf Cooperation Council (GCC) banks, also pose risks that could potentially lead to a sharp asset-quality deterioration because high concentrations amplify loan losses during negative credit cycles. The construction and real estate segment also represented a key concentration risk, at 16% of total loans as of year-end 2019 (20% as of year-end 2018) although this also is common across GCC banks.

Going forward, Moody's expects that a contraction in Bahrain's non-oil GDP (forecast of -5.5% for 2020) and the disruption to economic activity on the back of the coronavirus spread will lead to higher NPFs. Moody's regards the coronavirus outbreak as a social risk under its environmental, social and governance (ESG) framework, given the substantial implications for public health and safety. Falling business and consumer confidence due to lower oil prices may also weigh on the large real-estate sector, which is partially reliant on GCC investors. This may further pressure BBK's asset quality as well as the system's in general.

Loss-absorption capacity is supported by recurring profitability and adequate capital

BBK's adequate capital position, recurring profitability and provisioning coverage support its loss-absorption capacity. As of year-end 2019, the bank's TCE/risk-weighted assets (RWA) improved to 15.0% compared with 12.5% as of year-end 2018 as the bank converted its AT1 to core capital. We adjust the RWA to include 100% of the Bahraini government securities based on the risk weighting and in accordance with the Basel framework. By contrast, the bank's reported Tier 1 ratio was 20.6% and its reported total capital adequacy ratio was 21.7% as of year-end 2019 (18.5% and 19.6% respectively as of year-end 2018). Our scenario analysis on the bank's capital levels indicates adequate buffers to meet the expected asset-quality trends.

Exhibit 4
BBK's capitalisation metrics vs. Bahrain banking system
TCE as a percentage of risk-weighted assets



System data shows aggregate figures for the eight largest retail banks in Bahrain.
Sources: Moody's Investors Service and banks' financial statements

BBK's profitability remains adequate, supported by gradual efficiency improvements, given its emphasis on cost optimisation and streamlining operations, although it has weakened in the first nine months of 2020. The bank's cost-to-income ratio was 51% in the first nine months of 2020, higher than the 42% in 2019, still supported by its small branch network and corporate banking activities. The bank's net income/tangible assets decreased to 1.4% during the first nine months of 2020 from 1.9% during the same period for 2019 (2% in 2019), driven by (1) lower net interest income ; (2) a lower share of profit from associated companies. The bank's net interest margin (NIM) declined to 2.1% during the first nine months of 2020 (same period of 2019: 3.0%; 2019: 2.9%), driven by lower yields on interest-earning assets in line with government bond pricing.

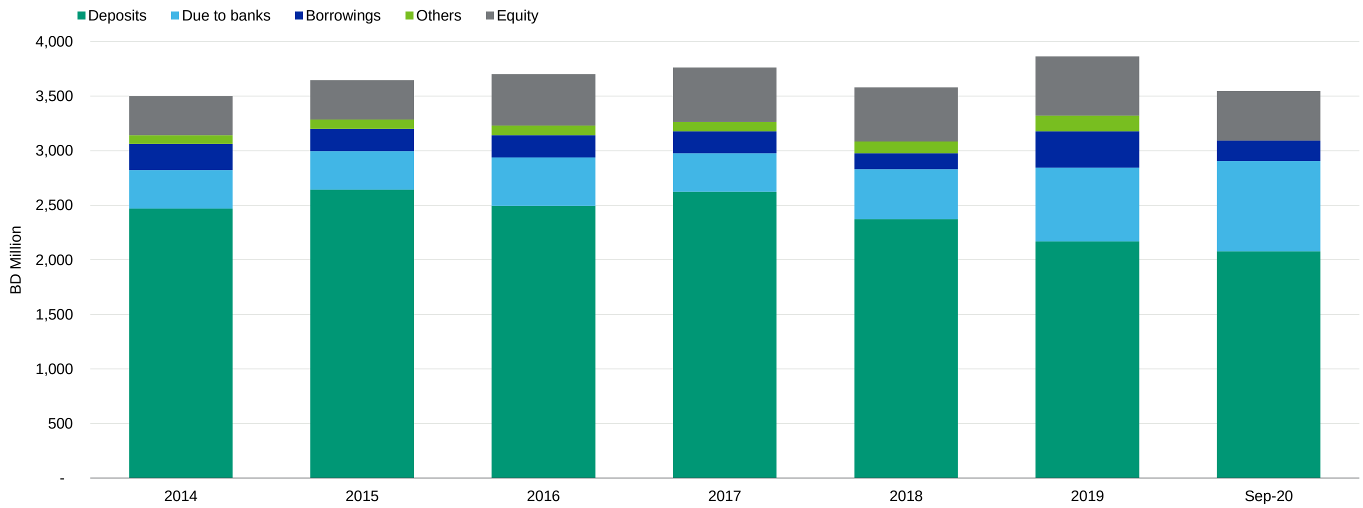
While we expect profitability to remain a credit strength for BBK, the bank's Profitability score captures our expectation of modest downward pressure, stemming from potentially higher loan-loss provision requirements for new NPL formation as a result of the difficult operating environment and pressure on NIMs resulting from expected pressure on assets yields in lower rates environment.

Given the limited expansion prospects in the small and saturated domestic market, BBK is focusing on regional and international markets. The bank is expanding and diversifying its international network by gradually building its bilateral regional lending relationships across the GCC (supported by its Kuwaiti and UAE operations) and also outside the GCC, assisted by its Turkey and India operations.

Stable funding and solid liquidity buffers, supported by a strong domestic franchise

Funding and liquidity are the fundamental strengths of BBK. We expect the bank to maintain its solid deposit-funded profile by virtue of its size, the stable nature of the competitive environment (three banks control about 50%-55% of the market), its competitiveness in products and service offerings, brand recognition and network reach. BBK is one of the top three retail (also known as onshore) commercial banks in Bahrain, and maintains strong market shares with a focus on corporate banking and consumer finance.

Exhibit 5
BBK's deposit base has declined slightly, but the bank maintains strong funding



Sources: BBK and Moody's Investors Service

Customer deposits contracted by 4% in the first nine months of 2020 (9% in 2019) as domestic liquidity continues to tighten. Although BBK is primarily deposit funded, its market funding reliance increased to 27.4% as of September 2020 (26.8% as of year-end 2019) from 17.0% as of year end 2018. The bank's net loan-to-deposit ratio remained at a fairly low level of 76% as of September 2020 (77% as of December 2019).

Deposit concentrations remain an issue. We expect tight funding conditions in Bahrain to lead to some deposit withdrawals at BBK as competition to attract large depositors intensifies.

Nevertheless, BBK's strong liquidity indicates that the bank is well placed to withstand short-term volatility in some of its deposits. As of September 2020, the bank's highly liquid assets (comprising cash, interbank exposures and Treasury bills) accounted for 27% of total assets, with an additional 25% of assets held in investment securities.

Source of facts and figures cited in this report

Unless noted otherwise, data related to systemwide trends is sourced from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

ESG considerations

In line with the banking sector, BBK has a low exposure to environmental risks, because direct lending to the hydrocarbon sector is fairly limited. However, given the sizeable contribution of the hydrocarbon industry to the economy, the bank's indirect exposure to the hydrocarbon sector may increase its vulnerability to environmental risks. See our environmental risk heat map for further information.

The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are other social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries hurting the demand for financial services or socially driven policy agendas translating into regulations that may affect banks' revenue base. Overall, we expect banks to face moderate social risks. See our Social heat maps for further information.

Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. Governance is highly relevant for the bank, as it is to all banks operating in the GCC. In the GCC, governments, along with government-related issuers, tend to have a large footprint on the overall economy. Consequently, they are often among the largest borrowers, depositors and — in some cases — shareholders in the banks across the GCC. For BBK and other GCC banks, corporate governance remains a key credit consideration and requires constant monitoring although we do not currently have concerns around BBK's own governance at this moment.

Our approach to ESG considerations is explained in more detail in our report Banking - Global: The impact of environmental, social and governance risks on bank ratings and our cross-sector rating methodology General Principles for Assessing Environmental Social and Governance Risks.

Support and structural considerations

Government support

Despite our assessment of a very high probability of government support from Bahrain, BBK's deposit ratings do not benefit from any rating uplift because the bank's standalone BCA of b2 is already at the same level as the B2 government's bond rating (the support provider).

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BBK's CR Assessment is positioned at B1(cr)/Not-Prime(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of b2, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment does not benefit from systemic support because the government's capacity to provide support is limited at its B2 rating.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

BBK's CRRs are positioned at B1/Not-Prime

We consider Bahrain a jurisdiction with a nonoperational resolution regime. For nonoperational resolution regime countries, the starting point for the CRR is one notch above the bank's Adjusted BCA. BBK's CRRs do not benefit from any government uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

BBK B.S.C.

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		6.4%	b1	↔	b2	Expected trend	Single name concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		14.5%	baa3	↔	ba2	Expected trend	Risk-weighted capitalisation
Profitability							
Net Income / Tangible Assets		1.4%	baa3	↔	ba1	Expected trend	Return on assets
Combined Solvency Score			ba2		ba3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		26.8%	ba3	↔	ba1	Extent of market funding reliance	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		52.1%	baa1	↔	ba2	Stock of liquid assets	
Combined Liquidity Score			ba1		ba1		
Financial Profile					ba2		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					B2		
BCA Scorecard-indicated Outcome - Range					b1 - b3		
Assigned BCA					b2		
Affiliate Support notching					0		
Adjusted BCA					b2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	b1	0	B1	B1
Counterparty Risk Assessment	1	0	b1 (cr)	0	B1(cr)	
Deposits	0	0	b2	0	B2	B2
Senior unsecured bank debt	0	0	b2	0		B2
Dated subordinated bank debt	-1	0	b3	0		(P)B3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
BBK B.S.C.	
Outlook	Stable
Counterparty Risk Rating	B1/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)
Senior Unsecured	B2
Subordinate MTN	(P)B3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454