Basel III Regulatory Capital Disclosures

(For the six month period ended 30 June 2021)

1. Statement of financial position under the Regulatory Scope of Consolidation

All figures in BD millions

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of financial position as in published financial statements	Statement of financial position as per Regulatory Reporting	Reference
Assets			
Cash and balances with central banks	**292.2**	**292.2**	
Treasury bills	**319.6**	**319.6**	
Deposits and amounts due from banks and other financial institutions	**371.7**	**371.7**	
Loans and advances to customers	**1,515.7**	**1,515.7**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)		26.9	a
Of which net loans and advances (gross of collective impairment provisions)		1,488.8	
Investment securities	**1,011.0**	**1,011.0**	
Of which equity investments in financial entities under CET1		29.2	b
Of which equity investments in financial entities under Tier 2		2.4	c
Of which related to other investments		979.4	
Investments in associated companies and joint ventures	**63.5**	**66.2**	
Of which Investment in own shares		0.8	d
Of which equity investments in financial entities		38.5	e
Of which other investments		26.9	
Interest receivable, derivative and other assets	**77.1**	**75.3**	
Of which deferred tax assets due to temporary differences		1.4	f
Of which Intangibles		4.7	g
Of which Interest receivable and other assets		69.2	
Premises and equipment	**35.3**	**34.7**	
Total assets	**3,686.1**	**3,686.4**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**305.4**	**305.4**	
Borrowings under repurchase agreement	**403.7**	**403.7**	
Term borrowings	**188.5**	**188.5**	
Customers' current, savings and other deposits	**2,143.7**	**2,146.6**	
Interest payable, derivative and other liabilities	**117.9**	**115.7**	
Total liabilities	**3,159.2**	**3,159.9**	
Equity			
Share capital	**149.8**	**149.8**	h
Treasury stock	**(4.0)**	**(4.0)**	i
Share premium	**105.6**	**105.6**	j
Statutory reserve	**66.8**	**66.8**	k
General reserve	**64.2**	**64.2**	l
Cumulative changes in fair values	**(0.5)**	**(0.5)**	
of which cumulative changes in fair values on bonds and equities	0.4	0.4	m
of which fair value changes in cash flow hedges	(0.9)	(0.9)	n
Foreign currency translation adjustments	**(11.8)**	**(11.8)**	
Of which related to unconsolidated subsidiary		(0.1)	o
Of which related to Parent		(11.7)	p
Retained earnings	**154.6**	**154.2**	
Of which employee stock options		3.6	
Of which related to modification loss and COVID 19 ECL net of government assistance		(19.4)	
Of which retained earnings		170.0	q
Attributable to the owners of the bank	**524.7**	**524.3**	
Non-controlling interests	**2.2**	**2.2**	
Total equity	**526.9**	**526.5**	
Total liabilities and equity	**3,686.1**	**3,686.4**	

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

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

Name	Principle activities	Total Assets	Total Equity
Invita Company B.S.C.(c)	Business processing and outsourcing services	5.8	3.5

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

	Total capital ratio	Tier 1 capital ratio
CrediMax B.S.C.(c)	65.73%	65.73%

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	251.3	h+i+j
Retained earnings	169.9	o+q
Accumulated other comprehensive income and losses (and other reserves)	118.8	k+l+m+n+p
Common Equity Tier 1 capital before regulatory adjustments	**540.0**	
Common Equity Tier 1 capital :regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	4.7	g
Cash flow hedge reserve	(0.9)	n
Investments in own shares	0.8	d
Total regulatory adjustments to Common equity Tier 1	**4.6**	
Common Equity Tier 1 capital (CET1)	**535.4**	
Additional Tier 1 capital: instruments		
Additional Tier 1 capital before regulatory adjustments	**-**	
Additional Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**-**	
Tier 1 capital (T1 = CET1 + AT1)	**535.4**	
Tier 2 capital: instruments and provisions		
Provisions	26.9	
Tier 2 capital before regulatory adjustments	**26.9**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**26.9**	
Total capital (TC = T1 + T2)	**562.3**	
Total risk weighted assets	**2,460.7**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	21.76%	
Tier 1 (as a percentage of risk weighted assets)	21.76%	
Total capital (as a percentage of risk weighted assets)	**22.85%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.50%	
of which: capital conservation buffer requirement	2.50%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: G-SIB buffer requirement	1.50%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	21.76%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.50%	
CBB Tier 1 minimum ratio	12.00%	
CBB total capital minimum ratio	14.00%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	31.6	b+c
Significant investments in the common stock of financials	38.5	e
Deferred tax assets arising from temporary differences (net of related tax liability)	1.4	f
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	29.7	
Cap on inclusion of provisions in Tier 2 under standardised approach	26.9	a
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	N/A	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	
Current cap on AT1 instruments subject to phase out arrangements	N/A	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	
Current cap on T2 instruments subject to phase out arrangements	N/A	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	

4 . Capital Requirement for Risk Weighted Exposure

BD millions

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk weighted asset	Regulatory capital required 14.0%
Sovereign	1,129.2	-	1,129.2	64.3	9.0
Public Sector Entities	0.1	-	0.1	-	-
Banks	540.3	-	540.3	293.1	41.0
Corporates	1,276.6	56.1	1,220.5	935.8	131.0
Regulatory retail	512.4	3.9	508.5	373.3	52.0
Mortgage	113.2	0.2	113.0	84.7	12.0
Investment in securities	106.4	-	106.4	169.6	24.0
Past due	33.9	0.2	33.7	36.5	5.0
Real estate	64.4	-	64.4	114.2	16.0
Other assets and cash items	96.6	-	96.6	82.1	11.0
Total Credit Risk	**3,873.1**	**60.4**	**3,812.7**	**2,153.6**	**301.0**
Market Risk	-	-	-	39.6	6.0
Operational Risk*	-	-	-	267.5	37.0
Total Risk Weighted Exposure	**3,873.1**	**60.4**	**3,812.7**	**2,460.7**	**344.0**

* The Bank is currently using the Basic Indicator Approach (BIA), whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 per cent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the year 2021 is BD 142.7 million

5 . Funded and Unfunded Total Credit Exposure

BD millions

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereign	1,129.2	-	1,153.5
Public Sector Entities	0.1	-	0.1
Banks	525.8	14.5	532.2
Corporates	1,126.9	149.7	1,289.3
Regulatory retail	512.4	-	508.7
Mortgage	113.2	-	112.1
Investment in securities	106.4	-	105.7
Past due	33.9	-	35.5
Real estate	64.4	-	64.7
Other assets and cash items	96.6	-	100.8
Total Credit Risk	**3,708.9**	**164.2**	**3,902.6**

6 . Concentration of Credit Risk by Region (Exposures subject to risk weighting)

BD millions

	Gulf Cooperation Council (GCC)	North America	Europe	Asia	Others	Total
Cash and balances with central banks	267.7	-	-	24.5	-	**292.2**
Treasury bills	319.6	-	-	-	-	**319.6**
Deposits in banks and other financial institutions	228.1	109.0	33.7	0.8	-	**371.6**
Loans and advances to customers	1,376.4	-	44.3	81.5	41.8	**1,544.0**
Investments in associated companies and joint ventures	42.1	-	20.6	-	-	**62.7**
Investment securities	762.6	19.9	94.2	103.7	30.2	**1,010.6**
Interest receivable and other assets	98.2	-	1.3	8.7	-	**108.2**
Total funded exposure	**3,094.7**	**128.9**	**194.1**	**219.2**	**72.0**	**3,708.9**
Unfunded commitments and contingencies	136.3	0.4	10.1	16.6	0.8	**164.2**
Total credit risk	**3,231.0**	**129.3**	**204.2**	**235.8**	**72.8**	**3,873.1**

7 . Concentration of Credit Risk by Industry (Exposures subject to risk weighting)

BD millions

	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	-	42.3	-	249.9	-	-	**292.2**
Treasury bills	-	-	-	319.6	-	-	**319.6**
Deposits in banks and other financial institutions	-	371.6	-	-	-	-	**371.6**
Loans and advances to customers	469.9	103.2	273.1	14.9	559.9	123.0	**1,544.0**
Investments in associated companies and joint ventures	-	42.0	20.2	-	-	0.5	**62.7**
Investment securities	137.3	178.2	16.9	604.3	-	73.9	**1,010.6**
Interest receivable and other assets	-	-	-	-	-	108.2	**108.2**
Total funded exposure	**607.2**	**737.3**	**310.2**	**1,188.7**	**559.9**	**305.6**	**3,708.9**
Unfunded commitments and contingencies	89.3	19.8	32.9	0.2	0.2	21.8	**164.2**
Total credit risk	**696.5**	**757.1**	**343.1**	**1,188.9**	**560.1**	**327.4**	**3,873.1**

8 . Concentration of Credit Risk by Maturity (Exposures subject to risk weighting)

BD millions

	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	235.4	-	-	-	-	-	-	56.8	**292.2**
Treasury bills	24.2	126.4	86.0	83.0	-	-	-	-	**319.6**
Deposits in banks and other financial institutions	317.2	53.9	0.5	-	-	-	-	-	**371.6**
Loans and advances to customers	215.1	89.3	75.0	97.3	657.5	318.5	46.6	44.7	**1,544.0**
Investments in associated companies and joint ventures	-	-	-	-	-	-	-	62.7	**62.7**
Investment securities	26.9	18.7	36.8	21.9	327.7	330.4	205.9	42.3	**1,010.6**
Interest receivable and other assets	59.4	0.1	0.2	0.5	42.1	0.8	3.6	1.5	**108.2**
Total funded exposure	**878.2**	**288.4**	**198.5**	**202.7**	**1,027.3**	**649.7**	**256.1**	**208.0**	**3,708.9**
Unfunded commitments and contingencies	25.5	8.4	4.8	37.0	85.6	2.3	0.1	0.5	**164.2**
Total credit risk	**903.7**	**296.8**	**203.3**	**239.7**	**1,112.9**	**652.0**	**256.2**	**208.5**	**3,873.1**

BD millions

9 . Impaired Loans and Provisions

	Impaired loans	Stage 3: Lifetime ECL credit- impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Net Specific charges during the period	Write off during the period
Trading and manufacturing	50.2	37.1	19.8	0.9	0.1
Banks and other financial institutions	2.5	1.8	0.5	-	-
Construction and real estate	18.3	6.9	3.1	(0.4)	-
Government and public sector	16.2	8.9	-	-	-
Individuals	7.9	7.7	3.8	(2.1)	1.0
Others	5.7	4.5	1.1	0.8	-
Total	**100.8**	**66.9**	**28.3**	**(0.8)**	**1.1**

10 . Reconciliation of Changes in Expected Credit Losses

BD millions

	Stage 3: Lifetime ECL credit- impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired
At beginning of the period	63.3	29.1
Amounts written off during the period	(1.1)	-
Recoveries / write-backs	(0.9)	-
Net remeasurement of loss allowance	4.5	(0.6)
Transfers between stages	0.1	(0.1)
Foreign exchange and other movements	1.0	(0.1)
Balance at reporting date	**66.9**	**28.3**

11 . Ageing of Impaired and Past Due Loans by Region

BD millions

	GCC	Europe	Asia	Others	Total
3 months up to 1 year	5.6	3.0	0.2	-	**8.8**
1 to 3 years	30.8	-	-	-	**30.8**
Over 3 years	60.7	-	0.5	-	**61.2**
Total past due and impaired loans	**97.1**	**3.0**	**0.7**	**-**	**100.8**
Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	(27.2)	-	(0.4)	(0.7)	**(28.3)**
Stage 3: Lifetime ECL credit- impaired	(66.3)	-	(0.6)	-	**(66.9)**

12 . Ageing of Impaired and Past Due Loans by Industry

BD millions

	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	2.2	-	3.1	-	3.4	0.1	**8.8**
1 to 3 years	8.1	2.5	12.4	-	2.2	5.6	**30.8**
Over 3 years	39.9	-	2.8	16.2	2.3	-	**61.2**
Total past due and impaired loans	**50.2**	**2.5**	**18.3**	**16.2**	**7.9**	**5.7**	**100.8**

13 . Restructured Loans

BD millions

Loans restructured during the period	**8.3**
Impact of restructured facilities and loans on provisions	**0.2**

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.

14 . Market Risk Disclosures for Banks using the Internal Models Approach (IMA) / Standarized Approach 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.

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model for Bahrain & Kuwait branches and the Standardized Approach for India branch. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB and the model is subject to periodic independent internal and external validation.

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 Administration Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period January 2021 to June 2021 is as follows:

VaR Results for 2021 (10 day 99%)
Global (BAHRAIN and KUWAIT)
1 January 2021 to 30 June 2021

BD millions

Asset class	Limit	VaR 30 June 2021	High VaR	Low VaR	Average VaR
Foreign exchange	0.64	0.30	0.33	0.18	0.26
Interest rate	0.15	0.00	0.00	0.00	0.00
	0.79	**0.30**	**0.33**	**0.18**	**0.26**

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit and Loss basis and also hypothetical Profit and Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period January-June 2021 confirmed that there was Nil occasion on which a daily trading loss exceeded VaR figure.

Stress Testing

The Bank conducts stress testing of VaR, under various ‘What If’ scenarios such as increasing volatility and varying correlations. The stress testing methodology uses historical data capturing periods of significant disturbance and covering all types of risks associated with the asset classes which are included in the trading book of the Bank.The stress VaR are then tabulated under each “what if” scenario and compared with corresponding Capital Adequacy Ratio (CAR). It was observed that the CAR was within the norm prescribed by CBB, under each stressed scenario.

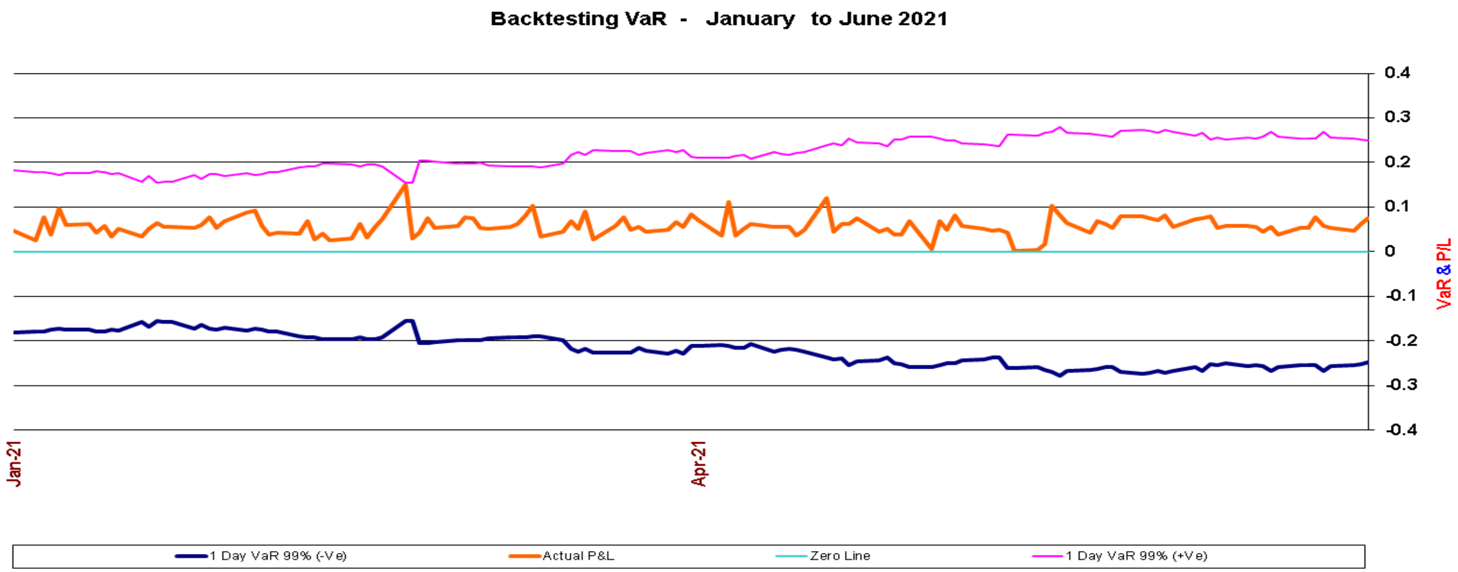
14 . Market Risk Disclosures for Banks using the Internal Models Approach (IMA) / Standarized Approach for Trading Portfolios

Month end VaR (10 day 99%)

Month	VaR in BD Millions
January 2021	0.203
February 2021	0.242
March 2021	0.272
April 2021	0.309
May 2021	0.325
June 2021	0.296

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 2021 (USD Millions)



14 . Market Risk Disclosures for Banks using the Internal Models Approach (IMA) / Standarized Approach for Trading Portfolios

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 2021, Capital Charge calculated based on above parameters was as follows :

	BD Millions	
Capital Charge	*30-Jun-21*	*31-Dec-20*
Foreign exchange	0.09	0.17
Interest rate	0.55	0.75
	0.65	0.92

15 . Currency Risk

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

The Group has the following significant non - strategic net exposures denominated in foreign currencies as of 30 June 2021:

	BD Millions
US Dollars	130.2
EURO	1.3
G.C.C Currencies (pegged to the USD)	13.1
Kuwaiti Dinars	1.6
Others	0.4
Total	**146.6**

All of the above currency positions are unhedged

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

	BD Millions
Sovereign	1,028.6
Total	**1,028.6**

17 . Derivatives

BD Millions

Derivatives	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading			
Forward foreign exchange contracts	0.2	0.2	219.5
Derivatives held as fair value hedges			
Interest rate swap	1.6	36.3	563.0
Total	**1.8**	**36.5**	**782.5**

18 . Credit Derivative Exposures

BBK is not exposed to any credit derivatives as at 30 June 2021.

19 . Related Party Transactions

Exposures to related parties are disclosed in the interim condensed consolidated financial statements for the period ended 30 June 2021, under Note 12.

20 . Equity Positions in the Banking Book

	BD millions
Publicly traded equity shares	51.1
Privately held equity shares	22.3
Total	73.4
Regulatory capital required 14.0%	**10.3**

21 . Net Gain on Equity Instruments

	BD millions
Realised gains/ losses in the statement of profit or loss	**-**
Realised gains/ losses in retained earnings	**0.8**
Unrealised gains/ losses in CET1 Capital	**1.5**

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 2021, there were legal suits pending against the Group aggregating to BD 3.3 million. Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these suits and does not consider it necessary to carry any provisions in this regard.

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 8.2%
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 8.2%

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 2021, the leverage ratio for BBK stood at a healthy position of 13.29%.