



BASEL III PILLAR 3 DISCLOSURES

At 31 December 2024

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1. Executive Summary

This document provides the disclosures pertaining to risk and capital management for Alubaf Arab International Bank B.S.C. (c) (the “Bank”) and its wholly owned subsidiary, Bahrain Real Estate Development Company (together the “Group”) as of 31 December 2024.

Central Bank of Bahrain (“CBB”), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain has issued the directives relating to public disclosures. The disclosure requirements in PD module of CBB rulebook follow the requirements of Basel III Pillar 3 and are in addition to, or in some cases serve to clarify, the disclosure requirements of International Financial Reporting Standards (“IFRS”). This document gathers all the elements of the disclosures required under Pillar 3 and complies with the PD module of CBB (including companies’ law), in order to enhance corporate governance and financial transparency. The Pillar 3 disclosures are in addition to the disclosures set out in the consolidated financial statements presented in accordance with IFRS and accordingly these disclosures should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2024 as well as the capital disclosures and liquidity disclosures published separately on the Group’s website.

For regulatory reporting purposes, the Group has adopted the standardized approach for credit and market risk and the basic indicator approach for operational risk to determine the capital requirements under Pillar 1. The Group’s total risk-weighted assets as of 31 December 2024 amounted to US\$ 932 million (31 December 2023: US\$ 649 million), comprising 93.87% of credit risk, 0.01% of market risk and 6.12% of operational risk weighted assets. The total consolidated capital adequacy ratio stood at 38.87% (31 December 2023: 53.54%), compared to the minimum regulatory requirement of 12.50%.

Figures in \$ 000s	December 2024	December 2023
Tier 1 capital	359,676	340,050
Tier 2 capital	2,457	7,423
Total Capital	362,133	347,473
Credit risk weighted assets	874,543	593,812
Market risk weighted assets	113	163
Operational risk weighted assets	57,038	54,971
Total Risk Weighted assets	931,694	648,945
Tier 1 Capital Ratio	38.60%	52.40%
Total Capital Ratio	38.87%	53.54%

There are no restrictions on the transfer of funds or regulatory capital within the Group and there are no differences in the basis of consolidation for accounting and regulatory purposes for the subsidiary within the Group.

2. Basel III Framework

The Basel III framework is based on three pillars, consistent with framework developed by the Basel Committee, as follows: -

- Pillar 1: the calculation of risk-weighted assets (“RWAs”) and capital requirements for credit, market and operational risks.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (“ICAAP”).
- Pillar 3: the disclosure of risk management and capital adequacy information.

2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs. As at 31 December 2024, all banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio of 12.50% and a tier 1 ratio of 10.50%. In the event that the capital adequacy ratio falls below 12.50%, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarizes the Group’s approach for calculating RWAs and capital requirements for each risk type in accordance with the CBB’s Basel III capital adequacy framework:

Approaches for determining regulatory capital requirements		
Credit risk	Market risk	Operational risk
Standardized approach	Standardized approach	Basic indicator approach

a) Credit Risk

For regulatory reporting purposes, the Group applies the standardized approach for credit risk. The 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.

b) Market Risk

For the regulatory market risk capital requirement, the Group applies the standardized approach based on net open position of foreign currencies as per Capital Adequacy (the “CA”) module of the CBB rule book.

c) Operational Risk

Under the CBB’s Basel III capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk with prior notification to CBB unless approval is granted by the CBB to use the standardized approach. Currently, the Group uses the Basic Indicator Approach for calculating its capital requirement for operational risk.

2.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk and capital management framework and, ultimately, its capital adequacy. Under the Pillar 2 guidelines, each Bank is required to internally assess its capital requirements taking into consideration all material risks through the ICAAP assessment process and establish internal minimum capital limits.

Pillar 2 comprises of two processes: -

- An ICAAP review; and
- A supervisory review and evaluation process.

Internal Capital Adequacy Assessment Process:

The Group has a capital management and planning framework which ensures adequate capital is available for any expected/unexpected loss and to support its strategic growth opportunities. The capital planning of the Group is carried out through ICAAP which covers inter-alia:

- Forecast of the strategic and business growth plan of the Group over the next 3 years
- Quantitative and qualitative assessment of various external and internal risk factors
- Assessment of capital adequacy under normal and stress scenarios
- Planning of capital action, if any, required to accomplish the strategic and financial objectives of the Group.

The Group has a comprehensive ICAAP that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Group's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book, reputational risk and strategic risk. The ICAAP also keeps in perspective the Group's strategic plans, credit and investment growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Group's capital adequacy to determine the capital requirement and planning to ensure that the Group is adequately capitalized in line with the overall risk profile. The Group has complied with regulatory capital requirements throughout the period and has a consolidated capital adequacy ratio of 38.87% that is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process:

The supervisory review and evaluation process represent the CBB's review of bank's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process are designed to ensure that banks identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourage 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 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include:

- Liquidity risk
- Concentration risk
- Interest rate risk in the banking book (IRRBB)
- Reputational risk
- Strategic risk

These are covered either by capital, or risk management and mitigation processes under Pillar 2.

2.3 Pillar 3

In the Basel III framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 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 towards more advanced forms of risk management. Under the current regulations, partial disclosures consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting. In this report, the Group disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on and off-balance sheet.

3. Organizational structure, Risk and Capital Management

3.1 Organization structure

The Group operates under a wholesale banking license issued by CBB, to provide treasury, loan and trade finance solutions. The Group's customer base includes primarily corporate, banks, financial institutions, public sector companies, governments and semi-government entities in the GCC, MENA & European markets as well as selectively other countries across the world.

The Group's largest single shareholder is Libyan Foreign Bank (99.50%); other shareholders comprise of National Bank of Yemen (0.28%) and Yemen Bank for Reconstruction and Development (0.22%). Libyan Foreign Bank is 100% owned by the Central Bank of Libya.

The Group's consolidated financial statements are prepared and published in accordance with IFRS. Regulatory capital is reported to the CBB on a regular basis (at least on quarterly basis by way of submitting the Prudential Information Return report) in accordance with CBB guidelines.

3.2 Risk and Capital Management

The Group maintains a prudent and disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Group's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risks it faces.

The overall authority for risk management in the Group is vested in the Board of Directors. The Board defines the risk appetite and risk tolerance standards and oversees that adequate risk management standards are in place. The Board also approves appropriate risk policies that form part of its risk management framework, based on the recommendation of management. The Board is supported by the Audit, Risk and Compliance Committee ("ARCC") which oversees the risk management, compliance and internal audit activities as well as ensuring integrity of the consolidated financial statements.

3.2 Risk and Capital Management (continued)

At the second level, executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits, interbank limits and general credit policy matters, which are reviewed and approved by the Board of Directors. The Group has established various management committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk and the same is codified in the Delegations of Authority document approved by the Board.

The risk management department of the Group provides the necessary support to senior management and the business units in all areas of risk management. The risk management function under the Chief Risk Officer (the "CRO") is independent of the business units of the Group, reporting to the ARCC and administratively to the Chief Executive Officer ("CEO"). The Financial Control Department is responsible for the capital planning process.

Independent internal audit of the risk management process is conducted and its findings are presented to the ARCC.

Following is the governance structure for Risk and Capital Management in the Group:

Board of Directors			
Board Audit, Risk and Compliance Committee			
Chief Executive Officer			
Assets and Liabilities Committee (ALCO)	Management Risk Committee (MRC)	Credit Investment Committee (CIC)	Special Asset Management Committee (SAMC)

The risk, liquidity and capital management responsibilities are set out in the table below:

Chief Executive Officer	
Head of Financial Control	Chief Risk Officer *
Capital management framework Regulatory Reporting	Risk management framework and policies Credit Management Credit risk Market risk Operational risk Liquidity risk and Other risks ICAAP, ILAAP and Stress testing

* CRO is an independent function which reports to the ARCC, and administratively to the CEO.

The Group's capital management policies aim to ensure that the Group complies with regulatory capital requirements as well as to ensure adequate availability of capital to meet the Group's strategic growth requirements and maximize shareholder value.

3.3 Risk Types

The major risks associated with the Group's business activities are credit, market and operational risks. Additionally, other material risks that the Group is exposed to include – liquidity risk, concentration risk, interest rate risk in banking book, reputational risk and strategic risk. These risks are continuously monitored and mitigated through effective process of ongoing identification, measurement, controlling and monitoring throughout the year. The following section provides the way these risks are managed and controlled.

3.4 Risks in Pillar 1

Basel III Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types:

a) Credit Risk

The credit risk is the main financial risk relative to the other risks for the Group because of its nature of business to finance and invest. Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The Group measures and manages Credit Risk by adhering to the following principles:

- Consistent standards are applied across all customers in the risk-evaluation process using a rating system. The Group has in place a systematic credit rating system which provides a framework for objective risk assessment;
- The exposure should be reasonable in relation to the customer's creditworthiness, capital position or net worth components, and the customer should be able to substantiate its repayment ability;
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level;
- The Group regularly follows up on developments in the customer's financial position in order to assess whether the basis for the granting of credit has changed; and
- The Group assumes risks within the limits guided under its risk management framework and other rules prescribed by the CBB from time to time.

The Group has in place a credit risk management framework comprising of detailed credit risk management policies and procedures, regular credit assessments and monitoring, internal rating grades, credit administration activities, collateral management and early warning indicator monitoring. Regular reviews are carried out for each exposure and risks identified are mitigated in a number of ways, which include obtaining collaterals or guarantees. The counterparty credit risks are continuously monitored for changes in external environments and other economic challenges that may impact the counterparty's credit profile as part of early warning indicator monitoring. Similarly, prudent norms have been implemented to govern the Group's investment activities, which specify to the Group's Treasury and Investment department, the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features and other relevant factors.

The business units of the Group are responsible for business generation and initial credit review of proposals in accordance with the stipulated policy requirements. The Group has an independent credit management unit which is responsible to perform a rigorous independent credit analysis for the counterparty and assign an internal credit rating reflecting the level of credit risk.

3.4 Risks in Pillar 1 (continued)

a) Credit Risk (continued)

In addition, the independent Credit Administration Unit ensures adherence to the terms and conditions of all credit facilities is strictly implemented and collateral coverage is monitored. The Group has an internal grading system and review process to ensure identification of any deterioration in credit risk and consequent implementation of corrective action. The Group's internal ratings are based on a 20-point scale (AAA to Loss), which considers the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. The internal rating model is reviewed and validated periodically by an independent external consultant to ensure robustness of the model in terms of stability and discriminatory power of the ratings. Risk ratings assigned to each borrower are reviewed on at least an annual basis. Regular monitoring of the portfolio enables the Group to identify accounts, which witness deterioration in risk profile.

b) Market Risk

Market risk is the potential impact of adverse price movements such as benchmark interest rates, foreign exchange prices, equity prices and commodity prices on the Bank's earnings and capital. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and value of an asset. The categories of market risk to which the Group is exposed are as follows:

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Group's foreign exchange positions in the banking book including its proprietary positions as well as positions arising from client servicing.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices.

Commodity risk arises from exposures to changes and volatility of commodity prices. The Group does not maintain any exposures to commodities as at the reporting date and therefore is not exposed to commodity price risks.

The Group does not have material exposure to market risk on account of its limited trading activities. The Group's market risk management framework comprises of various concentration limits to diversify its market risk exposures as well as stop loss limits to minimize losses. The main market risk exposures arise from its forex risk exposures, wherein the Group maintains net open position limits for each active currency which are monitored on a daily basis.

c) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk.

3.4 Risks in Pillar 1 (continued)

c) Operational Risk (continued)

The Operational Risk Management Framework (the “ORMF”) is codified in the Group’s Operational Risk Management policy and broadly comprises of the following:

- Well defined governance framework and delegation of authorities;
- Detailed policies and procedures for all activities of the Group;
- Segregation of duties and internal controls;
- Risk and Controls Self-assessments;
- Identifying and monitoring of Key Risk Indicators; and
- Incident reporting and collection of losses from operational incidents, including near misses.

Qualitative and quantitative methodologies are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These include a database of operational risk incidents; monitoring of key risk indicators, which can provide an early warning of possible risk; and a Risk and Control self-assessment (the “RCSA”) process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

The RCSA is performed on a periodic basis, by obtaining senior management inputs to enhance the control environment of the Group. The Group’s risk management department coordinates with the heads of departments and the respective risk champions in each department, to conduct the RCSA assessments. As part of such assessments, the key operational risks within each department’s activities are evaluated along with the controls available to mitigate or minimize such risks. Based on these assessments, each department maintains a risk register for its risks, which is reviewed and updated on an ongoing basis. Further, the Group identifies and maintains a list of Key Risk Indicators which are monitored on a monthly basis and reported to management and Board.

Heads of departments and functions throughout the Group are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational incidents are monitored on an ongoing basis through the Group’s operational risk management system, and the same are reported to management on a monthly basis and to the Board on a quarterly basis. Moreover, the operational incident reports are reviewed jointly by risk management and the respective department for root cause analysis and to introduce additional controls to minimize chances of similar incident recurring.

Operational functions of booking, recording and monitoring of transactions are performed by staff that are independent of the individuals initiating the transactions. Each business line, as well as support line is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the Group policy, and to develop internal procedures that comply with these policies. Operational risk is also managed through effective staff training and frequent review and enhancement of internal controls of the various activities of the Group. Further, the Group has in place the Business Continuity and Disaster Recovery Policy to ensure that the Group is prepared and has contingency plans in place in the event of a disaster so that business is minimally impacted in such situations. Further, the Group also maintains a well-established framework and policy for managing cyber security risks.

3.5 Risk in Pillar 2

a) Liquidity Risk

Liquidity risk is defined as the risk to the Group's earnings and capital arising from its inability to meet timely obligations as and when they come due without incurring unacceptable losses. The Group follows a conservative liquidity risk management strategy aligned with its business model. The strategy aims to address:

- Funding liquidity risk; and
- Market liquidity risk.

The Group utilizes the liquidity management tools in line with Basel III and CBB guidelines on liquidity risk management. The Liquidity Coverage Ratio ("LCR") addresses the sufficiency of a stock of high-quality liquid assets to meet short-term liquidity needs under specified scenarios. Under LCR, the objective is to ensure that Group maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs, under specific prescribed cash inflows and outflows scenarios, for a 30-day time horizon.

The Net Stable Funding Ratio ("NSFR") addresses longer-term structural liquidity mismatches. Under NSFR, the objective is to promote more medium and long-term funding of assets through the establishment of a minimum acceptable amount of stable funding over a one-year horizon. The Group maintains its liquidity standards with stable long-term and short-term liquidity ratios (NSFR, LCR, Liquidity Ratio etc.) above the regulatory limits.

The Group has in place a liquidity risk management framework comprising of liquidity and funding strategy, liquidity risk limits, procedures for monitoring and reporting liquidity risks, liquidity stress testing and contingency planning. The liquidity risk management framework is codified in the Group's Liquidity Risk Management policy approved by the Board. Further, the Group performs an Internal Liquidity Adequacy Assessment Process ("ILAAP") on an annual basis. The ILAAP report documents the overall liquidity assessment as well as the framework in place to monitor liquidity risks and the same is presented to the Board.

The Group performs periodic stress testing of its liquidity risk profile to assess its impact on capital and liquidity position.

b) Credit concentration risk

Credit Concentration Risk is the risk that the Group's exposures are concentrated to a sector/industry, geography, product, single party and customer groups, or countries which impact the Group's capital position. It is the risk of exposure to a single counterparty and group of related counterparties, as well as the exposure to selected economic sectors that has the potential to produce losses large enough (relative to the Group's size) to undermine the health of the Group. The existence of exposure concentration can lead to underestimation of Pillar 1 risks. The Group monitors counterparty, sector and geographic concentration risks and manages them through limits on the same. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

Concentration risk is captured in the Group's Pillar 2 capital framework which considers single-name concentrations, geographical and industry concentrations in the credit portfolio and capital requirements to cover concentration risks are assessed.

3.5 Risk in Pillar 2 (continued)

c) Interest rate risk in the Banking book

Interest rate risk is the exposure of a Group's financial condition to adverse movements in interest rates. Changes in Interest rates affect a Group's earnings by changing its net Interest income and the level of other Interest-sensitive income and operating expenses. Changes in Interest rates also affect the underlying value of the Group's assets, liabilities, and off-balance-sheet instruments because the present value of future cash flows changes when interest rates change.

The Group monitors the re-pricing gap and the market value of assets and liabilities as part of interest rate risk management and also assesses the impact of a shift in market interest rates on the expected net interest income of the Group as well as the impact on the Group's economic value of Equity.

d) Reputational Risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and relationship by its various stakeholders that is caused by a variety of internal and external factors. The Group has developed a reputational risk management framework that ensures reputational risk is managed and mitigated and the same is codified in the reputational risk management policy of the Group.

e) Strategic Risk

Strategic risks refer to the risk that the Group would be exposed in the event of business strategy and plan not materializing. It is the risk to earnings and profitability arising from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, a strategic risk arises due to adopting wrong strategies and choices that can cause loss to the Group in the form of a reduction in shareholder value and loss of earnings.

The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Group's performance and alignment with the strategic plan.

4. Regulatory capital requirements and the capital base

4.1 Capital base

Common equity tier 1 ("CET 1") comprises of share capital, statutory reserve, retained earnings, other reserves (proposed dividend) and unrealized gains or losses arising on the measurement to fair value of investment securities adjusted with regulatory adjustment for intangible assets.

Tier II capital includes provision for expected credit loss ("ECL") on stage 1 and 2 exposures.

The Group does not maintain any additional-Tier 1 (AT1) capital.

The Group's issued and paid up capital amounted to US\$ 250 million as at 31 December 2024, comprising of 5 million equity shares of US\$ 50 each.

4.1 Capital base (continued)

The regulatory capital base is set out in the table below: -

Break down of Capital Base	US\$ '000s	US\$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	35,549	-
Retained earnings	65,984	-
Cumulative fair value changes on FVOCI Investments (Debt)	(5,196)	-
All other reserves	15,000	-
Total CET I capital prior to regulatory adjustments	361,337	-
Less: intangibles other than mortgage rights	(1,661)	-
Total CET I capital after regulatory adjustment	359,676	-
Add: Expected credit loss, Stage 1 and 2 in Tier 2	-	2,457
Total	359,676	2,457
Total Available Capital		362,133

4.2 Regulatory capital requirements

For regulatory reporting purposes, the Group calculates the capital requirements as follows:

- **Credit Risk** - Credit risk capital requirements are based on the standardized approach. Under the standardized approach, on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel III capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. The Group uses ratings assigned by Standard & Poor's, Moody's and Fitch.
- **Market Risk** – The Group uses a Standardized approach to calculate the regulatory capital requirements relating to market risk.
- **Operational Risk** - The capital requirement for operational risk is calculated in accordance with the basic indicator approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by alpha coefficient of 15% as prescribed in the CBB's Basel III capital adequacy framework.

4.2 Regulatory capital requirements (continued)

▪ Capital adequacy ratio calculation:

The Group's consolidated capital adequacy ratio of 38.87% is well above the minimum regulatory requirement of 12.50%.

	US\$ '000
Credit risk weighted assets	874,543
Market risk weighted assets	113
Operational risk weighted assets	57,038
Total Risk weighted assets (RWA)	931,694
Total Eligible Capital Base	362,133
CET I ratio	38.60%
Capital adequacy ratio	38.87%

5. Credit Risk-Pillar 3 disclosures

This section describes the Group'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 3 disclosure requirements.

5.1 Definition of exposure classes per Standard Portfolio

The Group has a diversified on and off-balance sheet 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 standardized approach for credit risk. A high-level description of the counterparty exposure classes and the risk weights used to derive the risk weighted assets are as follows:

(a) **Claims on Sovereigns ***

These pertain to exposures to governments and their respective central banks. Claims on Bahrain and GCC governments are risk weighted at 0%. Foreign currency claims on other sovereign exposures are risk-weighted based on their external credit ratings or if unrated at 100%.

(b) **Claims on Public Sector Entities ("PSEs") ***

PSEs are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0% risk weight by their respective country regulator.

(c) **Claims on Banks ***

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks maturing within three months and denominated in Bahraini Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted based on their external credit ratings or if unrated at 50%.

5.1 Definition of exposure classes per Standard Portfolio (continued)

(d) Claims on Corporate and Investment firms *

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

(e) Equity/Fund portfolio

Investments in listed equities and funds are risk weighted at 100% whereas investments in unlisted equities and funds are risk weighted at 150%.

(f) Other exposures

These include cash risk weighted at 0%, investment property risk weighted at 200% and other assets risk weighted at 100%.

(g) Past Due

Past due exposures include loans and advances of which interest or repayment of principal are due for more than 90 days; past due exposures, net of specific provisions is risk weighted as follows:

- (a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount.
- (b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount.

** Unless exempted by CBB, any exposure exceeding 15% of total capital are risk weighted at 800%.*

5.2 Credit exposure and risk weighted assets

US\$ '000	Funded exposures	Unfunded exposures	Gross credit exposures*	Eligible collateral	Risk weighted assets	Capital charge
Claims on Sovereigns and PSE's	753,616	-	753,616	-	104,763	13,095
Claims on Banks**	894,915	9,934	904,849	2,351	603,701	75,463
Claims on Corporate and Investment Firms**	72,437	188	72,625	188	99,184	12,398
Fund Portfolio	15,427	-	15,427	-	23,141	2,893
Other exposures	19,016	-	19,016	-	30,736	3,842
Past Dues	13,018	-	13,018	-	13,018	1,627
Total	1,768,429	10,122	1,778,551	2,539	874,543	109,318

*Balances are gross of stage 1 and 2 ECL.

**Net credit risk exposures for Claims on Banks after mitigant amounted to US\$ 902,498 thousand and Claims on Corporate and Investment Firms amounted to US\$ 72,437 thousand. None of other classes were subject to credit risk mitigation.

5.2 (a). Gross credit exposure before credit risk mitigation

US\$ '000	Funded credit exposure	Average monthly gross exposure*
Claims on Sovereigns and PSE's	753,616	702,423
Claims on Banks	894,915	753,347
Claims on Corporate and Investment Firms	72,437	72,840
Fund Portfolio	15,427	7,366
Other exposures	19,016	19,323
Past Dues	13,018	23,227
Total funded exposure	1,768,429	1,578,526
Unfunded exposures	10,122	16,247
Gross credit exposures	1,778,551	1,594,773

*Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2024.

5.3 Exposure by external credit rating

The Group uses external credit ratings from Standard & Poor's, Moody's and Fitch, which are accredited External Credit Assessment Institutions. The Group assigns risk weights through the mapping process provided by CBB to the rating grades.

The breakdown of the Group's exposure into rated and unrated categories is as follows:

US\$ '000	Funded exposure	Unfunded exposure	Rated High standard grade exposure	Rated Standard grade exposure	Unrated exposure	Eligible collateral	Risk weighted assets	Capital charge
Claims on Sovereigns and PSE's	753,616	-	5,070	748,546	-	-	104,763	13,095
Claims on Banks	894,915	9,934	511,498	377,453	15,898	2,351	603,701	75,463
Claims on Corporate and Investment Firms	72,437	188	18,617	41,945	12,063	188	99,184	12,398
Fund Portfolio	15,427	-	-	-	15,427	-	23,141	2,893
Other exposures	19,016	-	-	-	19,016	-	30,736	3,842
Past Dues	13,018	-	-	-	13,018	-	13,018	1,627
Total	1,768,429	10,122	535,185	1,167,944	75,422	2,539	874,543	109,318

5.4 Geographical distribution of exposures

Geographical distribution of exposures based on residence of the counterparties is summarized below:

US\$'000	Funded exposure	Unfunded exposure	Gross credit exposure
Bahrain	759,436	-	759,436
Europe	140,684	-	140,684
Other GCC Countries	655,400	5,188	660,588
Other Middle East & Africa	154,049	4,934	158,983
Rest of the world	58,860	-	58,860
Total	1,768,429	10,122	1,778,551

The geographical distribution of gross credit exposures by major type of credit exposures can be analysed as follows:

US\$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims on Sovereigns and PSE's	610,357	33,360	38,495	71,404	-	753,616
Claims on Banks	141,797	56,949	566,398	70,911	58,860	894,915
Claims on Corporate and Investment Firms	-	21,930	50,507	-	-	72,437
Fund Portfolio	-	15,427	-	-	-	15,427
Other exposures	7,282	-	-	11,734	-	19,016
Past Dues	-	13,018	-	-	-	13,018
Total funded exposure	759,436	140,684	655,400	154,049	58,860	1,768,429
Unfunded exposures	-	-	5,188	4,934	-	10,122
Gross credit exposures	759,436	140,684	660,588	158,983	58,860	1,778,551

5.5 Industry sector analysis of exposures

US\$ '000	Funded exposure	Unfunded exposure	Gross credit exposure
Sovereign	753,616	-	753,616
Banks	910,342	9,934	920,276
Commercial & other business	104,471	188	104,659
Total	1,768,429	10,122	1,778,551

The industry sector analysis of gross credit exposures by major types of credit exposures can be analysed as follows:

USD '000s	Sovereign	Banks	Commercial & other businesses	Total
Claims on Sovereigns and PSE's	753,616	-	-	753,616
Claims on Banks	-	894,915	-	894,915
Claims on Corporate and Investment Firms	-	-	72,437	72,437
Fund Portfolio	-	15,427	-	15,427
Other exposures	-	-	19,016	19,016
Past Dues	-	-	13,018	13,018
Total funded exposure	753,616	910,342	104,471	1,768,429
Unfunded exposures	-	9,934	188	10,122
Gross credit exposures	753,616	920,276	104,659	1,778,551

5.6 Maturity analysis of funded exposures

Residual contractual maturities of the Group's funded exposures are as follows:

US\$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 years	Total
Claims on Sovereigns and PSE's	99,051	235,085	218,096	552,232	201,384	753,616
Claims on Banks	758,277	95,897	28,443	882,617	12,298	894,915
Claims on Corporate and Investment Firms	385	563	14,736	15,684	56,753	72,437
Fund Portfolio	-	-	-	-	15,427	15,427
Other exposures	16	5	41	62	18,954	19,016
Past Dues	-	-	-	-	13,018	13,018
Total	857,729	331,550	261,316	1,450,595	317,834	1,768,429

5.7 Maturity analysis of unfunded exposures

US\$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 years	Total
Claims on Banks	711	2,126	1,567	4,404	5,530	9,934
Claims on Corporate and Investment Firms	188	-	-	188	-	188
Total	899	2,126	1,567	4,592	5,530	10,122

5.8 Off- Balance sheet exposures

i. **Credit related contingent items**

Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor ("CCF"). The CCF factors range from 20 percent to 100 percent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into equivalent on-balance sheet exposures.

Credit commitments and unutilized approved credit facilities represent commitments that have not been drawn down or utilized. The notional amount provides the calculation base to which a CCF is applied for calculating the exposure at default. The CCF ranges between 0 percent and 100 percent depending on the approach, product type and whether the unutilized amounts are unconditionally cancellable or irrevocable.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities.

At 31 December 2024, the Group held credit-related contingent items & commitment amounting to US\$ 33.9 million.

ii. **Derivatives and Foreign exchange instruments**

Derivatives include futures, forwards, swaps and options in the interest rate and foreign exchange. The Group's derivative and foreign exchange activities are predominantly short-term in nature.

Derivatives and foreign exchanges exposures are exposed to market risk and settled on net basis. Due to currency movements or interest rate changes, the contract may result into net asset or liability.

At 31 December 2024, the Group had entered into forward foreign exchange contracts amounting to notional of US\$ 0.1 million.

5.9 Collateral

The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals, residential and commercial real estate and securities for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. For capital adequacy ratio calculation purposes mainly cash collateral is considered as risk mitigant.

5.10 Impairment of assets

Based on IFRS 9 methodology, the Group records an allowance for expected losses for all loans and other debt type financial assets not held at FVTPL, together with letters of credit, loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

5.10 Impairment of assets (continued)

i. Impaired loans and related provisions (stage 3)

USD'000s	Up to one year	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	32,181	-	35,490	67,671
Less: Specific Provision (stage 3)	(19,163)	-	(35,490)	(54,653)
Net outstanding 31 December 2024	13,018	-	-	13,018

ii. Movement in impairment provision including expected credit losses - Loans and Advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans:				
At beginning of the year	1,909	8,562	41,324	51,795
Transfer to stage 3	-	(8,511)	8,511	-
Provided during the year	398	-	11,255	11,653
Reversals during the year	(1,350)	(51)	(3,000)	(4,401)
Write off during the year	-	-	(2,834)	(2,834)
Exchange movement	-	-	(603)	(603)
Balance as at 31 December 2024	957	-	54,653	55,610

iii. Movement in impairment provision including expected credit losses – Investment

USD'000s	Stage 1	Stage 2	Stage 3	Total
Investments				
At beginning of the year	498	2,084	2,817	5,399
Transfer to stage1	653	(653)	-	-
Provided during the year	237	40	-	277
Reversals during the year	(847)	(649)	-	(1,496)
Write off during the year	-	-	(2,817)	(2,817)
Balance as at 31 December 2024	541	822	-	1,363

iv. Movement in impairment provision including expected credit losses – Other Financial Assets and Off-Balance sheet exposures

USD'000s	Stage 1	Stage 2	Stage 3	Total
At beginning of the year	165	1	3,644	3,810
Provided during the year	115	-	-	115
Reversals during the year	(143)	(1)	-	(144)
Exchange difference	-	-	(222)	(222)
Balance as at 31 December 2024	137	-	3,422	3,559

v. Specific provision for impaired assets by geography and sector (Stage 3):

USD '000s	Other Middle East and Africa	Specific Provision
Banks	27,626	27,626
Corporate	43,467	30,449
Total	71,093	58,075

5.11 Renegotiated facilities

During the year ended 31 December 2024, an exposure amounting to US\$ 32,181 thousand was renegotiated by the Group in collaboration with a consortium of banks, that is covered by a pool of assets as collateral.

As at 31 December 2024, the facility was classified in Stage 3 with a specific provision of US\$ 19,163 thousand, representing a coverage of 60%. Further, US\$ 2,410 thousand of interest earnings were suspended during the year.

6. Market risk - Pillar 3 disclosures

For allocating capital to market risks, the Group uses the Standardized Measurement Method for the measurement of market risk and capital allocation based on net open position of foreign currencies as defined under the Capital Adequacy module of CBB Rulebook:

US\$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign Exchange Risk	113	14	175	50

Currency risk arises from the movement of the rate of exchange over a period of time. The Group's currency risk is mainly towards assets and liabilities denominated in Euro, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Group manages this risk through net open position limits established for each currency and monitoring net open currency positions on a daily basis.

7. Operational risk- Pillar 3 disclosures

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

The Group has in place an ORMF to manage and control its operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal controls.

The Group adopted the Basic indicator approach in line with CBB regulation to compute total capital charge in respect of operational risk which amounted to US\$ 7,130 thousand on operational risk weighted exposure of US\$ 57,038 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income (years with positive gross income are counted for computation of capital charge), is multiplied by 12.50 operational capital charge.

8. Pillar 2 Risk Disclosures

a. Credit concentration risk

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. The Group has calculated the exposure concentration risk under Bank Pillar 2 capital framework using Herfindahl–Hirschman Index.

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

As at 31 December 2024, the Group's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US\$ '000	On-Balance sheet exposure	Off-Balance sheet exposure	Total
Sovereign	610,357	-	610,357
Banks	556,377	-	556,377
Total	1,166,734	-	1,166,734

The Group has in place credit risk management policies as well as and monitoring tools to proactively assess exposure concentration risk. The Group has internal limits to monitor and control concentration in sectors, geography and counterparty. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

b. Liquidity Risk

The Group maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Group monitors the maturity profile of its assets and liabilities so that adequate liquidity is maintained at all times. The Group monitors the stability of its funding base on an ongoing basis by ensuring maintaining strong relationship with its key depositors. The Asset and Liability Committee ("ALCO") reviews the liquidity gap profile and the liquidity stress testing results and addresses strategic issues concerning liquidity risk.

As of December 31, 2024, the Group's NSFR stood at 178% and LCR is 408%. Refer Liquidity risk disclosures made under note 29 of consolidated financial statements for the year ended 31 December 2024. In accordance with Liquidity Risk Management module of CBB, the Group computes the NSFR and LCR and maintain these ratios at levels greater than 100% respectively.

c. Interest rate risk in Banking Book

The Group is exposed to interest rate risk because of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities and monitoring the interest rate repricing gap by buckets. The Group measures its interest rate sensitivity by measuring the earnings at risk and change in economic value of equity due to a 200-bps parallel shock in interest rates. The ALCO regularly reviews the interest rate gap and sensitivity profile and takes decisions to ensure stability of interest income stream over time.

c. Interest rate risk in Banking Book (continued)

The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, of the Group's Interim Consolidated Statement of Income for the year ended 31 December 2024:

	31 December 2024
Interest rate change	Sensitivity of net Interest income (in US\$ '000)
+/- 200 bps	9,386

The details of interest rate sensitive assets and liabilities are as follows:

Interest Rate Risk Gap Report							
Balance Sheet Items (US\$ '000)	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over one year	Non-Interest rate sensitive	Total
ASSETS							
Balances, deposits with banks and Treasury Bills	773,093	270,945	55,514	140,379	-	32,812	1,272,743
Investment portfolio	-	10,002	7,488	24,949	242,744	15,169	300,352
Loans and advances	42,953	71,487	-	14,806	17,165	9,976	156,387
Investment property	-	-	-	-	-	11,734	11,734
Interest receivable	8,801	6,377	1,708	1,774	-	-	18,660
Other assets and fixed assets	17	-	-	-	-	7,269	7,286
TOTAL (A)	824,864	358,811	64,710	181,908	259,909	76,960	1,767,162
LIABILITIES							
Deposits from bank and other financial institutions	329,633	110,000	153,901	147,063	-	46,233	786,830
Due to banks and other financial institutions	141,073	-	-	-	-	63,397	204,470
Due to customers	28,343	-	-	-	-	367,835	396,178
Interest payable	2,287	217	936	1,145	-	-	4,585
Other liabilities	-	-	-	-	-	12,657	12,657
TOTAL (B)	501,336	110,217	154,837	148,208	-	490,122	1,404,720
Interest Rate Gap (A-B)	323,528	248,594	(90,127)	33,700	259,909	(413,162)	362,442
Cumulative Gap	323,528	572,122	481,995	515,695	775,604	362,442	

d. Reputational Risk

Group relies upon a reputation for integrity in order to maintain its existing business and to pursue its strategies for growth and new business. The Group has no risk appetite for reputational risk and a number of initiatives are dedicated to the avoidance of reputational damage, including controls relating to maintaining regulatory compliance, anti-money laundering controls and data security.

Group has prepared a scorecard to evaluate reputational risk score based on guidance provided by CBB and Group's internal as well as external operating environment. The score derived from the scorecard is used to assess the capital requirements for reputational risk.

e. Strategic risk

Business / strategic risk primarily arises out of either wrong strategic direction and or wrong strategy/ business plan implementation that could have an adverse impact on the Group's profitability and capital positions. The Group has various monitoring mechanism including Key Performance Indicator, Performance Reports etc. It monitors on a periodic basis to assess any deviation from the approved business plans that could impact the Group's performance in terms of its profitability, asset growth, financial health etc. Further, strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Group's performance and alignment with the strategic plan.

The Group quantifies the strategic and business risk based on earning volatility approach, comparing the volatility in budgeted vs actual gross income and gross cost of the Group, over a period of last 6 years. The earnings volatility is adjusted based on application of sustainability and contribution factors. The final adjusted volatility (value at risk) at a confidence level is annualized to estimate the Pillar 2 strategic risk capital

9. Other disclosures:

- a. **Related Party transactions:** Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. The balances and transactions with the related parties are disclosed in note 27 of the consolidated financial statements for the year ended 31 December 2024.
- b. **Assets sold under recourse agreements:** The Group did not enter into any recourse agreement during the year ended 31 December 2024.
- c. **Equity positions in the banking book:** Nil
- d. **Leverage Ratio**

US\$ '000	31 December 2024
Total assets	1,767,162
Total off-balance sheet items - with relevant CCF	8,771
Total	1,775,933
Tier One Capital	359,676
Leverage Ratio	20.25%