BASEL III PILLAR 3 DISCLOSURES

At 30 June 2026

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1. Executive Summary

This document sets out the Basel III Pillar 3 disclosures of Alubaf Arab International Bank B.S.C. (c) (the "Bank") and its subsidiaries, International Hotel Development Company S.A.L. and Bahrain Real Estate Development Company (together the "Group") as of 30 June 2026, providing information on the Group's risk profile, risk management framework, capital adequacy and related regulatory disclosures.

These disclosures have been prepared in accordance with the requirements of the Central Bank of Bahrain ("CBB") Public Disclosure (PD) Module, which incorporates the Basel III Pillar 3 framework and supplements, where applicable, the disclosure requirements of International Financial Reporting Standards ("IFRS"), together with the applicable provisions of the Bahrain Commercial Companies Law.

The disclosures contained in this document supplement and should be read in conjunction with the Group's interim consolidated financial statements for the period ended 30 June 2026, together with the capital 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 30 June 2026 amounted to US$ 1,030 million (31 December 2025: US$ 887 million), comprising 91.8% of credit risk, 0.1% of market risk and 8.1% of operational risk weighted assets. The consolidated capital adequacy ratio stood at 36% (31 December 2025: 43%), compared to the minimum regulatory requirement of 12.5%.

Figures in $ 000s	30 June 2026	31 December 2025
Tier 1 capital	369,794	379,576
Tier 2 capital	2,420	2,311
Total Capital	**372,214**	**381,887**
Credit risk weighted assets	945,684	814,475
Market risk weighted assets	1,450	63
Operational risk weighted assets	83,113	72,793
Total Risk Weighted assets	**1,030,247**	**887,331**
Tier 1 Capital Ratio	**36%**	**43%**
Total Capital Ratio	**36%**	**43%**

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 subsidiaries 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 of 30 June 2026, all banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio of 12.5% and a tier 1 ratio of 10.5%. In the event capital adequacy ratio falls below 12.5%, 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 the regulatory credit risk capital requirement, 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 (CA) module of the CBB rule book.

c) Operational Risk

For the regulatory operational risk capital requirement, the Group uses the Basic Indicator Approach for calculating its capital requirement, provided that 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 unless approval is granted by the CBB to use the standardized approach.

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 36% 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, Financing and Trade Finance solutions. The Group's customer base includes primarily banks, financial institutions, selective corporates, 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 (99.5%); other shareholders comprise of National Bank of Yemen (0.3%) and Yemen Bank for Reconstruction and Development (0.2%). Libyan Foreign Bank is 100% owned by the Central Bank of Libya.

The Group's interim 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 Head of Risk Management ("HRMD") 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	**Head of Risk Management ***
Capital management framework Regulatory Reporting	Risk management framework and policies Credit risk Market risk Operational risk Liquidity risk and other risks ICAAP, ILAAP and Stress testing

* HRMD is an independent role 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 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 daily.

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-assessment (“RCSA”);
- Identifying and monitoring of Key Risk Indicators (“KRIs”); 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 KRIs, which can provide an early warning of possible risk; and 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 KRIs which are monitored monthly 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 monthly 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 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 of 30 June 2026, 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 CET I	US$ '000s Tier II
Share Capital	250,000	-
Statutory reserve	38,587	-
Retained earnings	68,324	-
Cumulative fair value changes on FVOCI Investments (Debt)	(2,461)	-
All other reserves	15,348	-
Total CET I capital prior to regulatory adjustments	**369,798**	-
Less: intangibles other than mortgage rights	(4)	-
Total CET I capital after regulatory adjustment	**369,794**	-
Add: Stage 1 and 2 ECL in Tier 2	-	2,420
Total	**369,794**	**2,420**
Total Available Capital		**372,214**

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.

- **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 36% is well above the minimum regulatory requirement of 12.5%.

	US$ '000
Credit risk weighted assets	945,684
Market risk weighted assets	1,450
Operational risk weighted assets	83,113
Total Risk weighted assets (RWA)	**1,030,247**
Total Eligible Capital Base	**372,214**
CET I ratio	**36%**
Capital adequacy ratio	**36%**

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 Banks **	860,332	39,609	899,941	3,425	608,287	76,036
Claims on Sovereigns	918,047	-	918,047	-	121,868	15,234
Claims on Corporate **	103,200	411	103,611	411	130,880	16,360
Fund Investment	19,123	-	19,123	-	28,685	3,586
Other exposures	20,847	-	20,847	-	35,293	4,411
Past Dues	17,430	-	17,430	-	20,671	2,584
Total	**1,938,979**	**40,020**	**1,978,999**	**3,836**	**945,684**	**118,211**

* Balances are gross of stage 1 and 2 ECL.

** Net credit risk exposures after mitigants for Claims on Banks amounted to US$ 896,516 thousand and Claims on Corporate amounted to US$ 103,200 thousand respectively. None of the 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 Banks	860,332	739,768
Claims on Sovereigns	918,047	937,866
Claims on Corporate	103,200	68,392
Fund Investment	19,123	18,275
Other exposures	20,847	21,801
Past dues	17,430	15,303
Total funded exposure	**1,938,979**	**1,801,405**
Unfunded exposures	**40,020**	**136,710**
Gross credit exposures	**1,978,999**	**1,938,115**

*Average monthly balance represents the average of the sum of six-month end balance for the period ended 30 June 2026.

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 Banks	860,332	39,609	562,305	240,363	97,273	3,425	608,287	76,036
Claims on Sovereigns	918,047	-	5,103	912,944	-	-	121,868	15,234
Claims on Corporate	103,200	411	8,760	29,960	64,891	411	130,880	16,360
Fund Investment	19,123	-	-	-	19,123	-	28,685	3,586
Other exposures	20,847	-	-	-	20,847	-	35,293	4,411
Past Due	17,430	-	-	-	17,430	-	20,671	2,584
Total	**1,938,979**	**40,020**	**576,168**	**1,183,267**	**219,564**	**3,836**	**945,684**	**118,211**

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	958,090	-	958,090
Europe	309,652	-	309,652
Other GCC Countries	449,965	-	449,965
Other Middle east & Africa	208,858	40,020	248,878
Rest of the world	12,414	-	12,414
Total	**1,938,979**	**40,020**	**1,978,999**

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 Banks	179,023	158,092	388,876	121,927	12,414	**860,332**
Claims on Sovereigns	772,715	49,432	23,464	72,436	-	**918,047**
Claims on Corporate	-	72,056	31,144	-	-	**103,200**
Fund Investment	-	19,123	-	-	-	**19,123**
Other exposures	6,352	-	-	14,495	-	**20,847**
Past Due	-	10,949	6,481	-	-	**17,430**
Total funded exposure	**958,090**	**309,652**	**449,965**	**208,858**	**12,414**	**1,938,979**
Unfunded exposures	-	-	-	**40,020**	**-**	**40,020**
Gross credit exposures	**958,090**	**309,652**	**449,965**	**248,878**	**12,414**	**1,978,999**

5.5 Industry sector analysis of exposures

US$ '000	Funded exposure	Unfunded exposure	Gross credit exposure
Banks	879,455	39,609	919,064
Sovereign	918,047	-	918,047
Commercial & other business	141,477	411	141,888
Total	**1,938,979**	**40,020**	**1,978,999**

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

USD '000s	Banks	Sovereign	Commercial & other businesses	Total
Claims on Banks	860,332	-	-	**860,332**
Claims on Sovereigns	-	918,047	-	**918,047**
Claims on Corporate	-	-	103,200	**103,200**
Fund Investment	19,123	-	-	**19,123**
Other exposures	-	-	20,847	**20,847**
Past Due Exposures	-	-	17,430	**17,430**
Total funded exposure	**879,455**	**918,047**	**141,477**	**1,938,979**
Unfunded exposures	**39,609**	**-**	**411**	**40,020**
Gross credit exposures	**919,064**	**918,047**	**141,888**	**1,978,999**

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 Banks	646,678	122,506	47,291	**816,475**	43,857	**860,332**
Claims on Sovereign	210,496	108,839	388,721	**708,056**	209,991	**918,047**
Claims on Corporate	348	294	39,000	**39,642**	63,558	**103,200**
Fund Investment	-	-	-	**-**	19,123	**19,123**
Other exposures	48	9	-	**57**	20,790	**20,847**
Past Due Exposures	-	-	-	**-**	17,430	**17,430**
Total	**857,570**	**231,648**	**475,012**	**1,564,230**	**374,749**	**1,938,979**

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	1,137	7,135	31,337	**39,609**	-	**39,609**
Corporate	2	121	288	**411**	-	**411**
Total	**1,139**	**7,256**	**31,625**	**40,020**	**-**	**40,020**

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 counterindemnities.

On 30 June 2026, the Group held credit-related contingent items amounting to US$ 199 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.

On 30 June 2026, the Group had entered forward foreign exchange contracts amounting to notional of US$ 27 million.

5.9 Collateral

The amount and type of collateral depend 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 securities as well as other form of acceptable collaterals, for both funded and unfunded credit exposures. 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 ECL 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 years	over 3 years	Total
Gross impaired loans (stage 3)	7,201	41,376	25,535	**74,112**
Less: Specific Provision (stage 3)	(720)	(30,427)	(25,535)	**(56,682)**
Net outstanding 30 June 2026	**6,481**	**10,949**	**-**	**17,430**

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	1,212	-	50,972	**52,184**
Transfer to stage 3	(16)	-	16	**-**
Provided during the period	589	-	704	**1,293**
Reversals during the period	(550)	-	-	**(550)**
Exchange and other movement	-	-	4,990	**4,990**
Balance as of 30 June 2026	**1,235**	**-**	**56,682**	**57,917**

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	722	288	-	**1,010**
Transfer to stage 1	272	(272)	-	**-**
Provided during the period	169	-	-	**169**
Reversals during the period	(393)	(8)	-	**(401)**
Balance as at 30 June 2026	**770**	**8**	**-**	**778**

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	89	-	3,865	**3,954**
Provided during the period	355	-	-	**355**
Reversals during the period	(37)	-	-	**(37)**
Exchange difference	-	-	(109)	**(109)**
Balance as at 30 June 2026	**407**	**-**	**3,756**	**4,163**

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

USD '000s	Other Middle East and Africa	GCC	Specific Provision
Banks	23,156	-	23,156
Corporate	47,511	7,201	37,282
Total	**70,667**	**7,201**	**60,438**

5.11 Renegotiated facilities

During the six-month period ended 30 June 2026, the Group progressed with the restructuring of a Stage 3 exposure. In accordance with the terms of the restructuring agreement, the original exposure was converted from foreign currency to presentation currency, and previously suspended interest was capitalised into the gross carrying amount of the exposure.

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	1,450	181	1,775	1,450

Currency risk arises from the movement of the rate of exchange over a period. The Group's currency risk is mainly towards assets and liabilities denominated in EUR, 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 daily.

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$ 10,389 thousand on operational risk weighted exposure of US$ 83,113 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 12.5 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 of 30 June 2026, 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 A	772,715	-	772,715
Sovereign B	79,119	2,607	81,726
Bank A	247,359	-	247,359
Bank B	196,238	-	196,238
Bank C	68,515	-	68,515
Total	**1,363,946**	**2,607**	**1,366,553**

In line with CM module of the CBB Rulebook (CM-2.6), USD 1,321 thousand of the above stated exposures are exempt from the 15% limit.

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 30 June 2026, the Group's NSFR stood at 170% and LCR is 545%. Refer liquidity ratio disclosures made under note 12 of interim consolidated financial statements for the period ended 30 June 2026. 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. The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, on the Group's Consolidated Statement of Income:

	For the period ended 30 June 2026
Interest rate change	Sensitivity of net Interest income (in US$ '000)
+ / - 200 bps	4,415

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	793,432	207,609	206,302	149,367	-	34,927	**1,391,637**
Investment portfolio	-	-	4,704	43,984	246,218	18,844	**313,750**
Loans and advances	38,670	57,491	60,000	9,123	10,942	16,197	**192,423**
Investment property	-	-	-	-	-	14,494	**14,494**
Interest receivable	7,262	4,301	5,470	1,746	-	-	**18,779**
Other assets and fixed assets	-	-	-	-	-	6,305	**6,305**
TOTAL (A)	**839,364**	**269,401**	**276,476**	**204,220**	**257,160**	**90,767**	**1,937,388**
LIABILITIES							
Deposits from bank and other financial institutions	386,088	156,937	133,000	7,952	-	-	**683,977**
Due to banks and other financial institutions	124,040	-	-	-	-	69,868	**193,908**
Due to customers	117,056	-	323,892	24,670	-	207,326	**672,944**
Interest payable	1,849	2,239	4,357	251	-	-	**8,696**
Other liabilities	-	-	-	-	-	7,567	**7,567**
TOTAL (B)	**629,033**	**159,176**	**461,249**	**32,873**	**-**	**284,761**	**1,567,092**
Interest Rate Gap (A-B)	**210,331**	**110,225**	**(184,773)**	**171,347**	**257,160**	**(193,994)**	**370,296**
Cumulative Gap	**210,331**	**320,556**	**135,783**	**307,130**	**564,290**	**370,296**	

d. Reputational Risk

Group relies upon a reputation for integrity 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 10 of the interim consolidated financial statements for the period ended 30 June 2026.

b. **Assets sold under recourse agreements**: The Group did not enter into any recourse agreement during the period ended 30 June 2026.

c. **Equity positions in the banking book**: Nil

d. **Leverage Ratio**

US$ '000	30 June 2026
Total assets	1,937,388
Total off-balance sheet items - with relevant CCF	39,855
Total	**1,977,243**
Tier One Capital	**369,794**
Leverage Ratio	**19%**