Liquidity Management Centre B.S.C. (c)
Basel III, Pillar III Disclosures
30 June 2024

Contents

1 Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD Module"), CBB Rule Book, Volume 2 for Islamic Banks. Rules concerning the disclosures under this section are applicable to Liquidity Management Centre B.S.C. (c) (the "Bank") being a locally incorporated bank with a Wholesale Islamic Investment Banking license.

The Board of Directors seeks to optimize the Bank's performance by enabling the various group business units to realize the Bank's business strategy and meet set business performance targets by operating within the agreed capital and risk parameters within the Bank risk policy framework.

However, as at 30 June 2024, the Shareholders of the Bank in their Extraordinary General Meeting ("EGM") held on 27 April 2020, passed a resolution approving the conversion of the Bank's license from an Islamic Wholesale Bank to an Bahrain Shareholding Company, subject to CBB approval.

2 Capital adequacy

The primary objectives of the the Bank's capital management are to ensure that the the Bank complies with externally imposed capital requirements and that it maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of growth expectations of the business and future sources of and uses of funds. To assess its capital adequacy requirements in accordance with CBB regulations, the Bank adopts the Standardized Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk.

There are no restrictions on the transfer of funds or regulatory capital within the Bank and all investments are fully complying with the CBB approval and related instructions.

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.15)

The following table summarizes the eligible capital for Capital Adequacy Ratio (CAR) calculation:

	CET 1	*AT1*	*T 2*
	US$ '000	*US$ '000*	*US$ '000*
Components of Capital			
Common Equity Tier 1(CET1)			
Issued and fully paid ordinary shares	59,039	-	-
General reserves	2,226	-	-
Legal / statutory reserves	4,452	-	-
Accumulated losses	(17,687)	-	-
Current interim income	783	-	-
	-	-	-
Total CET 1 Capital prior to regulatory adjustments	48,813	-	-
Other Capital (AT1 and T2)			
Expected Credit Losses (ECL) Stages 1 & 2	-	-	641
Net Available Capital	48,813	-	641
Total Tier 1	-	48,813	-
Total Capital			49,454

2 Capital Adequacy (continued)

Table – 2. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures subject to standardized approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Gross exposures US$ '000	*Risk weighted assets US$ '000*	*Capital requirements @ 12.5% US$ '000*
Due from banks with original maturity of 90 days or less	7,288	1,458	182
Due from banks above 90 days	10,000	22,592	2,824
Investment in sukuks	7,434	-	-
	24,722	**24,050**	**3,006**

Table – 3. Capital requirements for Market Risk (PD-1.3.18)

The following table summarises the amount of exposures subject to standardized approach of market risk and related capital requirements:

	Self financed US$ '000
Market Risk - Standardised Approach - Foreign exchange risk	-
Multiplier	12.5
Eligible Portion for the purpose of the calculation	0%
RWE to be used in CAR Calculation	**-**

The minimum capital requirement for the above market risk exposure at 12.5 % is US$ .0484 thousand.

Table – 4. Capital Requirements for Operational Risk (PD-1.3.19) and (PD-1.3.30 (a & b))

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements:

	Capital charge US$ '000
Indicators of operational risk	
Average gross income	3,831
Multiplier	15.0
	57,465
Eligible Portion for the purpose of the calculation	12.5%
	7,183

The minimum capital requirement for the above operational risk exposure at 12.5% is US$ 897.89 thousand.

2 Capital Adequacy (continued)

Table – 5. Capital Adequacy Ratios (PD-1.3.20)

The following table summarises the CAR as of 30 June 2024 for total capital and Tier 1 capital at the top consolidated level in the Bank:

	Total capital ratio	*Tier 1 capital ratio*
Top consolidated level	**59.83%**	**59.06%**

The CBB's minimum capital adequacy ratios for banks incorporated in Bahrain at a consolidated level are as follows:

	Minimum Ratio Required	*Capital Conservation Buffer (CCB)*	*CARS including CCB*
CET1	6.5%	2.5%	9.0%
Tier 1	8.0%	2.5%	10.5%
Total Capital	10.0%	2.5%	12.5%

3 Risk Management

3.1 Risk Management Objectives

Risk management is an integral part of the Bank's decision-making process. The ALCO and Risk Managment and Compliance Committees guide and assist with overall management of the Bank's statement of financial position risks. The Bank manages exposures by setting limits/strategies approved by the Board of Directors.

The risk management philosophy of the Bank is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Bank's shareholders are safeguarded, while maximizing the returns intended to optimize the Bank's shareholder return while maintaining risk exposure within self-imposed parameters.

In addition to satisfying the minimum regulatory capital requirements of CBB, the Bank seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels and consequently has developed an Internal Capital Adequacy Assessment Process ("ICAAP") framework. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business.

3.2 Strategies, processes and internal controls

3.2.1 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

3.2.2 Market risk

The Bank proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques. The Bank carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

3.2.3 Operational risk

The Bank has established a self assessment process necessary for identifying and measuring its operational risks. In addition to that, the Bank has conducted a Risk and Control Self Assessment ("RCSA") exercise, which has undertaken the Bank's business lines and their critical activities.

The Bank has established clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Bank, where applicable.

3 Risk Management (continued)

3.2 Strategies, processes and internal controls (continued)

3.2.4 Equity risk in the banking book

Equity price risk is the risk of decline in the value of a security or portfolio and is the biggest risk faced by all investors. The equity price risk exposure arises from the Bank's investment portfolio and can be minimised through diversification. The Bank manages and monitors its equity risk using investment limits.

3.2.5 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank measures the profit rate risk by carrying out re-pricing gap analysis. This is further supported by limits put in place by the Bank.

3.2.6 Displaced commercial risk (“DCR”)

DCR refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with the competitor’s rates.

The Bank does not accept deposits from investors or open profit sharing investment accounts and therefore displaced commercial risk is not currently applicable for the Bank.

3.2.7 Review of internal control process and procedures

The Bank aims to manage and control the risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day-to-day basis. The Bank's policies and procedures were applicable throughout the period.

The Audit Committee reviews and evaluates the effectiveness of the Bank's procedures and internal control systems for assessing risks or exposures through reviewing policy and procedures of each department. It assists the Board in fulfilling its oversight duties by reviewing the financial information provided to shareholders and others.

The Bank has engaged an external professional firm for internal audit of its internal control, procedures and process. Reports issued by the professional firm are reviewed by the Audit Committee.

All the above strategies used have been effective throughout the reporting period.

3.3 Structure and organization of the risk management function

Risk management includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of risk management processes in the Bank. The responsibilities associated with each level of risk management structure and authorities include the following:

a. The Board retains ultimate responsibility and authority for all risk matters.

b. Delegating authority to the Risk Management and Compliance Committee, Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to review various transactions prior to approval and execution of those transactions.

3 Risk Management (continued)

3.4 Risk measurement and reporting system

Based on its risk appetite, the Bank has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective committees and the Board by the Credit and Risk Management Department ("CRMD"). These limits are reviewed and revised at least, on annual basis or, when is deemed required.

The Bank has developed a risk reporting process that generates various reports to enhance the monitoring process of the Bank.

3.5 Credit Risk

3.5.1 *Introduction*

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in form of real estate or other tangible securities.

3.5.2 *Past due and impaired Islamic financing contracts*

The Bank defines non-performing facilities as those facilities that are overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income only being recognized to the extent that it is actually received. It is the Bank's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue instalments / payments.

3.5.3 *External Credit Assessment Institutions*

The Bank relies on external ratings for rated counterparties and issuances. The Bank uses Standard & Poor's, Fitch, Moody's and Capital Intelligence ratings for such counterparties. These ratings are used for risk assessment and calculation of risk weighted equivalents.

3.5.4 *Concentration risk*

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain prior approval from the CBB for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risk are controlled and managed accordingly.

3.5.5 *Credit risk mitigation*

Credit risk mitigation refers to the use of a number of techniques, like collaterals to mitigate the credit risks that the Bank is exposed to. Credit risk mitigants reduce/transfer the credit risk by allowing the Bank to protect itself and reduce its loss in case of non-performance by counterparty.

Generally, the Bank participates in syndicated credit facilities / extends credit facilities only where supported by adequate tangible collateral security or audited financial statements. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position / repayment ability and the facilities are properly structured and supported by assignments as appropriate.

3 Risk Management (continued)

3.5 Credit Risk (continued)

3.5.5 *Credit risk mitigation (continued)*

3.5.5.1 *General policy guidelines of collateral management*

Acceptable Collateral: The Bank has developed guidelines for acceptable collateral. Assets offered by obligor must meet the following criteria to quantify as acceptable collateral:

a. Assets must maintain their value, at the level prevalent at inception, until maturity date of the facility granted.
b. Such assets should be convertible into cash, if necessary.
c. There should be a reasonable market for the assets.
d. The Bank should be able to enforce its rights over the asset, if necessary.

Ownership: Prior to valuation or further follow up on the offered collateral, the credit and risk management department ensures satisfactory evidence of the borrower's ownership of the assets though due diligence.

Valuation: All assets offered as collateral are valued by reputable external appraisers.

a. **Valuation of shares:** shares are valued based on latest quotes available from respective stock exchanges.
b. **Valuation of funds:** funds are valued based on NAV received from the fund manager.
c. **Valuation of real estate:** real estate collateral is valued, on an annual basis, by external real estate valuation experts.

3.5.5.2 *Custody / collateral management*

The asset, or title to the asset, is maintained in the Bank's custody or with custodian approved by the Bank. The credit and risk management department obtains confirmation of the assets held with each custodian.

3.5.6 *Counterparty credit risk*

The Bank has adopted the Standardized Approach to allocate capital for counterparty credit risk. The Bank has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties and in line with CBB guidelines.

3.5.7 *Restructured facilities*

No islamic financing contracts or facilities were restructured during the six months period ended 30 June 2024.

3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 6. Credit Risk Exposures (PD-1.3.23 (a))

The following table summarises the amount of gross funded credit exposures and average gross funded exposures allocated in own capital. The average gross funded exposures are calculated based on month end balances.

	Own capital	
	Total gross credit exposure US$ '000	***Average gross exposure US$ '000***
Funded		
Cash and balances with banks	697	710
Due from banks	17,277	14,468
Investment in sukuks	7,429	9,915
Investment in equities and funds	4,293	4,293
Equipment	43	49
Other assets	882	803
Investment in real estate	19,421	19,421
	50,042	**49,659**

The majority of the Bank's portfolio is collateralized by real estate properties, where the collateral is for all sukukholders and not specific to the Bank.

The Bank did not maintain any unfunded exposures during the period ended 30 June 2024.

3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures, broken down into significant areas by types of credit exposure.

	Own capital* *Geographic area				
	Bahrain US$ '000	***GCC US$ '000***	***Others US$ '000***	***ECL US$ '000***	***Total US$ '000***
Cash and balances with banks	697	-	-	-	**697**
Due from banks	17,288	-	-	(11)	**17,277**
Investment in sukuks	7,434	-	-	(5)	**7,429**
Investment in equities and funds	4,293	-	-	-	**4,293**
Equipment	43	-	-	-	**43**
Other assets	1,507	-	-	(625)	**882**
Investment in real estate	19,421	-	-	-	**19,421**
	50,683	**-**	**-**	**(641)**	**50,042**

* Geographical distribution of exposure is based on counterparty / obligor country of incorporation.

3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 8. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of credit exposures by industry, broken down into types of credit exposure:

	Own capital Industry sector					
	Banks and financial institutions US$ '000	***Government US$ '000***	***Real estate US$ '000***	***Others US$ '000***	***ECL US$ '000***	***Total US$ '000***
Funded						
Cash and balances with banks	696	-	-	1	-	**697**
Due from banks	17,288	-	-	-	(11)	**17,277**
Investment in sukuks	-	7,434	-	-	(5)	**7,429**
Investment in equities and funds	-	-	4,293	-	-	**4,293**
Equipment	-	-	-	43	-	**43**
Other assets	444	303	627	133	(625)	**882**
Investment in real estate	-	-	19,421	-	-	**19,421**
Total	**18,428**	**7,737**	**24,341**	**177**	**(641)**	**50,042**

Table – 9. Credit Risk – Concentration of Risk (PD-1.3.23(f))

Below are exposures to counterparties in excess of the 15% individual obligor limit:

	Own capital US$ '000
Counterparty 1*	7,500
Total	**7,500**

*The exposure is exempted as per CBB guidelines, as it is exposure with GCC government and their public sector entities which are not connected to the bank.

3 Risk Management (continued)

3.5 Credit Risk (continued)

Table – 10. Credit Risk – Residual Contractual Maturity Breakdown (Own Capital) (PD-1.3.23(g))

The following table summarises the residual maturity of own capital breakdown of the whole credit portfolio, broken down by types of credit exposures.

	Own capital Maturity breakdown									
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*Over 5 years US$ '000*	*No fixed maturity US$ '000*	*ECL US$ '000*	***Total US$ '000***
Cash and balances with banks	697	-	-	-	-	-	-	-	-	**697**
Due from banks		-	10,000	7,289	-	-	-	-	(11)	**17,277**
Investment in sukuks	-	-			-	7,434	-	-	(5)	**7,429**
Investment in equities and funds	-	-	-	-	-	-	-	4,293	-	**4,293**
Investment in real estate	-	-	-	-	-	-	-	19,421	-	**19,421**
Equipment	-	-	-	-	-	-	-	43	-	**43**
Other assets	-	355	389	128	635	-	-	-	(625)	**882**
Total assets	**697**	**355**	**10,389**	**7,417**	**635**	**7,434**	**-**	**23,757**	**(641)**	**50,042**
Staff Liabilities	6	-		23	697					**726**
Other liabilities	1	29	-	251	222	-	-	-	-	**503**
Total liabilities	**7**	**29**	**-**	**274**	**919**	**-**	**-**	**-**	**-**	**1,229**
Liquidity gap	690	326	10,389	7,143	(284)	7,434	-	23,757	(641)	**48,813**
Cumulative liquidity gap	690	1,016	11,405	18,548	18,264	25,698	25,698	49,455	48,813	(0)

Table – 11. Credit Risk – Restructured Islamic financing contracts (PD-1.3.23(j))

No islamic financing contracts or facilities were restructured during the six months period ended 30 June 2024.

3 Risk Management (continued)

3.6 Market risk

Market risk is the risk that arises from fluctuations in market risk factors that include profit rates, currency risk and equity prices and will have a negative impact on the Bank's income and may influence the value of its portfolios.

Profit rate risk
Profit rate risk arises from a) mismatch of maturities of assets and liabilities b) Basis Value Risk and c) Profit rate curve risk. The Bank measures profit rate risk using the following methodologies:

a) Gap analysis: where the assets and liabilities are classified into time bands based on the maturity in case of fixed rate instruments or re-pricing dates for floating rate instruments.
b) Economic value of equity-duration gap: this measures the loss in value of the portfolio due to change in profit rates.

The Bank manages such risk by ensuring that minimum maturity mismatch is achieved between its assets and liabilities and through fixed rates on its assets and liabilities. The Treasury department monitors profit rate risk regularly and submits reports to Asset and Liabilities Commitee and Credit and Investment Commitee.

Currency risk
Currency risk represents fluctuations in exposures held by the Bank in currencies other than the US dollar. The Bank may engage, in normal course of business, in transactions denominated in currencies other than its functional currency.

Equity price risk
The Bank has guidelines in place to manage equity price risk. Examples of these guidelines include:

a) Equity investment is managed at the preacquisition stage by understanding its performance through different scenarios.
b) Specific deal structure to maximise investment rate of return.
c) Portfolio approach through geographical and industrial diversification.

3.6.1 *Market risk strategy*
The Board is responsible for approving and reviewing (at least annually), the risk strategy and significant amendments to the risk policies and procedures. The Bank's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

In line with the Bank’s risk management objectives and risk tolerance levels, strategies for market risk management include:

1. Managing its market risk exposure by evaluating each new product / activity with respect to the market risk introduced by it;
2. Proactively measuring and continually monitoring the market risk in its portfolio;
3. Holding sufficient capital in line with the Basel and CBB regulatory capital requirements;
4. Establishing a limit structure to monitor and control the market risk in its portfolio, these limits shall include position limits and maturity limits;
5. Matching the amount of floating rate assets with floating rate liabilities; and
6. Identifying the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

3 Risk Management (continued)

3.6 Market Risk (continued)

3.6.2 *Limits monitoring*

The Treasury Department and Credit and Risk Management Department monitor the risk limits for each transaction, ensure that the exposures are well within set parameters and report periodically to senior management.

3.6.3 *Breach of limits*

Adherence to internal and regulatory limits is ensured before incurring any exposure and approvals from the respective approving authority is obtained. In case limits are breached, it will be brought to the appropriate authority, as per Discretionary Authority Limit, for their action. The limits are revised at least annually or when deemed required.

Table – 12. Market risk capital requirements (PD-1.3.27 (b))

The following table summarises the capital requirement by each category of market risk;

	Risk weighted assets US$ '000	*Capital requirement US$ '000*
Maximum market risk - Foreign exchange risk	-	-
Minimum market risk - Foreign exchange risk	-	-

3.7 Operational risk

3.7.1 *Introduction*

Operational risk is the risk of loss arising from inadequate information systems, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems that may result in unexpected losses or damage the Bank's reputation.

3.7.2 *Sources of operational risk*

The different sources of operational risks faced by the Bank can be classified broadly into the following categories:

(a) People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship and unethical environment.

(b) Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting.

(c) Systems (Technology) risk which arise due to integrity of information - lacking in timelines of information, omission and duplication of data, hardware failures due to power surge, obsolescence and low quality programmes.

3.7.3 *Operational risk management strategy*

As a strategy, the Bank has identified the sources of operational risks in coordination with each business unit. The Bank completed the RCSA to identify the operational risks it is exposed to and has taken steps to monitor and minimize this risk.

3 Risk Management (continued)

3.7 Operational Risk (continued)

3.7.3 *Operational risk management strategy (continued)*

On a continuous basis, the Bank:

a. assesses the effectiveness of controls associated with identified risks.
b. regularly monitors operational risk profiles and material exposures to losses.
c. identifies stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks.

3.7.4 *Operational risk monitoring and reporting*

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

During the period, the Bank had no penalties reported to the CBB.

3.7.5 *Operational risk mitigation and control*

The business units, in consultation with credit and risk management department will determine all material operational risks and decide the appropriate procedures to be used to control and mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with the credit and risk management department will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Bank or withdraw from the associated activity completely. The credit and risk management department facilitates the business units in co-developing the mitigation plans.

3.7.6 *Business continuity plan ("BCP")*

The Bank has developed a comprehensive business continuity plan detailing the steps to be taken in the event of extreme conditions to resume the Bank’s operations with minimum delay and disturbance. Elements of contingency plans and disaster recovery processes include operating systems, physical space, telecommunications and resources.

The CRD ensures that the BCP is kept up-to-date and is tested once a year in a simulated environment to ensure that it can be implemented in emergency situations. They also ensure that management and staff understand how it is to be executed. Results of this testing and evaluation conducted by CRD is presented to the Risk Management and Compliance Committee and Board for evaluation. The plan is reviewed periodically to assess and incorporate changes in the business and market conditions.

3.8 Equity positions in the banking book

Equity price risk is the risk of decline in the value of a security or portfolio and is the biggest risk faced by all investors. The equity price risk exposure arises from the Bnak's investment portfolio and can be minimised through diversification. The Bank manages and monitors its equity risk using investment limits. The equity position that the Bank is holding is for capital gain purposes. The Bank has no holdings for any other reason except for capital gain.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the Bank's consolidated financial statements for the period ended 30 June 2024.

3 Risk Management (continued)

3.8 Equity positions in the banking book (continued)

Table – 13. Equity position risk in banking book (PD-1.3.31 (b) (c) and (f))

The following table summarises the amount of total and average gross equity exposures.

	Total gross exposure US$ '000	**** Average gross exposure US$ '000***	***Publicly traded US$ '000***	***Risk weighted assets US$ '000***	***Capital Requirement US$ '000***
Equity investments	**4,293**	**4,293**	**-**	**8,586**	**1,073**

*Average balances are computed based on month end balances.

Table – 14. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

	US$ '000
Total unrealized gains recognized in the balance sheet but not through P&L	**-**

3.9 Liquidity risk

3.9.1 *Introduction*
Liquidity risk is defined as the risk that the Bank will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets.

3.9.2 *Sources of liquidity risk*
The sources of liquidity risk can broadly be categorized in the following:

a. **Funding risk** is the risk of not being able to fund net outflows due to unanticipated withdrawal of credit lines;

b. **Call risk** is the risk of crystallization of a contingent liability; and

c. **Event risk** is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Bank.

3.9.3 *Bank's liquidity strategy*
The Board reviews the liquidity strategy on an annual basis and amends the existing strategy, as deemed required. For this purpose, all business units advise the Treasury Department of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The liquidity strategy highlights any anticipated liquidity shortfalls, the Shari'a compliant funding requirements to finance these shortfalls and their impact on the balance sheet. The Bank also has a liquidity contingency plan that deals with stressed scenarios and outlines an action plan that can be taken in the event of a loss of market liquidity.

3 Risk Management (continued)

3.9 Liquidity risk (continued)

3.9.4 *Liquidity risk strategy*

The Bank monitors the liquidity position by comparing maturing assets and liabilities in different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, 3-5 years, 5-10 years and no fixed maturity. The Bank carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Bank.

The Bank has established a contingency liquidity plan to meet urgent liquidity requirements in stressed conditions that addresses how funding liquidity would be managed if either their specific financial conditions were to decline or broader conditions created a liquidity problem. The plan is reviewed on a regular basis and updated as required.

The Treasury Department, in conjunction with credit and risk management department periodically reviews, at least on an annual basis, the liquidity risk strategy before presenting to the Risk Management Commitee and subsequently the Board for approval.

The Bank uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Bank has set the following limits for monitoring liquidity risks:

a. Liquidity gap limits; and
b. Liquidity ratio limits.

3.9.5 *Contingency Funding Plan*

The Bank has developed a contingency funding plan which details procedures to be followed by the Bank, in the event of a liquidity crisis or a situation where the Bank faces stressed liquidity conditions. The contingency funding plan is an extension of day-to-day liquidity management and involves maintenance of adequate amount of liquid assets and management of access to funding resources. The Credit and Investment Commitee discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Bank.

The Bank's funding guidelines include:
(a) The mobilization and placements of short-term funds, Mudaraba and Murabaha transactions which is the responsibility of the Treasury Department;
(b) Ensuring all funding objectives are aligned to the strategic objectives of the Bank;
(c) The composition, characteristics and diversification of the Bank’s funding structure are monitored by CIC and executed by the Treasury Department;
(d) Treasury Department maintains the counterparty relationships to obtain the necessary lines of funding;
(e) The Credit and Investment Commitee monitors the concentration of funding sources across products and counterparties and effect measures to mitigate undue concentrations; and
(f) Treasury Department implements the deals within the approved guidelines, including the approved products and the counterparties.

Table – 15. Equity position in banking book liquidity ratios (PD-1.3.37)

The following table summarises the liquidity ratios:

	30 June	*31 December*			
	2024	2023	2022	2021	2020
(a) Short term assets (maturity in less than 1 year) / short term liabilities (maturity in less than 1 year)	**6083%**	3192%	669%	1142%	225%
(b) Liquid Assets / Total Assets	**36%**	28%	12%	8%	6%
(c) Liquid Assets / Total Assets *	**51%**	51%	46%	45%	38%

* Management evidenced that certain sukuks are tradable or liquid and accordingly, this ratio is calculated after including the tradable sukuks as liquid assets.

3 Risk Management (continued)

3.10 Profit rate risk

3.10.1 *Introduction*

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

3.10.2 *Sources of profit rate risk*

The different profit rate risks faced by the Bank can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing risk (for floating rate) of assets, liabilities and off-balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Bank's income and underlying economic value to unanticipated fluctuations.
b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Bank's income and/or underlying economic value.
c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies.
d. Displaced commercial risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets, financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

3.10.3 *Profit rate risk strategy*

The fair value of financial assets may be affected by current market forces including profit rates. The Bank recognizes income on certain of its financial assets on a time-apportioned basis. As a strategy, the Bank:

a. has identified the profit rate sensitive products and activities it wishes to engage in;
b. has established a limit structure to monitor and control the profit rate risk of the Bank;
c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and
d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

3.10.4 *Profit rate risk measurement tools*

The Bank uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

3.10.5 *Profit rate risk monitoring and reporting*

The Treasury department monitors these limits regularly. The Exective Management review the results of gap limits and exceptions, if any, and recommends corrective action to be taken according to authority parameters approved by the Risk Management Committee.

3 Risk Management (continued)

3.10 Profit rate risk (continued)

3.10.5 *Profit rate risk monitoring and reporting (continued)*

Table – 16. Profit rate risk in banking book (PD-1.3.40 (b))

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates:

	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*Over 1 years US$ '000*
Due from banks	-	-	9,994	7,283	-
Investment in sukuks	-	-	-		7,429
Profit rate sensivtive assets	**-**	**-**	**9,994**	**7,283**	**7,429**
Profit rate sensivtive liabilities	**-**	**-**	**-**	**-**	**-**
Profit rate gap	**-**	**-**	**9,994**	**7,283**	**7,429**
Profit rate sensitivity (200BPS)	**-**	**-**	**200**	**146**	**149**

	Effect on value of asset US$ '000	***Effect on value of liability US$ '000***	***Effect on value of economic capital US$ '000***
Effect of an increase of 200 basis points	**494**	**-**	**494**

The impact of a similar decrease in profit rate will be approximately opposite to the impact disclosed above.

Table – 17. Quantitative indicators of financial performance and position (PD-1.3.9 (b))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	30 June	*31 December*			
	2024	*2023*	*2022*	*2021*	*2020*
Return on average equity*	**2.72%**	5.13%	3.70%	3.81%	-15.71%
Return on average assets*	**2.64%**	5.00%	2.37%	3.65%	-15.05%
Cost to income ratio**	**63.39%**	39.50%	57.00%	55.19%	403.11%

*Annualized
**Cost includes operating costs plus provisions and unrealized losses on fair value through statement of income.

Liquidity Management Centre B.S.C. (c)
CBB - Composition of Capital Disclosure Requirements
Statement of Financial Position
Appendix PD-2
Step-1

Step 1: Disclose the reported Balance sheet under the regulatory scope of consolidation

	Balance sheet as in published financial statements	Consolidated PIRI data
	30-Jun-2024	30-Jun-2024
Assets	***US$ 000***	***US$ 000***
Cash and balances with Central banks	697	697
Murabaha Receivables	-	-
Due from banks and other financial institutions	17,277	17,288
Financing Receivables	-	-
Investment in equities and funds	4,293	4,293
Investment in sukuk	7,429	7,434
Other assets	882	1,507
Investment in Real Estate	19,421	19,421
Property and equipment	43	43
Total assets	**50,042**	**50,683**
Liabilities		
Due to banks and other financial institutions	-	-
Deposits from Customers	-	-
Term borrowings	-	-
Subordinated debt	-	-
Other liabilities	1,229	1,229
Liabilities of disposal group classified as held for sale	-	-
Total liabilities	**1,229**	**1,229**
Equity		
Share capital	59,039	59,039
Treasury shares	-	-
Share premium	-	-
Statutory reserve	4,452	4,452
General reserve	2,226	2,226
Treasury shares reserve	-	-
Cumulative changes in fair values	-	-
Foreign currency translation adjustments	-	-
Accumulated losses	(16,904)	(16,904)
Expected credit losses (Stages 1&2)	-	641
Subordinated debts	-	-
Attributable to the owners of the Bank	**48,813**	**49,454**
Non-controlling interests		
Total equity	**48,813**	**49,454**
Total Liabilities and equities	**50,042**	**50,683**
		-

Liquidity Management Centre B.S.C. (c)
CBB - Composition of Capital Disclosure Requirements
Statement of Financial Position
Appendix PD-2
Step-2

Step 2: Expand the lines of the regulatory Balance sheet to display all of the components used in the definition of capital disclosure template

	Balance sheet as in published financial statements	Consolidated PIRI data	Ref.
	30-Jun-2024	30-Jun-2024	
Assets	*US$ 000*	*US$ 000*	
Cash and balances with Central banks	**697**	**697**	
Due from banks and other financial institutions	**17,277**	**17,288**	
Gross Due from banks and other financial institutions	17,288	-	
Expected credit losses (Stages 1&2)	(11)	-	g
Financing Receivables	**-**	**-**	
Investments in equities and funds	**4,293**	**4,293**	
Investments in sukuk	**7,429**	**7,434**	
Gross Investments in sukuk	7,434	-	f
Expected credit losses (Stages 1&2)	(5)	-	
Interest receivable and other assets	**882**	**1,507**	
Gross Interest receivable and other assets	1,507	-	
Expected credit losses (Stages 1&2)	(625)	-	
Investment in real estate	**19,421**	**19,421**	
Property and equipment	**43**	**43**	
Total assets	**50,042**	**50,683**	
Liabilities			
Due to banks and other financial institutions	**-**	**-**	
Interest payable and other liabilities	**1,229**	**1,229**	
Total liabilities	**1,229**	**1,229**	
Equity			
Share capital (net of Treasury shares)	**59,039**	**59,039**	a
of which amount eligible for CET 1	59,039	59,039	
Share premium	**-**	**-**	
Statutory reserve	**4,452**	**4,452**	c
General reserve	**2,226**	**2,226**	d
Cumulative changes in fair values	**-**	**-**	e
of which Cumulative changes in fair values	-	-	
of which gains and losses on available for sale investments	-	-	
of which foreign currency translation adjustments	-	-	
Retained earnings	**(16,904)**	**(16,904)**	b
of which net profit/(loss)	783	783	
of which Retained earnings	(17,687)	(17,687)	
Expected credit losses (Stages 1&2)	**-**	641	f+g
Attributable to the owners of the Bank	**48,813**	**49,454**	
Non-controlling interests	**-**	**-**	
Total equity	**48,813**	**49,454**	
Total Liabilities and equities	**50,042**	**50,683**	

Main features template

Disclosure of template for main features of regulatory capital instruments		
1	Issuer	Liquidity Management Centre
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private	Not applicable
3	Governing law(s) of the instrument	Laws and regulations of Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	48,813
9	Par value of instrument	1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	July -2002
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating dividends
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Regulatory Capital Components

Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure templates

		Component of regulatory capital	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	59,039	a
2	Retained earnings	(16,904)	b
3	Accumulated other comprehensive income and losses (and other reserves)	6,678	c+d+e
4	*Not applicable*		
5	Common shares issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**48,813**	
Common Equity Tier 1 capital :regulatory adjustments			
7	Prudential valuation adjustment	-	
8	Goodwill (net of related tax liabilities)	-	
9	Other intangibles other than mortgage servicing rights (net of related tax liabilities)	-	
10	Deferred tax assets that rely on future profitability excluding those arisng from temporary differences (net of related tax liabilities)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross holdings in Common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% ofCET1c)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	-	
29	**Common Equity Tier 1 capital (CET1)**	**48,813**	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	-	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
40	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier capital (T1 = CET1 + AT1)**	**48,813**	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	641	f+g
51	**Tier 2 capital before regulatory adjustments**	**641**	

Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	**Tier 2 capital (T2)**	**641**	
59	**Total capital (TC = T1 + T2)**	**49,454**	
60	**Total risk weighted assets**	**82,656**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	59.06%	
62	Tier 1 (as a percentage of risk weighted assets)	59.06%	
63	Total capital (as a percentage of risk weighted assets)	59.83%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)		
65	of which: capital conservation buffer requirement	0.00%	
66	of which: bank specific countercyclical buffer requirement	N/A	
67	of which: D-SIB buffer requirement	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	59.06%	
National minima including CCB (where different from Basel III)			
69	CBB Common Equity Tier 1 minimum ratio	0.00%	
70	CBB Tier 1 minimum ratio	0.00%	
71	CBB total capital minimum ratio	0.00%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	641	f+g
77	Cap on inclusion of provisions in Tier 2 under standardised approach	641	
78	N/A		
79	N/A		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80	Current cap on CET1 instruments subject to phase out arrangements		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84	Current cap on T2 instruments subject to phase out arrangements		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		