



Composition of Capital, Liquidity, and Leverage Disclosures

As at 30 June 2019



Executive Summary

All Bahraini conventional bank licensees are required to report the composition of capital in addition to the main features of the regulatory instruments. Furthermore, banks must provide a report of all regulatory capital elements with a reconciliation to the published financial statements.

The purpose of the disclosure is to enable market participants to compare the capital adequacy, liquidity, and leverage of banks across jurisdictions and to improve consistency and ease of use of disclosures relating to the composition of regulatory capital.

1- Reconciliation Requirements: Established to ensure that a full reconciliation of all regulatory capital elements back to the published consolidated financial statements is provided in a consistent manner.

2- Main Features of Regulatory Capital Instruments: Provides a description of the main features of regulatory capital instruments issued. Established to ensure that banks provide a description of the main features of the regulatory capital instruments issued.

3- Capital Components: Discloses the components of capital, taking into consideration the transitional arrangements. The disclosure provides the full terms and conditions of regulatory capital instruments and reports the calculation of any ratios involving components of regulatory capital, to enable the Prudential Information Returns (PIR) to be reconciled with the consolidated financial statements.

4- Leverage Ratio: In June 2018, the Central Bank of Bahrain issued regulations on the Financial Leverage ratio as part of the CA: Capital Adequacy Module Chapter 15, which has been implemented as of 30 June 2019. The Leverage Ratio considers all exposures both on and off balance sheet without risk weighing them to determine the adequacy of the bank's core capital to cover its exposures.

5- Liquidity Ratio: In August 2018, the Central Bank of Bahrain issued its regulations on Liquidity Risk Management (Module LM). The module mandates that banks must adequately manage their assets and liabilities to create strong short-term resilience and a sufficient ability to meet the bank's net cash outflows within 30 days.

The format and the level of disclosure in the attached report is dictated by the Central Bank of Bahrain (CBB) and reflects a proforma issued by the Central Bank.

Step 1: Balance sheet under the regulatory scope of consolidation

This step is not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Step 2: Reconciliation of Published Financial Balance Sheet to Regulatory Reporting as at 30 June 2019

BD 000's	Balance sheet as in published financial statements	Consolidated PIR data	Reference
Assets			
Cash and balances at central banks	120,550	121,125	
Placements with banks and other financial institutions	206,259	103,432	
Treasury bills	432,903	432,904	
Investments at Amortized Cost	818,722	895,758	
Investments at FVOCI	320,137	312,652	
Financial assets at FVTPL	850	878	
Investments in associates	52,140	52,140	
Total Investment	1,191,849	1,261,428	
of which:			
Significant investments in capital of financial institutions exceeds the 10% of CET1	-	69,800	
Amount in excess of 10% of CET1 to be deducted	-	21,151	A
Gross Loans and advances	1,216,717	1,222,513	
Less: Expected credit losses (Stages 1 & 2)	(8,402)	-	B
Net loans and advances	1,208,315	-	
Prepayments, accrued income and other assets	46,818	50,428	
Property, plant and equipment	26,116	26,116	
Total assets	3,232,811	3,217,946	
Liabilities			
Deposits from banks and other financial institutions	489,894	444,981	
Customer accounts	2,106,173	2,126,008	
Repurchase agreements and other similar secured borrowing	88,031	99,962	
Derivative financial instruments	-	-	
Accruals, deferred income and other liabilities	48,748	50,554	
Total liabilities	2,732,845	2,721,505	
Shareholders' Equity			
Paid-in share capital	154,330	154,330	
Shares under employee share incentive scheme	(1,403)	(1,403)	
Total share capital	152,927	152,927	
of which amount eligible for CET1	-	152,927	C
of which amount eligible for AT1	-	-	
Retained earnings	188,819	182,911	D
Statutory reserve	77,164	77,165	E
General reserve	32,400	32,400	F
Share premium	6,299	6,299	G
Donations and charity reserve	20,166	20,264	H
General loan loss provision	-	8,950	
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets		8,950	B
of which: amount ineligible for Tier 2 capital		-	
FVOCI revaluation reserve	22,495	22,495	I
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital	(304)	(304)	
Total shareholders' equity	499,966	503,107	
Total liabilities & Shareholders' Equity	3,232,811	3,224,612	

Step 3: Composition of Capital Common Disclosure Template as at 30 June 2019

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	152,927	C
2	Retained earnings	182,911	D
3	Accumulated other comprehensive income (and other reserves)	158,317	E , F , G , H, I
4	Not Applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	494,155	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation 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)	21,151	A
20	Mortgage servicing rights (amount above 10% threshold)	-	
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 of financials	-	
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	21,151	
29	Common Equity Tier 1 capital (CET1)	473,003	
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	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	
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	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
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	-	

Step 3: Composition of Capital Common Disclosure Template as at 30 June 2019 (continued)

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
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 10% threshold)	-	
40	Significant investments in the capital of 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 1 capital (T1 = CET1 + AT1)	473,003	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-	
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	8,950	B
51	Tier 2 capital before regulatory adjustments	8,950	
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)	8,950	
59	Total capital (TC = T1 + T2)	481,953	
60	Total risk weighted assets	1,340,042	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	35.30%	
62	Tier 1 (as a percentage of risk weighted assets)	35.30%	
63	Total capital (as a percentage of risk weighted assets)	35.97%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	10.50%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%	
67	of which: D-SIB buffer requirement (N/A)	1.50%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	35.30%	
National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	10.50%	
70	CBB Tier 1 minimum ratio	12.00%	
71	CBB total capital minimum ratio	14.00%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	5,616	
73	Significant investments in the common stock of financials	48,649	

Step 3: Composition of Capital Common Disclosure Template as at 30 June 2019 (continued)

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
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)	8,950	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	13,618	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)			
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)	-	

Disclosure Template for Main Feature of Regulatory Capital Instruments

1	Issuer	National Bank of Bahrain BSC
2	Unique identifier (Bahrain Bourse ticker)	NBB
3	Governing law of the instrument	All applicable laws & regulations of Kingdom of Bahrain
	<i>Regulatory treatment</i>	
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 & solo
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	BD 154.3 Million
9	Par Value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
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	Dividends
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
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	Non cumulative
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	
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 immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Consolidated Liquidity Coverage Ratio as of 30 June 2019

In August 2018, the Central Bank of Bahrain issued its regulations on Liquidity Risk Management (Module LM). The module mandates that banks must adequately manage their assets and liabilities to create strong short-term resilience and a sufficient ability to meet the bank's net cash outflows within 30 days.

As per CBB Module LM, banks are required to meet the minimum LCR of at least 100% on a daily basis. Below is National Bank of Bahrain's LCR disclosure as of 30th June 2019:

Consolidated LCR		Total unweighted value (average) ¹	Total weighted value (average) ¹
		<i>BD '000</i>	
High-Quality Liquid Assets			
1	Total HQLA		1,668,843
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	21,470	644
4	Less stable deposits ²	883,157	88,316
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	783,257	441,070
8	Unsecured debt	-	-
9	Secured wholesale funding		34,641
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	542,754	27,138
16	Total Cash Outflows		591,809
Cash Inflows			
17	Secured lending (eg reverse repos)	2,343	1,344
18	Inflows from fully performing exposures	137,019	72,817
19	Other cash inflows	-	-
20	Total Cash Inflows	139,362	74,161
			Total adjusted value
21	Total HQLA		1,668,843
22	Total net cash outflows		517,648
23	Liquidity Coverage Ratio (%)		322.4%

1. As per CBB Module LM, banks are required to report their Consolidated LCR on a quarterly basis via simple daily averages. However, as the module states that the regulations go into effect at 30 June 2019, the figures in the table above are as of 30 June 2019. Commencing from next quarter, the bank will report quarterly LCR using daily averages as specified by the CBB.

2. Includes retail and SME deposits from the bank's overseas branches.

Consolidated Leverage Ratio as of 30 June 2019

In June 2018, the Central Bank of Bahrain issued regulations on the financial leverage ratio as part of the CA: Capital Adequacy Module Chapter 15, which has been implemented as of 30 June 2019.

The leverage ratio calculations take into account all on balance sheet exposures, all off balance sheet exposures, and any derivative exposures after applying the applicable adjustments as per the CBB guidelines. The leverage ratio represents how well the bank's core capital covers the bank's total exposures.

CBB requires banks to hold a minimum leverage ratio of at least 3%.

No.	Item	Amount (BD 000's)
1	Total assets as per published financial statements	3,208,541
2	Amounts deducted in order to determine Basel III Tier 1 Capital	(21,151)
3	Add: Derivative financial instruments	219,750
4	Add: Off Balance Sheet items	134,723
	Leverage ratio exposure	3,541,863
	Tier 1 Capital	465,338
	Leverage ratio	13.1%
	Minimum leverage ratio as required by CBB	3.0%

The Bank is currently reporting a 13.14% leverage ratio which is significantly higher than the minimum leverage ratio required by the CBB.