BBK

بنك البحرين والكويت

Strong Supportive Sustainable

Annual Report 2020

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BBK is licensed by the Central Bank of Bahrain as a Conventional Retail Bank

Designed and produced by Group Origin

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah
Amir of the State of Kuwait

Our vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong client relationships.

Our mission

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset, with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance-based reward systems.

We are determined to utilise cutting-edge technology, which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Our values

creative . passionate . pioneering . reliable

COVID-19 has created unprecedented challenges. We responded by prioritising the health and well-being of our employees, customers, and the wider community.

- We joined hands with the government in its efforts to contain the pandemic.
- We redeployed our employees efficiently and safely.
- BBK's digital channels and high-tech branches helped to meet exponential customer demand for self-service and online services.
- We paused payments and waived interest on loans for retail and corporate customers to help them meet the daily challenges during 2020.

In a year dominated by the global COVID-19 pandemic, BBK focused on three principles: the safety and well-being of our employees and customers, maintaining a stable financial position for our shareholders, and supporting the communities in which we operate – enabling a sustainable future for all stakeholders.

Despite the challenges faced throughout 2020, the Bank moved forward with the stated focus on digitalisation and technology. Two ground-breaking FinTech projects were successfully launched: the state-of-the-art **BBK**PLUS digital branch in the heart of Bahrain, and the **BBK**PLUS mobile app.

Against a backdrop of the deepest global health and economic crisis in over a century, the Bank produced a satisfactory financial performance. This is testimony to the swift and prudent actions taken by BBK's leadership at the height of the pandemic.

As we enter 2021, the foundations of our business remain strong and the Bank is well positioned to continue its transformation into the region's leading digital financial institution.

Total assets	Net profit	Capital adequacy
3.76	**52.0**	**21.8**%
BD billion	BD million	Ratio

Financial highlights

	2020	2019	2018	2017	2016
Income statement highlights (BD millions)					
Net interest income	**80.8**	107.3	109.9	90.9	85.8
Other income	**37.8**	51.0	51.2	52.2	47.7
Operating expenses	**60.7**	63.2	57.7	54.0	53.1
Net profit	**52.0**	75.4	67.1	58.7	56.4
Cash dividend	**20%**	40%	40%	35%	30%
Stock dividend	**10%**	5%	–	–	–
Financial statement highlights (BD millions)					
Total assets	**3,760**	3,865	3,582	3,763	3,703
Loans and advances	**1,556**	1,671	1,773	1,741	1,767
Investments	**1,023**	946	863	796	812
Customer deposits	**2,167**	2,170	2,375	2,624	2,494
Term borrowings	**189**	333	145	199	206
Total equity	**515**	547	500	501	474
Profitability					
Diluted earnings per share (fils)	**39**	56	49	43	42
Cost/income	**51.2%**	40.0%	35.8%	37.8%	39.8%
Return on average assets	**1.3%**	1.9%	1.8%	1.6%	1.5%
Return on average equity	**11.4%**	14.9%	13.7%	12.1%	13.2%
Profit per employee (BD)	**37,596**	54,139	50,351	49,902	52,523
Capital					
Capital adequacy	**21.8%**	21.7%	19.6%	20.0%	18.5%
Equity/total assets	**13.7%**	14.2%	14.0%	13.3%	12.8%
Term borrowings/equity	**36.6%**	60.9%	28.9%	39.7%	43.5%
Liquidity and business indicators					
Loans and advances/total assets	**41.4%**	43.2%	49.5%	46.3%	47.7%
Loans and advances/customer deposits	**71.8%**	77.0%	74.6%	66.3%	70.9%
Investments/total assets	**27.2%**	24.5%	24.1%	21.2%	21.9%
Liquid assets/total assets	**34.8%**	34.4%	27.6%	34.7%	32.6%
Net yield ratio	**2.1%**	3.0%	3.1%	2.7%	2.5%
Number of employees	**1,384**	1,392	1,333	1,176	1,074

Dear Shareholders

I am immensely proud of the role that BBK has played in maintaining essential services throughout the COVID-19 crisis, whilst simultaneously prioritising the health and well-being of our employees and customers.

The impact of the global pandemic is reflected in BBK's financial results, which we view as satisfactory given market conditions. The Bank ends 2020 with healthy reserves and a capital adequacy ratio of 21.8 percent, placing us in the top tier of regional banks.

On behalf of the Board of Directors, I express heartfelt appreciation to H.M. King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, whose remarkable leadership and generosity successfully steered Bahrain through this crisis. I also extend my appreciation to H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah, the Amir of the State of Kuwait.

I also express gratitude and appreciation on behalf of the Board of Directors, Executive Management and all BBK Group employees to His Royal Highness Prince Salman bin Hamad AlKhalifa, the Crown Prince and Prime Minister, for his leadership, direction and dedication to lead Team Bahrain, including all frontline workers who risked their lives to safeguard Bahrain and save the lives of Bahrainis and other residents. The Kingdom's excellent management of the pandemic has received international recognition.

We thank the respective ministries, central banks and regulatory authorities in the Kingdom of Bahrain and the State of Kuwait for their guidance during this difficult year.

The month of November 2020 was an exceptionally sad period in the recent history of Bahrain with the demise of H.R.H Prince Khalifa bin Salman Al Khalifa, the first Prime Minister of Bahrain. Prince Khalifa capably led the Government since Bahrain became independent in 1971. Under his leadership, Bahrain transformed into a modern country with developed infrastructure and a growing economy that served all the people who lived here.

We also pay tribute to the late Kuwaiti Amir H.H. Sheikh Sabah Al Ahmad Al Sabah who passed away in September 2020. Throughout his reign, Sheikh Sabah earned recognition and respect for his outstanding leadership.

Finally, I acknowledge the Board of Directors and all stakeholders for their support and commitment during 2020. As we enter a new phase of development and growth – we look forward to a new chapter of prosperity and a quick end to this pandemic in the Kingdom of Bahrain, the GCC region, and across the world.

Murad Ali Murad
Chairman

Any positive outcome from the pandemic is hard to imagine, but the crisis led to accelerated implementation of our 2019-21 FinTech strategy.

The Board of Directors is honoured to present the 49th annual report and consolidated financial statements of Bank of Bahrain and Kuwait (BBK) and its subsidiaries for the year ended 31 December 2020.

Unique operating environment and BBK's response

The events of 2020 have been truly unprecedented, not only for Bahrain and the region, but for every country. The full impact of COVID-19 on humanity at large remains to be seen, but as we enter 2021, we are able to reflect on its impact on the Bank and our stakeholders.

BBK began the year with a relatively strong first quarter. However, as a result of the Central Bank of Bahrain (CBB) waiver on announcing interim financial results due to the pandemic, the Bank did not formally publish those figures until the six-month interim announcement in July. We see from these results that BBK began to feel the strain of the pandemic from April onwards, when uncertainty deepened across the world.

Our highest priority from the end of March onwards was to keep employees as healthy and well protected as possible. Some COVID-19 cases were reported in the Bank, but thankfully, numbers remained very low. We worked hard to support the staff who were working from home or remotely, particularly women and those with responsibility for looking after elderly or vulnerable family members.

BBK's duty of care meant that we had to carefully balance the critical health situation with operational obligations. We were determined to protect employees and customers and try to stop the spread in the community, while at the same time providing much-needed banking and finance services. Indeed, we are proud to say that there was not a single day over the past year when we did not have full services available for our customers.

Although the Bahrain government, with thanks, launched a comprehensive package of stimulus measures designed to mitigate the economic impacts – including paying 100 percent of the salaries of private sector Bahraini employees for three months, followed by paying 50% of the salaries of the most affected private sector companies and exempting companies from various Government services including electricity, water and municipality fees – other factors continued to exert downward pressures on BBK.

First, all banks had to postpone customers' loan instalments for six months with no interest and no additional fees, impacting shareholders' equity and delaying cash inflows. This has impacted most banks' financial performance and liquidity positions. In BBK's case, there was no material impact on operations due to our comfortable liquidity and funding buffers.

Second, while liquidity in the Bahraini Dinar remained stable, liquidity in other currencies was affected – predominantly the US dollar, which was in very short supply – affecting our ability to market new loans in the US currency. To avoid putting further pressure on our US dollar liquidity, we restructured our funding and loan portfolio in USD.

Third, the Bank suffered a major impact on its results from the global market turmoil in April. Our fair value investments fell considerably, to the extent that our capital adequacy ratio dropped from 20 percent to just under 14 percent. This depletion has since recovered and we have now restored to pre-April 2020 levels.

Fourth, new CBB regulations capping fees and charges on retail services, in addition to regulatory directives and measures taken in response to COVID-19, affected BBK income negatively. Under normal circumstances, the shortfall would have been absorbed by other revenue-generating activities.

Strategic cycle

Any positive outcome from the pandemic is hard to imagine, but the crisis led to accelerated implementation of our 2019-21 FinTech strategy. The Bank's IT and project management teams were able to spend more time on delivery and implementation, partly driven by exponential customer demand for digital services in the period when people preferred not to venture outside to visit branches and automated machines.

We were able to meet this demand by fast-tracking several technology projects to 2020, rather than 2021-22, including the development and launch of our **BBK**PLUS mobile onboarding application and the introduction of open banking services.

Other initiatives in 2020 included the September signing of a memorandum of understanding for BBK's potential acquisition of Ithmaar Bank Bahrain and specific assets of IB Capital – both wholly owned subsidiaries of Ithmaar Holding B.S.C.

Our philosophy is to expand our sustainability and social responsibility further, by seeing where society needs BBK to play a role and adapting accordingly.

Ithmaar Bank Bahrain is a Bahrain-based Islamic retail bank providing retail, commercial, treasury and financial institutions, and other banking services. It provides a range of Sharia-compliant products and services catering to the financing and investment needs of consumers and institutions.

These plans, subject to shareholder and regulatory approvals, are still in the discussion phase (as at the end of 2020) and are subject to completion of due diligence by both parties.

Management team changes and restructuring

A number of prominent BBK executives retired in 2020. In March, after 42 years of service, we bade farewell to Reyadh Yousif Sater, BBK's Group Chief Executive. Mr Sater was the Bank's fourth Bahraini Chief Executive and, under his tenure, he helped to solidify BBK's strategic position and supported its international expansion, diversification and digitisation strategies.

We were pleased to welcome his successor, Dr AbdulRahman Saif, who first joined the Bank in 2008. The Board looks forward to working with Dr Saif as he continues to lead our pioneering organisation into a new decade locally and regionally.

Our leadership was bolstered by the promotion of seven high-achieving Bahraini employees into senior positions, part of our ongoing commitment to attract and retain Bahraini talent. We are particularly proud of the strong presence of women in the promotions, which demonstrates our continued focus on supporting and empowering women into leadership roles.

The Board also welcomes Ahmed A. Seyadi as the new Chief Executive Officer of CrediMax during the year, following the retirement of Yousif Ali Mirza.

Coinciding with a restructuring of the Group's key business functions, these transfers of management responsibilities were completed in early April. We thank every one of the outgoing executives for their outstanding and tireless contributions to the Bank. Under their leadership and guidance, BBK has grown from strength to strength.

Financial highlights

In 2020 BBK achieved a net profit of BD 52.0 million, 31.0 percent lower than 2019 and equating to basic earnings per share of 39 fils (2019: 56 fils). Net interest income was BD 80.8 million, while shareholders' equity attributable to the owners of the Bank stood at BD 511.8 million, compared to BD 543.9 million at the end of 2019.

The overall decline in performance was mainly due to deep interest rate cuts by central banks around the world (impacting net interest income), lower net fees and commission income due to COVID-19 concessionary measures, and new regulations capping fees and charges. BBK's share of profit from associated companies and joint ventures also declined, from BD 6.8 million in 2019 to a loss of BD 0.1 million in 2020, due to COVID-19 and the unfavourable market conditions.

Based on the positive financial results for the year, the Board of Directors recommended paying annual cash dividends of 20 fils per share and stock dividends of 10 percent per share – equivalent to one share for every 10 shares for shareholders registered on the record date, subject to the approval of regulatory authorities and the Bank's upcoming AGM.

Sustainability

Environmental, Social, and Governance (ESG) issues have remained an important and integral part of discussions at Board level. Our philosophy is to expand our sustainability and social responsibility further, by seeing where society needs BBK to play a role and adapting accordingly.

In 2020, the Bank initiated the development of its ESG framework, which will be implemented in 2021. BBK will continue to develop an annual strategy focused on certain areas of support and ensuring we respond to the most pressing community needs.

The 2020 strategy involved BBK directing its support towards education and training through various programmes targeting hundreds of Bahrainis, in cooperation with leading international academies.

Health also remains a priority and the Bank committed to building a second BBK Health Centre, in the Galali area of Muharraq, in cooperation with the Ministry of Works, Municipality Affairs and Urban Planning, and the Ministry of Health.

Digitisation of our products and services is a primary strategic focus. A number of FinTech projects have been accelerated during 2020.

- A new digital **BBK**PLUS branch opened in Bahrain's City Center Mall in January 2020, offering state-of-the-art self-service technologies as well as open banking services.
- The **BBK**PLUS mobile app that enables customers to open a BBK account safely and conveniently was launched.
- Focus on data and cyber-security has intensified, with more investment in IT services.
- Technology will remain at the heart of our business as we move towards the Bank's next strategic cycle in one year's time.

Sustainability continued

During the pandemic, the Bank also put in place a range of measures to support people and businesses affected by the crisis, and donated BD 3.0 million to the Feena Khair national campaign.

BBK has been a pioneer in applying good corporate governance and our commitment to this remains unwavering. The Board addresses any relevant discussions through its Nomination, Remuneration & Governance Committee, and this forum has enabled us to deploy and implement our governance strategies over the past 10 years.

The corporate governance report and organisation information section of this annual report contain details of shares held by the Bank's directors and executive management, as well as conflict of interest and Directors' training hours.

Part of our corporate governance is a pledge to equal opportunities, and in 2020 we were proud to announce the appointment of five women leaders to the boards of BBK and its subsidiaries. The representation of women at board level can enrich our performance, diversify our perspectives, and improve our understanding of our clients and employees. With women representing more than 38% of group employees, we look forward to growing this even further in the future through BBK's women's empowerment policy.

Appropriations

The Board of Directors' recommendations for appropriations of the Bank's net profit and approval by shareholders are:

	BD millions
Retained earnings as at 1 January 2020	144.6
Profit for the year 2020	52.0
Modification loss as a result of loan deferments net of government grants	(20.9)
Other movements in retained earnings	0.5
Transfer to statutory reserve	(5.2)
Retained earnings as at 31 December 2020 available for distribution (before proposed appropriations)	**171.0**
Proposed appropriation for donations	(2.2)
Proposed cash dividends (20% of paid-up capital) net of treasury stock	(27.0)
Proposed stock dividends (10% of the paid-up capital)	(13.6)
Proposed transfer to the General Reserve	(2.6)
Retained earnings as at 31 December 2020 (after proposed appropriations)	**125.6**

Ratings

Fitch

Long-term issuer default rating	B+
Short-term issuer default rating	B
Viability rating	b+
Support rating	4
Support rating floor	B
Senior unsecured debt	B+
Outlook	Stable

Report issue date: 9 December 2020

Moody's

Bank deposits	B2/NP
Baseline credit assessment	b2
Adjusted baseline credit assessment	b2
Counterparty risk assessment	B1/NP
Senior unsecured	B2
Outlook	Stable

Report issue date: 15 December 2020

Fitch
Long-term issuer default rating

B+

Moody's
Long term debt/bank deposits

B2

125.6

Retained earnings
BD millions

We remain hopeful that the most serious challenges of the pandemic are behind us. BBK's strong balance sheet and conservative risk appetite leave the Bank well placed to prosper in 2021.

Appointment of auditors

At the Bank's Annual General Meeting on 24 March 2020, Ernst & Young were re-appointed as external auditors to BBK for the financial year ending 31 December 2020.

Ratings

On 9 December 2020, Fitch said that BBK's Issuer Default Ratings (IDRs) are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). BBK is an important retail bank in Bahrain with significant exposure to the sovereign and the domestic operating environment. The Bank's VR is capped by Bahrain's operating environment, and by the sovereign rating.

The VR considers BBK's concentration of operations in the challenging operating environment in Bahrain, the weakening of the Bank's asset quality, strong domestic franchise, moderate profitability, as well as adequate capital, liquidity and funding.

On 15 December 2020, Moody's affirmed BBK's IDRs at B2 Stable/Not Prime for long-term and short-term local currency deposits. The ratings capture the Bank's standalone credit strength, reflected in its baseline credit assessment of B2, at the same level as the Bahrain Government.

This rating represents BBK's strong domestic franchise, which supports its sound profitability and solid liquidity buffers, resilient funding, and capital adequacy. In Moody's view, these strengths are moderated by the Bank's high deposit and credit concentrations, in addition to pressures on asset-quality from an already-elevated position as some borrowers remain vulnerable.

On 10 December 2020, BBK's long-term foreign-currency deposit rating was upgraded from B3 to B2. The rating actions were driven by changes in the local currency (LC) and foreign currency (FC) country ceilings applied to the jurisdictions of banks following the publication of Moody's updated Country Ceilings Methodology on 7 December 2020.

Country ceilings typically indicate the highest rating level that would generally be assigned to the financially strongest obligations of issuers domiciled in a country, in the absence of exceptional considerations such as external support from outside the country.

The updated ceilings methodology has unified deposit ceilings with the typically higher debt ceilings, whereby local currency and foreign currency country ceilings are no longer distinguished between deposit and debt ceilings. These changes reflect Moody's view that the risks that affect access to bank deposits are not materially different from those that affect the ability of banks and non-banks to service their debt obligations.

Looking ahead

We remain hopeful that the most serious challenges of the pandemic are behind us. BBK's strong balance sheet and conservative risk appetite leave the Bank well placed to prosper in 2021. Technology and digital transformation are central to our 2019-2021 strategy and we look forward to updating the market with more details of our plans in due course.

Subject to due diligence studies, consultants' valuation report and shareholder/regulatory approvals, adding Ithmaar Bank Bahrain to the BBK Group will add value. Integration will be a key focus for the management team, as we seek to successfully combine two market-leading banks, operationally and culturally. This transaction represents a truly pivotal moment in BBK's history, allowing us to further grow and diversify our brand in the coming years.

Appreciation

On behalf of the Board, I extend our sincere thanks to BBK shareholders for their continued support and confidence, particularly throughout this period of domestic, regional and global upheaval. Thanks are also due to our customers for their ongoing loyalty and patronage. I offer my deepest thanks to the management team and employees for the strength and kindness they have shown over the past extraordinary and unprecedented year. Their dedication has enabled us to continue to serve our customers each and every day.

On behalf of the Board of Directors.

Murad Ali Murad
Chairman

Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman of Audit and Compliance Committee

Chairman of the Independent Directors' Committee

Director since 21 March 1999
(Independent)

Qualifications and experience

Fellow member of the Chartered Institute of Management Accountants, London, United Kingdom. Over 48 years experience in the banking sector and has own business for the past 18 years.

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Deputy Chairman

Director since 2 March 2008
(Non-Executive)

Qualifications and experience

Bachelor of Business Administration, George Washington University, United States of America. 20 years experience in the banking and investment sector.

Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee

Director since 2 March 2008
(Independent)

Qualifications and experience

Bachelor of Arts, Economics and Finance, University of Aleppo, Syria. Over 43 years experience in the Banking sector.

Edrees Musaed Ahmad
Board Member

Director since 29 March 2017
(Non-Executive)

Qualifications and experience

Master of Economics, Kuwait University, State of Kuwait. Over 15 years experience in Investment Sector.

Ashraf Adnan Bseisu
Board Member

Director since 29 March 2017
(Non-executive)

Qualifications and experience

Bachelor of Science in Civil Engineering Southern Methodist University, USA, Master of Science in Management Information System, The London School of Economics, UK. Over 20 years' experience in Investment Management and over 30 years in the Insurance and Financial Services sector.

Nominated by:

Ithmaar Holding

Mishal Ali Al Hellow
Board Member

Director since 13 March 2019
(Non-executive)

Qualifications and experience

MBA from the Open University of Malaysia and a B.Sc. in Computer Science from the University of Bahrain. Over 20 years of public and private sector experience, including roles in government, financial and investment entities.

Nominated by:

Social Insurance Organization (SIO)

Hani Ali Al Maskati
Board Member

Chairman of Risk Committee

Director since 29 March 2017
(Non-Executive)

Qualifications and experience

Master of Business Administration, The University of Hull, England. Over 32 years' experience in Transaction Banking.

Nominated by:

Ithmaar Holding

Jassem Hasan Ali Zainal
Board Member

Director since 22 November 1994
(Independent)

Qualifications and experience

Master in Civil Engineering, Kuwait University, State of Kuwait. 36 years' experience in the banking sector, 4 years in the government sector, 9 years with finance companies, 27 years with investment companies and has had his own business for 12 years.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005
(Independent)

Qualifications and experience

Master in Business Administration, Johns Hopkins University, United States of America.

Master in Social and Public Policy, Georgetown University, United States of America. 12 years experience in the government sector (investment field) and 14 years in the diplomatic sector.

Naser Khaled Al Raee
Board Member

Director since 13 March 2019
(Non-executive)

Qualifications and experience

Certified Internal Auditor, Institute of Internal Auditors, United States of America. Bachelor of Business Administration, Finance Concentration, University of Texas, United States of America. Over 11 years of experience in the audit and risk advisory field with variety of industry exposure including the banking and investment sector.

Nominated by:

Social Insurance Organization (SIO)

Dr. Ghaneya Al-Derazi
Board Member

Director since 24 March 2020
(Independent)

Qualifications and experience

Doctorate of Business Administration, Durham University, United Kingdom. Over 20 years' experience in the banking industry and has had her own business for 1.5 years.

Nour Nael Al Jassim
Board Member

Director since 24 March 2020
(Non-Executive)

Qualifications and experience

Bachelor in Accounting and Finance, Kuwait University, State of Kuwait. Over 12 years' Experience in Investment Sector and Risk Management.

BBK's enduring goals are to deliver value to our customers and shareholders, support and develop our people, and enrich the societies in which we operate. Despite the unique challenges of 2020, we maintained focus on these goals and, overall, delivered against these objectives in the face of adversity.

Looking back to the beginning of the year, the global macro-economic landscape – pre-pandemic – was already in a period of slowdown. We had seen downward revisions of interest rates and global growth in the US, Europe, China, and the main emerging markets. This was coupled with stagnant commodity prices and energy price corrections.

By the beginning of 2020, the GCC region had already started to experience an economic slowdown, with budget deficits widening after an extended period of balanced accounts. COVID-19 therefore arrived at a far from favourable time for the region.

BBK's management team extends its gratitude to our government for its generous support of the private sector. Largely due to these measures, we have not seen mass lay-offs in the country during the year.

Of course, the extensive business continuity planning that BBK had undertaken over the past years was modelled on different types of crises. The pandemic was unexpected and unprecedented. It dealt a deep and severe shock to the entire global system, bringing unknown challenges. In particular, the lack of knowledge of the virus itself, and of the ways in which to protect against it, brought huge uncertainty to every country.

BBK had to recalibrate its priorities to meet the new challenges. We had to mobilise at short notice, redeploy staff, and move with speed and agility to address a number of strategic and operational issues.

The first of these was enhancing our liquidity, which becomes particularly essential during periods of stress. Fortunately, the Bank had a very comfortable liquidity position – well beyond the regulatory threshold – providing a buffer throughout the worst period of the crisis.

The second priority to address was BBK's capital adequacy. In early April, the ratio was at a comfortable level of around 20 percent and we were fortunate to have such a robust capital buffer in place. However, the impact and deterioration of all asset classes around the world meant the ratio came under pressure.

We therefore moved quickly to ensure BBK could meet its regulatory requirements at all times. For example, the Bank recomposed its assets and liabilities, an action that was also designed to maintain a healthy operational margin. We extended certain funding into longer maturities (one year and beyond), executed a number of repurchase agreements with international counterparties, and repriced liabilities.

We also reduced exposures to wholesale and higher risk assets to enhance our asset quality, thereby ensuring a healthy margin. In addition, certain emerging markets were showing a higher risk profile as a result of COVID-19, so we reduced our exposure in these.

BBK's overseas operations faced similar concerns but we ensured continuity of operations throughout the period, supporting our customers, both retail and corporate.

BBK Bahrain

In March, the Bahrain government introduced a number of measures to help mitigate economic damage caused by the pandemic. These included paying all salaries of private sector Bahraini employees for three months, extended for the worst affected sectors (50 percent of salaries) up to the year-end.

Bahrain's efforts have been praised by the World Health Organisation (WHO), and BBK's management team extends its gratitude to our government for its generous support to the private sector. Largely due to these measures, we have not seen mass lay-offs in the country during the year.

Although Bahrain did not enforce a complete lockdown during the pandemic, restrictions were in place for some time. Banks were identified as an essential sector and BBK managed to maintain full operations for the entire year, an achievement of which we are justifiably proud.

Throughout the crisis we worked hard to protect and support BBK employees, with around 35 percent redeployed to other locations or working from home.

Of course, the Bank's customers also went through a period of extreme stress and helping them was another key focus. In line with CBB directives, we introduced a range of measures designed to support corporate and retail clients including loan repayment deferrals and interest waivers.

We were particularly supportive of Bahrain's business community because many companies were operating at low capacity and were not earning enough to sustain themselves. We worked closely with these clients to reschedule and restructure lending facilities.

A major achievement of 2020 was our digitisation strategy. Indeed, the pandemic served to accelerate our digital delivery and implementation as we worked to quickly meet exponential customer demand for digital services.

We launched a number of digital facilities during the year. The new state-of-the-art branch format rolled out in January at City Center Mall features the **BBK**PLUS digital zone with a range of self-service technologies: cash withdrawal, cheque deposits, bill payment, printing new and replacement debit cards, and printing bank statements. People can interact with customer service representatives through two-way video and audio facilities, should they need to.

Operating expenses

-4%

BD 60.7 million

We received an excellent response to the new branch format and plan to open two more in 2021, including one that will operate 24/7 within an existing BBK financial mall.

Another digital achievement was the launch of our **BBK**PLUS mobile app, offering on-the-go services. We have seen an influx of new customers and funds through the app since its launch in July. This was in addition to the open banking services introduced during the year.

The year also saw the launch of BBK BanKey, a state-of-the-art solution that offers various digital cash management services for business and institutional clients. The platform uses the highest security standards and protocols to ensure the protection of clients' information and data, while providing a faster, more convenient way for businesses to manage their finances.

BBK Privé, our private banking and wealth management service, also performed well, in line with the Bank's strategy and expectations. We have completed the transfer of all high net-worth accounts since the initial launch in 2018, initiated new relationships, and offered exciting investment opportunities to our clients.

International branches and offices

In Kuwait, the government introduced a number of measures during the year to ease the financial burden on consumers and businesses. These included allowing borrowers to defer loan instalments and extending support to our clients.

Despite the economic slowdown in India due to the pandemic, BBK India maintained asset quality throughout the year, along with a strong balance sheet. Operational highlights included integrating SWIFT cross-border transactions with the Bahrain Head Office.

The Bank's UAE Representative office continued to facilitate the interaction between BBK Bahrain and its clients located across the seven Emirates of the UAE. It also supported the Bank's Mumbai branch, providing liaison services for non-resident Indian customers based in the Emirates.

Although Turkey's economy was severely affected by COVID-19, the government's monetary and fiscal stimulus packages helped the country to endure the crisis. BBK's Turkey representative office, operational since 2017, worked to mitigate the impacts of the pandemic and continued to attract new corporate and institutional relationships.

CrediMax

CrediMax maintained its market-leading position, despite the year's challenges. Financial performance was impacted by regulatory measures capping merchant fees and mandating interest-free breaks for cardholders.

During the pandemic, all merchants were enabled with contactless and tokenised payments while facilitating e-commerce payment acceptance for many merchants, ensuring customers were served in the safest way possible.

Service providers and merchants were also offered new payment methods – Pay-with-Link or Invoicing – allowing online payments to be set-up almost immediately.

Invita

Invita grew and strengthened its client relationships during the year, including being awarded the Electricity and Water Authority (EWA) Contact Center tender for the eighth year.

The company has continued to leverage its digital channels, in line with BBK's vision. Two chatbot services were launched in 2020, cementing the company's reputation as an omni-channel contact centre solutions provider.

COVID-19 provided an opportunity to test the full potential of Invita's systems. The PCI-DSS certification for data security was maintained, and the work-from-home capabilities of Invita's technologies enabled 40% of its employees to work remotely.

We remain committed to supporting businesses, especially small and medium enterprises (SMEs), with a range of services, products and tools.

Throughout this year of unique challenges for the business community, BBK focused on helping Bahraini entrepreneurs and small businesses, vital contributors to job creation and economic development.

We also support SMEs through electronic channels and have made these facilities easily available throughout the pandemic.

The year saw the launch of BBK BanKey, a state-of-the-art solution that offers various digital cash management services for business and institutional clients.

Seven promising Bahraini executives were promoted to senior leadership positions within BBK. Their dedication, outstanding qualifications, and expertise meant they were more than qualified to take the next step in their career journeys.

Aegila

In a difficult investment environment for real estate, the assets acquired by Aegila over recent years have performed well, with positive returns overall. The majority of rental income is derived from investment-grade tenants that have several years remaining on their leases.

With substantial international capital focused on European real estate, Aegila believes the outlook for selective real estate investment is favourable. The firm is well-positioned to participate in this recovery over the coming period.

Our people

The guiding principles of Bahrain's Economic Vision 2030 are sustainability, competitiveness, and fairness – principles that dovetail well with BBK's own values. Banks are an important employer of local talent and we work hard to develop this talent within our own organisation. Today's promising executives are the leaders of tomorrow, and we take pride in nurturing the next generation.

In 2020, seven of those promising Bahraini executives were promoted to senior leadership positions within BBK. Their dedication, outstanding qualifications, and expertise meant they were more than qualified to take the next step in their career journeys. We are thrilled that they will continue to grow and develop with us as leaders and as team-players over the coming years.

In 2019, we launched our first management trainee programme focused on FinTech, developing the next generation of Bahraini talent in this vital field. We celebrated the graduation of the first cohort in 2020, and we look forward to expanding the programme in the coming years.

COVID-19 measures

BBK has undertaken a range of measures to protect employees, customers, shareholders, and local communities. These include:

- implementing social distancing, virtual meetings and training sessions;
- offering remote work options for high risk employees;
- conducting deep sanitisation on a continuous basis;
- relocating employees to reduce the number of people in each workspace;
- communicating effectively with employees, customers, and other stakeholders;
- augmenting BBK's range of e-channels and automated services;
- supporting customers by restructuring their lending facilities;
- donating BD 3 million to the Feena Khair national campaign; and
- undertaking an array of business measures such as enhancing BBK's liquidity and capital adequacy, and reducing exposure to higher risk assets.

Technology

In 2020, substantial investments were made to modernise BBK's technology infrastructure, improve cybersecurity, and digitise customer facing channels.

A large scale programme was initiated to upgrade and update our core banking and other systems, supporting databases, and infrastructure. A number of enhancements were made to fortify our cybersecurity defences, coupled with periodical penetration tests and cyberattack simulations. In line with the Bank's strategy, a number of digital services designed to simplify the customer experience were launched, including fully digital account opening, open banking, card tokenisation, CPR update on ATMs, and corporate deposit machines.

We celebrated technology through the BBK Digital Economy & Expo 2020. Attended by 500 senior representatives from a range of sectors, the event focused on exploring how Bahrain's economy can benefit from the growth potential of today's digital revolution. As a leading tech' focused financial institution, BBK was proud to lead the debate on this critical topic, under the patronage of the CBB and in collaboration with the Bahrain Institute of Banking and Finance (BIBF) as Knowledge Partner.

2,167.4

Total deposits
BD millions

Internal control
With the objective of safeguarding Group assets, BBK maintains sound internal control systems and processes across all entities, departments, branches, and offices. The dedicated Internal Control Unit has implemented comprehensive systems and procedures that help to identify and manage risks that could arise in the course of business. These controls are reviewed periodically and updated as required.

Awards
Early in 2020, BBK received the Best Customer Service Bank (Bahrain) Award from Global Business Outlook, recognising its excellence in customer service for the year 2019. The Bank's profound experience over the years has allowed it to capture the foremost requirements of new-age customers and ensure that their banking needs are met through advanced technologies.

In 2020, the Bank also received the Elite JP Morgan Quality Recognition Award, distinguishing BBK's leadership in payment procedures. This award recognises best-in-class straight-through processing (STP) rates for the full year of 2019.

Business continuity
BBK continues to enforce a robust business continuity programme across the Group, protecting the interests of customers, shareholders and employees while maintaining its reputation and financial sustainability.

Our dedicated Business Continuity Management department plans, simulates, and manages crises and recovery from a wide range of unforeseen scenarios. In 2020, our business continuity plan was successfully deployed to counter the COVID-19 risk, and all services continued with no discernible disruption. BBK also conducted a successful failover of its live core systems to the disaster recovery site.

The Bank's business continuity procedures and plans are reviewed and updated annually, and the adequacy of the Business Continuity Centre is reviewed to ensure it is properly equipped for purpose.

Outlook
A primary focus of our 2019-21 strategic plan is digitisation. We have already delivered on this through the introduction of new banking technology and online services, such as our **BBK**PLUS zones and mobile app, as outlined in this review. In the coming year we will continue to implement the current strategic cycle, but with increased flexibility as we adjust to 'new realities' that emerge from the global impacts of the pandemic.

We are developing a new strategy for our physical branches, including a full review, and a new vision and strategy. We will look to redeploy in terms of size and location, moving away from uniform branch types towards a more specialised approach.

Appreciation
On behalf of my management colleagues, I express appreciation to our Board of Directors for the ongoing support they extend to us. The Board's guidance throughout this tumultuous period has been a source of strength for the entire executive team.

Thanks are also due to the supervisory authorities wherever we operate – the Central Bank of Bahrain, Bahrain Bourse, Ministry of Industry, Commerce & Tourism, and the regulators of the State of Kuwait, the Republic of India, the United Arab Emirates, the Republic of Turkey, and the United Kingdom.

Finally, my deepest appreciation and gratitude go to our loyal customers and exceptional employees, whose efforts and determination over this uniquely challenging year ensured BBK's continued success.

AbdulRahman Ali Saif
Group Chief Executive

AbdulRahman Ali Saif
Group Chief Executive*

Qualifications and experience:
PhD in Economics, University of Leicester, United Kingdom (1992).

38 years' banking experience.

Joined BBK in 2008.

Hassaan Mohammed Burshaid
Group Chief Human Resources and Administration Officer
Human Resources & Administration

Qualifications and experience:
MSc, Human Resources Management, DePaul University, United States of America (2006).

26 years' experience in the field of human resources.

Joined BBK in 1998.

Mohammed Abdulla Isa
Group Chief Financial Officer
Financial Planning & Control

Qualifications and experience:
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).

29 years' experience in the field of finance.

Joined BBK in 2001.

Rashad Ahmed Akbari
General Manager
Operations

Qualifications and experience:
MSc in Marketing, University of Stirling, United Kingdom (1997).

34 years' work experience, of which 19 years in banking.

Joined BBK in 2000.

Raj Kumar Dugar
General Manager
Internal Audit

Qualifications and experience:
ACA, Institute of Chartered Accountants of India (1987),

31 years' banking experience, of which 20 years in internal audit.

Joined BBK in 2000.

Ewan Stirling
General Manager
International Banking

Qualifications and experience:
Bachelor of Law (Hons), University of Wales, United Kingdom (1985)

34 years' banking experience.

Joined BBK in 2020.

* Effective 1 April 2020

Hassan Ahmed Abouzeid
Group Chief IT and Operations Officer
Information Technology & Operations

Qualifications and experience:
BSc, Architecture Engineering, Ain Shams University, Egypt (1987).

31 years' banking experience.

Joined BBK in 2019.

Adel Abdulla Salem
General Manager
Retail Banking

Qualifications and experience:
PhD in Management,
Monarch Business School – Switzerland (2015),

33 years' banking experience in retail banking, business of cards and telecoms.

Joined BBK in 2017.

Nadeem A.Aziz Alkooheji
General Manager
Corporate Banking

Qualifications and experience:
BA in Finance and International Business, University of Texas, United States of America (1988).

23 years' banking experience and 12 years' audit.

Joined BBK in 1999.

Ajay Kumar Jaiswal
Acting Chief Risk Officer
Risk Management

Qualifications and experience:
MBA, University of Allahabad, Republic of India (1983).

37 years' banking experience.

Joined BBK in 2001.

Husain Abdulmajeed Toorani
Head of Treasury

Qualifications and experience:
MSc, Investment Management, University of Reading, United Kingdom (2009)

10 years' banking experience.

Joined BBK in 2010.

Mohamed Ahmed Al Rayes
Head of Investment & Private Banking

Qualifications and experience:
MBus, Finance, University of Otago, New Zealand (2008)

12 years' banking experience.

Joined BBK in 2013.

Corporate Social Responsibility (CSR) has continued to take centre stage at BBK, reaffirming our commitment to the communities in which we operate.

- Online training has benefited 400 Bahraini students, creating opportunities designed to help them at university or in the workplace.
- Our Digital Literacy programme targeting stay-at-home women aims to strengthen their digital capabilities, particularly given the need for more use of digital channels during social distancing due to COVID-19.
- The new BBK-funded healthcare centre being built in Galali will provide full medical services to local residents.
- Our pioneering approach to strong corporate governance continues, with acute focus on maintaining the highest international standards.

In 2020, along with the emergency response to COVID-19, BBK maintained its support for a diverse range of community investment initiatives and started to develop its sustainability framework, which will be implemented in 2021. This reinforces the Bank's commitment to society, consistent with its long heritage of giving back to the citizens of Bahrain.

Promoting health and wellbeing in the time of COVID-19

The COVID-19 pandemic imposed an unprecedented health burden on BBK, the citizens and residents of the Kingdom of Bahrain, and people everywhere.

In a crisis, good leadership comes to the forefront and BBK demonstrated this throughout the pandemic emergency, following the directives of the great leadership of the Kingdom of Bahrain and the swift and decisive actions taken by the government.

First priority for the Bank was protecting our employees, our customers, and everyone who has contact with our branches and offices. While implementing these measures, we quickly extended our efforts to take in the community as a whole. The Bank's various initiatives – as detailed elsewhere in this annual report – helped to contain the spread of the virus.

BBK donated BD 3.0 million to the nationwide Feena Khair campaign, just one of the government's COVID-19 measures designed to help people afflicted by the crisis. In addition to backing national initiatives, BBK supported local NGOs in assisting in-need families and migrant workers with the provision of food and basic essentials.

The Bank's pandemic response was not merely a replacement for its many other wide-ranging commitments to health and wellbeing. Indeed, the COVID crisis made continued support for these beneficiaries even more vital.

BBK began the planning and design of its second health centre in coordination with the Ministry of Health and the Ministry of Works, Municipalities Affairs and Urban Planning. The new centre will serve a large segment of the population of the northern part of the Kingdom. The project reflects the Bank's belief that every Bahraini is entitled to quality healthcare.

Investing in a healthy lifestyle

In 2020, BBK maintained its record of donations and sponsorships, benefitting a range of national sports. As in previous years, we supported the HM King Hamad Bin Isa Al Khalifa and Nasser Bin Hamad Al Khalifa Premium League for Football, as well as Bahrain's Tour De France Cycling Team. The Bank also supported the national football team through the Bahrain Olympic committee. Encouraging health and sports, BBK held an action packed sports day for its employees to coincide with the Kingdom's annual Bahrain Sports Day.

Investing in education

A substantial part of the donation budget was allocated to educational initiatives in 2020, in addition to continuing programmes that bridge the gap between education and the workforce.

Four educational initiatives formed a key element of BBK's new CSR strategy, especially in the ever more vital context of distance learning. Hundred of Bahrainis benefited from those programmes.

TJ Walker training programme

TJ Walker is a world expert in not only empowering young people but in training presidents, government ministers, and senior officials around the world.

American Udemy Academy

This professional online educational platform provides abundant educational, creative, and training content.

Women's digital literacy

BBK launched a women's digital literacy course to provide Bahraini women with skills to deal with the digital age, and to support digital transformation in Bahraini society.

Financial literacy for journalists

In partnership with the Bahrain Journalists Association (BJA), a training programme was conducted to hone the financial knowledge and skills of Bahraini journalists.

As well as the new education projects, BBK made further pledges toward the Crown Prince International Scholarships and the Isa Bin Salman Educational Trust.

Investing in the community, partners in sustainability

BBK's total community investments in 2020 amounted to BD 2 million, with a significant amount distributed as donations to support charity, culture, research, education, philanthropy, and sport.

The Bank's community investment activities are designed to address the needs of different sectors of society, support sustainable economic growth, and encourage the advancement of the United Nations Global Goals for Sustainable Development – a series of 17 ambitious goals designed to end poverty, fight inequality and injustice, and tackle climate change by 2030.

Investing in economic sustainability

BBK is a key player in driving the sustainable growth of Bahrain's banking sector while cementing the Kingdom's position as a regional financial centre and FinTech hub. BBK's pioneering FinTech-focused Management Trainee Development Programme was the first of its kind and equips young Bahrainis with the skills they will need to succeed in the digital economy.

In January 2020, BBK staged the second BBK Digital Economy Forum & Expo, under the patronage of the Central Bank of Bahrain, in collaboration with the Bahrain Institute for Banking and Finance as Knowledge Partner.

BBK believes in Bahraini talent. We attract and nurture the country's brightest and best, providing a challenging and supportive work environment.

We have one of the highest Bahrainisation levels in the Kingdom and are committed to empowering our people to succeed. Youth employment now constitutes 31 percent of the Bank's cadre of professionals, and close to 100 employees received awards for commitment and long service.

At BBK, we reward and recognise our staff achievements and honour their loyalty through various incentives. This commitment to gratitude, as well as our BBK Alumni Programme, nurtures the BBK family culture and is key to our future success and positioning as an employer of choice.

Investing in gender equality

The appointment of two females to the BBK Board of Directors, and three to subsidiary Boards, further underlines BBK's commitment to women's empowerment, supported by the latest staffing statistics showing the Bank has now reached 38 percent female employment.

With an active Women's Empowerment Committee, BBK women are encouraged to achieve their career goals, reach their full potential and maintain a healthy work/life balance.

Investing in independence

BBK is a pioneer in providing innovative services that support the financial independence of customers with special needs. The Bank continues to invest in better accessibility to bank facilities and provides special exemptions from fees and charges, and minimum account balances.

The Bank renews its commitment to society each year by making numerous charitable donations. These include supporting various funds and initiatives such as the Ministry of Social Development NGO Fund and schemes to elevate the care of elderly citizens, orphans, and other philanthropic societies.

Investing in our rich heritage and making our cities safe and sustainable

BBK is proud of Bahrain's rich culture and encourages the promotion and continuation of our heritage by supporting arts, culture, and literature. The Bank contributes to various initiatives for cultural preservation and the restoration of historical facilities through the Bahrain Authority for Culture and Antiquities, and the Sheikh Ibrahim Bin Mohammed Al Khalifa Centre for Culture and Research.

Investing in a greener future

The Bank's vision for sustainability encompasses the preservation of our natural environment. BBK is committed to reducing its environmental footprint, in 2020 achieving a 15 percent cut in electricity consumption, 11 percent in water consumption, and a high percentage of wastepaper recycling. BBK is taking further action to reduce its carbon footprint and ensure a greener environment for generations to come.

Part II

Reports and disclosures

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The Bank takes pride in ensuring that exceptional standards of corporate governance are met according to international standards of best practice. Sound corporate governance is central to achieving BBK's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

Corporate governance vision

BBK and its wholly owned subsidiaries shall continue to enhance shareholders' value, protect their interests, and defend their rights by practising the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls module of the CBB rulebook – but also formulate and adhere to strong corporate governance practices. BBK and its wholly owned subsidiaries shall also continuously strive to best serve the interests of all other stakeholders, including clients, employees, regulators and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Compliance with Corporate Governance regulatory requirements:

The Bank ensures compliance with the Corporate Governance Code of the Kingdom of Bahrain, the CBB requirements in this regard. There were a few procedural issues which need to be enhanced to be in full compliance in relation to improving AGM notice and additional disclosures to the shareholders at the time of elections, enhancing the terms of reference of some of the committees, which were addressed immediately. Further the composition of the Risk Committee of the Board need to be enhanced to have more independent Directors.

Initiatives 2020

BBK implemented a number of initiatives over the past year to fulfil its corporate governance strategy and other requirements emerging during the year.

• The evaluation process for the Board and its committees was successfully completed and recommendations were made for improvement. In 2020, the evaluation process was carried out by an external party as this is the practice at the Bank at the start of each new Board term. The external party, which is a consulting office specialized in corporate governance matters produced its report and presented it to the Board. The indicators concerning Board dynamics, function and diversity were all positive. The main recommendations are mentioned under Board and Committee evaluation section of this report.

• The Board reviewed the independence of Directors through an annual exercise taking into consideration the regulatory requirements, Board determination as well as best practice.

• The Board achieved better gender diversity by having two new lady Directors on the Board of Directors. Other Bank lady officials were inducted in the Board of Directors of the Bank's subsidiaries.

• A new Director's Appointment Letter in line with best international practice for the Bank and its wholly owned subsidiaries was developed and signed by all Directors. The letter covered code of conduct, issues relating to conflict of interest, rights and obligations of Directors and their remuneration.

• A new power of attorney was approved by the Board delegating the overall managmaent of the Bank to the Group Chief Executive (GCE) and establishing legal relationship with the GCE.

• All Board and Corporate Governance manuals and policies, Committee's Terms of References and procedures were reviewed and approved by the Board with enhancements during 2020. The wording of the manuals and polices are published on the Bank's website.

• Awareness programmes were arranged for the Board and Executive Management with the objective of continuous development and keeping abreast of updates in market. A full list of programs presented during 2020 are disclosed in this report.

• The Board and the Executive Management attended a training session on sustainability and ESG and the Board requested to prepare a framework for this function at the Bank.

• Full induction programs were arranged for newly appointed Board members including presentations, meeting with the Chairman of the Board, the Group Corporate Secretary and the Executive Management.

• The Board and its wholly owned subsidiaries adopted and implemented a new improved cloud based Board meeting management solution with enhanced features to complement the Bank initiatives for having paperless platforms. The Board also ensured similar arrangement is followed by the Management.

• The Bank took all necessary measures to protect the interest of all stakeholders and priority was given to the Bank employees during the COVID 19 pandemic as elaborated in the Group Chief Executive's review.

• The Bank signed a new listing agreement with Bahrain Bourse Company (BHB) to comply with new listing requirements with enhanced disclosure procedure including announcements relevant to all stakeholders.

• The Bank complied with Bahrain Bourse Company's Board resolution concerning transfer of unclaimed dividends to the dedicated fund established by BHB after scrutinizing the legal and regulatory requirements.

• The Bank reviewed its Key Persons (insiders) policy with enhancements and improved the relevant procedures to ensure compliance with regulatory requirements and in line with best practice.

• The whistle blowing procedures were simplified to encourage employees to freely express their views about undeclared risks.

Risk appetite statement

The Bank's risk appetite is set annually by the Board of Directors with the goal of aligning risk-taking with statutory requirements, strategic business objectives and capital planning. The Board of Directors has a key role in the implementation of the Bank's risk appetite by steering utilization of different forms of financing, the Bank's geographical operating areas and markets, funding and liquidity management. The Board of Directors also monitors BBK's adherence to the Risk Appetite Statement and makes necessary modifications to capture changes in the Bank's strategic priorities, operating environment, and risk profile.

The vision documents, annual and three year strategy, along with the Bank's internal policies, mandate framework, rules and guidelines create the overall framework for the Bank's risk-taking. The Risk Appetite Statement complements these key documents by outlining the main considerations in the Bank's risk-taking, risk mitigation and risk avoidance.

The purpose of the Risk Appetite Statement is to state clearly the general principles for the Bank's risk-taking, to raise risk awareness across the organisation, and to guide the staff regarding accepted and unacceptable behavior. The Risk Appetite Statement is implemented through the Bank's operational policies and procedures, monitoring metrics, limit system, Key Performance Indicators (KPIs) and internal controls. The Risk Appetite Statement is thus embedded in the Bank's core processes and affects the operations of the Bank in a holistic way.

BBK is subject to banking supervision and prudential regulations. The Bank's risk management systems and procedures are reviewed and refined on an ongoing basis in order to comply strictly with regulations in all jurisdictions it operates in; as well as with what the Bank identifies as the relevant market standards, recommendations and best practices. This principle also applies to the Bank's risk appetite framework.

The basic objectives of the Risk Appetite Statement are the following:

• To provide a clear articulation of the Bank's risk-taking, risk mitigation and risk avoidance, and to define the risk-taking at the aggregate level. The Risk Appetite Statement creates a foundation for effective communication of risk among internal and external stakeholders;

• To increase understanding of BBK 's material risk exposures and raise risk awareness across the organisation;

• To positively impact the defined risk culture of the Bank.

The Bank's risk-taking is primarily in its core activity of lending. BBK finances its activities through equity, retail, corporate deposits, issuing bonds on the international capital markets and through market borrowings. The funding base is diversified across currencies, maturities and geographic areas. BBK's operating model relies on its ability to obtain funding at a favorable cost, which enables lending, on attractive terms, to its clients. BBK's funding advantage builds on its sound financial profile and strong shareholder support.

To support its lending and funding operations, the Bank maintains a portfolio of liquid assets. The primary objective of the liquid portfolio is to ensure that the Bank is able to operate and continue its core activities even during stressed market conditions. The composition and maturity profile of the liquidity portfolio are aligned with this objective.

The Risk Appetite Statement sets the tolerance for risk-taking in BBK's operations within the Bank's Risk capacity. Risk limits and risk profile assessment are other key elements in the implementation of the Bank's risk appetite framework.

Risk capacity is limited by the financial and non -financial resources that the Bank has at its disposal. The risk appetite is set to a level within the risk capacity to ensure that the Bank's risk exposure remains sustainable.

Financial resources consist of the Bank's paid-in capital and retained earnings, together with customer deposits, funds raised through bonds, borrowings from Central Bank and other Financial Institutions. Non-financial resources are the skills and competences of the staff, IT systems, internal procedures and control systems. The Bank's risk-bearing capacity builds on a careful customer selection process, individual credit mandate reviews and a thorough credit-granting process. Therefore, financial resources and robust governance contribute both to maintaining the Bank's competitive position and its strong capital and liquidity position.

Risk limits are used to allocate the aggregate risk-taking mandate to business lines and portfolios. The main risk limits are established in the Bank's risk management policies and approved by the Board of Directors. The limit system sets boundaries for the accepted level of credit, market, liquidity and operational risk within the established risk appetite. The actual position through the risk limits are reviewed at various levels (Board Risk Committee, Risk Management Committee 'RMC', Asset Liability Management Committee 'ALMC', Senior Management, etc.) depending on the nature of limits and as specified in the relevant Risk Policies. The Board and Senior Management have overall responsibility for determining the Risk Appetite of the Bank, which will be measured and monitored by the Business Verticals in their operational activities.

Risk profile assessment aims to ascertain that the Bank's risk profile is within Risk limits and consequently within the Risk Appetite and Risk Capacity. Risk profile assessment is a point-in-time evaluation of the level and types of the Bank's risk exposures. The assessment includes an evaluation of the Bank's material risks, like credit, market, liquidity, and operational risk.

Credit Risk

BBK is exposed to risk primarily in its core activity of lending to individuals, corporations, small/medium enterprises, governments, public sector entities, financial institutions, etc. Lending exposes the Bank to credit and concentration risks and to variations in the business cycle. Each lending is thoroughly analysed from several perspectives (for example: default risk, financial risks, customer due diligence, legal risk, currency risks, etc.) to ensure that financing decisions have sound foundations. The overall target of the credit risk management is to maintain high portfolio quality with appropriate risk diversification in order to avoid excessive risk concentrations. Account grade rating, industry concentration limits, risk pricing, etc. are set and monitored.

Market Risk and Treasury

Funding, asset and liability management and management of the portfolio of liquid assets are the integral part of the Bank's business operations.

The funding base of BBK is diversified across currencies, maturities and geographic areas. The Bank effectively manages the risk exposures arising mainly through maturity mismatches between assets (loans and treasury investments) and liabilities (deposits, borrowings and equity). The Bank maintains a robust liquidity portfolio to ensure that the Bank is able to operate and continue its core activities, even during stressed market conditions.

BBK manages its interest rate risk by financing/investing in a combination of fixed or floating-rate assets, and this allows the Bank to generate stable earnings and to preserve its capital base in the long term. BBK's liquidity portfolio is invested in high quality assets and in doing so, BBK takes limited credit risk (credit default and spread risk).

BBK mitigates its currency risk and most of interest rate risk arising from funding and lending operations by hedging with derivatives. The use of derivatives exposes BBK to counterparty credit risk, liquidity risk, currency basis risk and operational risks. BBK uses netting and collateral agreements to manage its risk towards derivatives counterparties.

Triggers / Policy limits are set as per the Bank's internal risk policies and procedures. This includes FX Net Open Position and VAR, Market Risk VAR, Interest Rate Risk (Gap, Stop Loss & VAR), amongst others.

Earnings

Banking involves well-judged risk-taking, where all transactions should provide a reasonable margin to compensate for the risk taken. BBK offers financing on competitive market terms and aims for stable earnings, enabling the formation of capital reserves, organic growth, and reasonable return on capital in the long term.

Lending operations, the primary source of credit risk, should provide appropriate return for the level of risk assumed.

Treasury operations, through cost-effective funding and prudent asset and liability management, should contribute to the Bank's overall returns in line with the defined business objectives and the core objective of safeguarding the Bank's liquidity.

Earning targets are set and monitored at global, division and business unit level.

Capital

An adequate capital management framework, with an internal capital adequacy assessment process (ICAAP), is an essential part of BBK's operations. BBK is committed to maintaining a strong risk-based capital position.

The Bank complements risk-based capital adequacy measures with a volume-based leverage ratio measure. It protects the Bank from risks that relate to excessive growth of the balance sheet.

BBK aims to maintain a strong capital position in relation to the aggregate risk exposure at all times. The Bank uses risk-based approaches to assess the capital needs, including stress testing, and the Bank holds robust capital buffers on top of the minimum capital requirement.

The growth of the Bank's balance sheet should be stable in the long run, while some variation is accepted in the medium term to account for natural changes in the business cycles.

Liquidity

The Bank maintains a robust liquidity portfolio. The primary objective of the liquidity portfolio is to ensure that the Bank is able to operate and continue its core activities without disruption, even during stressed market conditions. BBK maintains a liquidity portfolio where a large majority of the assets are of high quality to support the Bank's operations and liquidity position. Having a strong liquidity position enables us to carry out our core activities under severely stressed market conditions without access to new funding.

We diversify funding in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources.

Liquidity parameters are set to maintain minimum levels as per regulatory guidelines.

Implementation and Review

The primary responsibility for the correct implementation of the Risk Appetite Statement remains with the Risk Management Division.

This Risk Appetite Statement is reviewed at least annually.

Shareholder information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,361,736,332 equity shares, each with a face value of 100 fils. All shares are fully paid.

During 2020, BBK distributed bonus shares to its shareholders at 5% of the paid-up capital, equivalent to 5 shares for every 100 shares held, for a total of BD 6,484,459. Therefore, the Bank's paid up capital after the distribution increased to BD 136,173,633 divided into 1,361,736,332 shares as per the following details:

- BD 6,422,556 bonus shares on paid-up capital (not including treasury shares)
- An amount of BD 61,903 bonus shares on treasury shares

Annual Ordinary General Meeting, Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and an Extraordinary General Meeting (EGM) were held on 24 March 2020 under high level precautionary measures as required by the relevant authorities due to the COVID 19 pandemic outbreak and in two separate meeting halls connected via video and a maximum of 20 persons in each hall, taking into consideration social distancing and other measures to keep all participants safe.

Apart from normal AGM discussions, the AGM discussed and took decisions regarding the below mentioned items:

• Re-appointing the members of the Sharia Supervisory Board for monitoring Islamic transactions at the Bank. The appointment is for a period of three years renewable, and authorising the Board of Directors to determine their fees.

• Approving the recommendation of the Nomination, Remuneration and Corporate Governance Committee regarding the appointment of five members on the Board of Directors appointed by the major shareholders of the Bank for the term (2020-2022) after obtaining the approval of the Central Bank of Bahrain.

• Election of seven Board members to complete the appointments on the Board of Directors for the term (2020-2022) after obtaining the approval of The Central Bank of Bahrain (The CBB).

The EGM held on 24 March 2020 approved the following:

• The Board's recommendation to the EGM by increasing the issued and paid up capital from BD 129,689,175 divided into 1,296,891,746 shares to BD 136,173,633 divided into 1,361,736,332 shares as a result of distributing bonus.

The full set of the AGM and EGM minutes and the decisions made at the meeting are published in this annual report.

Annual disclosures at the AGM:

The Bank submits a Corporate Governance Report to the AGM annually, covering the status of compliance with the related regulatory requirements and international best practice.

At the AGM, the Bank discloses and reports to shareholders the details under the Public Disclosure module of the CBB's rulebook. These disclosures include the total remuneration paid to the Directors, Executive Management, and external auditors and other important disclosures as elaborated hereunder. The total amount paid to Directors and Executive Management is also included in this annual report.

Shareholders composition

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and Others	–	296,514,407	21.77
Ithmaar Holding B.S.C.	Kingdom of Bahrain	354,833,086	26.06
Social Insurance Organisation (SIO)			
– Formerly Pension Fund Commission	Kingdom of Bahrain	262,441,331	19.27
– Formerly General Organisation for Social insurance (GOSI)	Kingdom of Bahrain	186,527,785	13.70
Kuwait Investment Authority	State of Kuwait	261,419,723	19.20

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	298,587,912	2501	21.92
1% to less than 5%	–	–	–
5% to less than 10%	88,448,705	1	6.49
10% to less than 20%	619,866,629	3	45.52
20% to less than 50%	354,833,086	1	26.06
50% and above	–	–	–

Board of Directors' information

Board composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association, and comprises 12 members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with corporate governance requirements, the Board Committees consist of members with the appropriate professional experience. Consequently, the Board has five independent Directors. The independence requirements are reviewed on an annual basis taking into consideration the CBB criteria and Board of Directors determination of the same. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to the CBB approval. The classification of Executive Directors, Non-executive Directors, and Independent Non-executive Directors follows the definitions stipulated by the CBB. The current term of the Board began in March 2020 and ends in March 2023. Directors are elected/ appointed by the shareholders at the AGM.

The election or re-election of a Director at the AGM is accompanied by a recommendation from the Board based on a recommendation from the Nomination, Remuneration and Governance Committee, with specific information such as biographical and professional qualifications and other directorships.

Group Corporate Secretary

The Board is supported by the Group Corporate Secretary, who provides professional and administrative support to the General Assembly, the Board, its Committees, and members. The Group Corporate Secretary also assumes the responsibilities of Group Corporate Governance Officer and in this context supports the processes of performance evaluation for the Board, Board Committees, and individual Directors as well as the process of access to independent advice and other relevant issues on a Group level. The appointment of the Group Corporate Secretary is subject to approval of the Board.

BBK's Group Corporate Secretary is Ahmed A. Qudoos Ahmed, who joined the Bank in 2009. His qualifications include a BSc in Engineering from the University of Bahrain in 1996. He is qualified in Board Secretarial practices from George Washington University. He has attended many advance training programmes in corporate governance both in Bahrain and abroad, accumulating over 23 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the Code of Conduct.

The Board has a schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of financial statements, financing and borrowing activities including the annual operating plan and budget, ensuring regulatory compliance, and reviewing the adequacy and integrity of internal controls.

The Board exercises its judgment in establishing and revising the delegation of authority for Board Committees and the Executive Management. This delegation may be for authorisation of expenditure, approval of credit facilities, or for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, and certain strategic investments are within the Board's authority.

Each Director holds the position for three years, after which he must present himself to the AGM for reappointment. The majority of BBK Directors (including the Chairman and/or Deputy Chairman) are required to attend Board meetings to ensure a quorum. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transactions to Directors, at a certain level of exposure, require Board approval. Credit and investment applications exceeding certain pre-defined exposure levels also require Board approval.

Similarly, related party transactions involving members of the Board require Board approval.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice related to the affairs of the Bank or to their individual responsibilities as members, subject to approval by the Board.

Directors' induction

The Board is required to be up to date with current business, industry, regulatory, and legislative developments and trends that affect the Bank's business operations. Immediately after appointment, the Bank provides formal induction for a full day. Meetings are also arranged with the Executive Management. This will foster a better understanding of the business environment and markets in which the Bank operates. The induction of the newly appointed Directors took place in April 2020.

Directors' professional development

A continuing awareness programme is essential and may take many forms, through the distribution of publications, workshops, presentations at Board meetings, and attendance at conferences encompassing topics on directorship, business, industry, and regulatory developments. In terms of the Training and Competency module of the CBB rulebook, each approved person (including members of the Board) is required to complete 15 hours of continued professional development. The full list of programs prepared for the Board of Directors of the Bank and its wholly owned subsidiaries is disclosed in this report.

Board and Committee evaluation

The Board performs a self-evaluation process annually. The Board annually reviews its Charter and its own effectiveness, initiating suitable steps for any amendments. The Board will also review self-evaluations of individual Board members and the Board Committees and consider any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

The evaluation in 2020 was done by a consulting office specialized in corporate governance and the main recommendations emanating from the evaluation process were as following:

- Improving the role of the Board in strategy formulation and follow up of execution.
- Reducing the burden on the Board by reducing Board meeting timings and reviewing the Executive Committee's approval authorities if required.
- Look at developing succession planning for the Board.

Remuneration of Directors

The Board has adopted a remuneration policy for Directors with well-defined procedures to apply to the Directors' various remuneration and compensation components, reflecting their involvement and contribution to the activities of the Board and its ad-hoc, temporary and permanent committees.

The basic guideline of the policy is that participation is considered in terms of attendance at meetings. Participation in a meeting by telephone/video conference shall be considered as attendance of the meeting. The relevant policy is reviewed periodically to ensure it is in line with regional best practice. Directors' remuneration is governed by Commercial Companies Law No 21 for the year 2001, and any amendments thereto, therefore all payments comply with the provision of the law. The individual remuneration is disclosed under remuneration report in this annual report.

Insurance coverage

The Bank provides personal accident insurance coverage for Board Members during travel on Bank assignments. The Bank also has a Directors and Officers liability insurance policy for Directors.

Whistle-blowing policy

The Bank has a whistle-blowing policy with designated officials that employees can approach. The policy provides protection to employees for any reports made in good faith. The Board's Audit and Compliance Committee oversees this policy. The whistle-blowing policy is published on the Bank's website.

Key persons (KP) policy

The Bank has established a 'Key Persons' policy to ensure that key persons are aware of the legal and administrative requirements regarding the holding and trading of BBK shares, with the objective of preventing abuse of inside information. Key persons are defined to include the Directors, Executive Management, designated employees, and persons under guardianship or control of Key Persons. The Key Persons policy is entrusted to the Board's Audit Committee. The Key Persons policy is posted on the Bank's website.

Code of Conduct

The Board has approved a Code of Conduct for BBK Directors and a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high-level responsibility for monitoring the codes lies with the Board of Directors. The Directors' Code of Conduct is published on the Bank's website.

Relative recruitment/appointment policy

The Bank has in place policies that govern the recruitment and appointment of relatives to the Bank and across its wholly-owned subsidiaries. The policies are:

1. Employment of relatives of first and second degrees are prohibited, whereas employment of relatives of third and fourth degree may be approved by the Executive Management provided it does not lead to a conflict of interest.

2. Employment of relatives at the Bank's wholly-owned subsidiaries of first and second degree are prohibited for senior managers and above. Any exception must be approved by the Group Chief Executive.

3. As part of the annual reporting, the Group Chief Executive must disclose to the Board those individuals who are occupying controlled functions and who are relatives of any other approved persons within the Bank and its wholly-owned subsidiaries.

Conflict of interest

The Bank has clear policies based on domestic laws and regulations and international best practices to deal with issues related to conflict of interest. This is also stipulated in the Directors Appointment Letters signed between the Board members and the Bank. These policies are posted on the Bank's website and reviewed periodically or whenever needed.

During Board meetings or Board committees and during discussions on topics related to credit applications, investment or other transactions where there may be conflict of interest, the concerned Board member is required to leave the meeting room and any correspondence or documents related to the application will not be sent to him/her. Decisions are made by the Board of Directors or its Committees without the presence of the member concerned and such transactions are recorded in the minutes of the Board meeting or its committees.

In addition, it is the responsibility of the member of the Board and he/she must immediately disclose to the Board that there is a conflict of interest related to his activities and obligations with other parties and not to participate in the discussion and voting, and these disclosures include documents relating to contracts or transactions related to the member concerned.

During 2020, the Executive Committee discussed a number of credit and investment applications relating to accounts of some major shareholders. The Board also discussed some projects related to Aegila, a joint venture with Osool, and also held a number of Board meetings to discuss the opportunity to acquire some of the assets of Ithmaar Holding, which is a major shareholder of the Bank, and in all these cases this policy has been implemented without exception.

Development programmes arranged for board members during 2020

1. Diligent Board Book Orientation program 16/02/2020
2. AML and Compliance workshop 16/02/2020
3. Open Banking 23/07/2020
4. Diligent Boards training 23/07/2020
5. ESG Environmental, Social and Governance 27/10/2020
6. Digital disruption and strategy for Boards 27/10/2020

Number of development programme hours attended by board members, arranged by the Bank or otherwise:

Board members	Total no. of hours
Murad Ali Murad	26
Sh. Abdulla bin Khalifa bin Salman Al-Khalifa	35.5
Mohamed Abdulrahman Hussain	23.5
Hani Ali Al Maskati	31
Jassem Hasan Ali Zainal	18
Sh. Khalifa bin Duaij Al Khalifa	20
Edrees Musaed Ahmad	15
Ashraf Adnan Bseisu	26
Mishal Ali Al Hellow	21
Naser Khalid Al Raee	40
Ghaneya Al Derazi	15
Nour Nael Al jassim	15

Environmental, Social and Governance - ESG

BBK's contribution to the well-being of the community is an integral part of its corporate role. The Bank allocates an annual appropriation for donations to finance community-related projects and initiatives.

BBK has an approved high-level CSR policy. The policy outlines guiding principles and sets criteria for the evaluation and selection of aid requests whether financial or in kind, with the ultimate objective of maximising the return on both the Bank's social image and the benefit of the community. For details on CSR activities conducted by the Bank, please refer to the Sustainability review section in Part I.

The Board is active in making decisions to broaden the role of the Bank as far as ESG is concerned and the Bank has initiated the development of its ESG framework to be implemented in 2021.

Disclosures relating to the Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company BSC	Kingdom of Bahrain
Chairman of the Committee	Nomination Remuneration and Governance Committee – Bahrain Kuwait Insurance Company BSC	Kingdom of Bahrain
Deputy Chairman	Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Committee	Audit and Risk Committee – Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Board	Al Janabeya Company WLL (Family company)	Kingdom of Bahrain
Sh. Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management BSC	Kingdom of Bahrain
Chairman	Securities and Investment Company (SICO) BSC	Kingdom of Bahrain
Chairman	Bahrain Telecommunication Company (Batelco)	Kingdom of Bahrain
Board Member	Supreme Council for Youth and Sports	Kingdom of Bahrain
Mohamed Abdulrahman Hussain		
Vice-Chairman and Chairman of Executive Committee	Eskan Bank BSC	Kingdom of Bahrain
Board Member	The K Hotel WLL	Kingdom of Bahrain
Independent Board Member	A.M. Yateem Brothers WLL	Kingdom of Bahrain
Hani Ali Al Maskati		
Co-Founder and Managing Partner	Cash Management Matters (CMM)	Kingdom of Bahrain
Board Member	Blu Solution Ltd	British Virgin Islands
Jassem Hasan Ali Zainal		
Vice Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Chairman and CEO	Addax BSC Closed	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Miami International Securities Exchange LLC (MIAX)	United States of America
Sh. Khalifa bin Duaij Al Khalifa		
President	Court of HRH the Crown Prince	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Kingdom of Bahrain
Board Member	Palm Capital Company WLL	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Republic of Lebanon
Chairman	Bahrain Financial Markets Associations (ACI)	Kingdom of Bahrain
Chairman	Bahrain Middle East Bank	Kingdom of Bahrain
Edrees Musaed Ahmad		
Manager	Marketable Securities, European Equity Division, Kuwait Investment Authority (KIA)	State of Kuwait
Ashraf Adnan Bseisu		
Group Chief Executive	Solidarity Group Holding Company B.S.C (c)	Kingdom of Bahrain
Chairman	Solidarity First Insurance Company (P.L.C)	Hashemite Kingdom of Jordan
Vice Chairman	Solidarity Bahrain Company (B.S.C.)	Kingdom of Bahrain
Vice Chairman	Solidarity Saudi Takaful Company	Kingdom of Saudi Arabia
Board Member	Bahrain Institute of Banking & Finance (BIBF)	Kingdom of Bahrain
Board Member	United Insurance Company B.S.C (c)	Kingdom of Bahrain
Mishal Ali Al Hellow		
Board Member	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management BSC	Kingdom of Bahrain
Director	Arcapita Group	Kingdom of Bahrain
Chairman	Technology and Business Society	Kingdom of Bahrain
Naser Khalid Al Raee		
Head of Internal Audit	Osool Asset Management BSC	Kingdom of Bahrain
Ghaneya Mohsen Al-Derazi		
Nour Nael Al Jassim		
Investment Manager	Kuwait Investment Authority (KIA)	State of Kuwait

Directors and related parties' interests

The number of securities held by Directors as of 31 December 2020 was as follows:

Name of Director	Type of shares	31 Dec 2019	31 Dec 2020
Murad Ali Murad	Ordinary	1,348,422	**1,415,843**
Jassem Hasan Ali Zainal	Ordinary	265,286	**278,550**
Mohamed Abdulrahman Hussain	Ordinary	178,402	**187,322**
Sh Khalifa bin Duaij Al Khalifa	Ordinary	138,326	**145,242**
Sh Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	127,050	**6,352**
Yusuf Saleh Khalaf	Ordinary	249,693	**–**
Ashraf Adnan Bseisu	Ordinary	41,909	**44,004**

Related parties

1. Al Janabeya Company WLL (a family company owned by Mr Murad Ali Murad and his family) owns 1,279,947 shares, and is related to the Chairman of the Board.

Nature and extent of transactions with related parties

None.

Approval process for related parties' transactions

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material contracts and loans involving Directors

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 400,000	Fixed deposit rate over 1% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	USD 66,000	LIBOR + 3%	On demand	On demand	Shares 43% plus fixed deposit of 3%
			BD 115,000	BIBOR + 3%			

Notes: 1. The materiality amount for such disclosures is considered above BD 100,000.
2. 11 Board members hold CrediMax Credit cards with a total limit of BD 147,892 and outstanding amount at the end of December 2020 of BD 23,345.

Directors' trading of BBK shares during 2020

As per "Directors and related parties' interests" table above.

Board meetings

The Board of Directors meets at the summons of the Chairman (or Deputy Chairman in the event of his absence or disability) or, if requested to do so, by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members.

Meetings of Independent Directors

Since 2012 the Board of Directors has held separate meetings for Independent Directors.

In terms of the Board Charter, minority shareholders look to Independent Directors for representation.

For this purpose, regular Board meetings are preceded by a meeting of Independent Directors, unless the Independent Directors decide that there are no issues to discuss.

The agendas for these meetings are the same as those for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings is recorded by the Group Corporate Secretary and shared with the Independent Directors and there is an Independent Directors' Committee.

Board meeting attendance

During 2020, 12 Board meetings were held in the Kingdom of Bahrain in the following manner:

Key: ⊙ Attended ○ Absent ⦸ was not a member during this period ⊖ not attended due to conflict of interest.

Board meetings 2020

	Quarterly meetings				Other meetings							
Members	17 Feb	27 Apr	22 Jul	26 Oct	8 Jan	1 Apr	14 June	9 Sept	14 Oct	2 Nov	17 Nov	1 Dec
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hani Ali Al Maskati	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊖	⊖	⊙	⊖	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Mishal Ali Al Hellow	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Naser Khalid Al Raee	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⦸	⦸	⦸	⊙	⦸	⦸	⦸	⦸	⦸	⦸	⦸
Marwan Mohammed Al Saleh	⊙	⦸	⦸	⦸	⊙	⦸	⦸	⦸	⦸	⦸	⦸	⦸
Ghaneya Mohsen Al Durazi	⦸	⊙	⊙	⊙	⦸	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Nour Nael Al Jassim	⦸	⊙	⊙	⊙	⦸	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Major issues discussed by the Board during 2020

(Subjects that fall under the Board Committees' scope are recommended by the respective Committee for the Board's approval.)

Date of meeting	Subject
8 January 2020	1 Performance of BBK - India 2 BBK Budget for the year 2020
17 February 2020	1 Recommendation to the AGM concerning amendments to the Articles of Association of the Bank due to amendments to the Commercial Companies Law 2 Corporate Governance report to AGM 3 Quarterly Liquidity Report 4 Investment Portfolio performance 5 Financial results 6 Re-appointment of external auditors and their fees 7 Anti-money laundering annual report 2019 8 Succession plan 9 Risk policies for review
1 April 2020	1 Board Chairmanship and Board Committees' Composition
27 April 2020	1 Board Evaluation 2 Review of the Board Charter 3 Cyber security 4 Investment strategy 5 Risk policies for review
14 June 2020	1 Update on Operations, Liquidity and Capital
22 July 2020	1 Financial results for second quarter of 2020 and reviewing related press release 2 Independent Board Member evaluations 3 Key Person trading policy review 4 Update on BBK Budget 2020 5 BBK Group Corporate Strategy Review 2020 6 Investment strategy 7 Board Evaluation 8 Quarterly liquidity report 9 Risk policies for review
9 September 2020	1 Acquisition of an Islamic Bank
14 October 2020	1 Acquisition of an Islamic Bank
26 October 2019	1 Financial results for third quarter of 2020 and reviewing the related press release 2 BBK Information Technology Update 3 Retail network strategy 4 Quarterly liquidity report 5 Risk policies for review
2 November 2020	1 Performance of BBK - India 2 Schedule of meeting of the Board of Director and its Committees for the year 2021
17 November 2020	1 Proposal for aquisition advisory services
1 December 2020	1 Performance of BBK - India 2 BBK Budget for the year 2021

Board committees

Board Committees are formed and their members appointed by the Board of Directors each year, after the AGM. They are considered the high-level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the operations of the Bank by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary committees and discontinue them from time to time, as necessary.

Members of the Board are provided with copies of the meeting minutes of the committees, as required by the regulators. During 2020, the Board established an ad-hoc committee to study the Bank's needs for merger opportunities and raise recommendations to the Board.

The terms of reference for the Board committees (Executive; Audit and Compliance; Nomination, Remuneration and Governance; Risk; and Independent Members) are available on the Bank's website.

Board Committees' composition, roles and responsibilities

Executive Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Mohamed Abdulrahman Hussain Chairman **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Deputy Chairman **Ashraf Adnan Bseisu** Member **Mishal Ali Al Hellow** Member **Nour Al Jassim** Member	• No fewer than five members are appointed for a one-year term. • Minimum number of meetings required each year: 8 (actual meetings in 2020: 9) • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Reviews, approves and directs the executive management on matters raised to the Board of Directors such as business plans, donations, credit/investment applications, and such other proposals within its authority, and the periodic review of the Bank's achievements.

Audit and Compliance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Zanial** Deputy Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Edrees Musaed Ahmad** Member	• The Board appoints no fewer than four members for a one-year term. • The Chairman must be elected by the members of the Committee, from among the Independent non-Executive Directors in its first meeting after the appointment of the members; the majority of members should also be independent. • Minimum number of meetings required each year: 4 (actual meetings in 2020: 4). • Quorum shall be more than half of the members and must include the Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board. • To review the effectiveness of the Bank's system for monitoring compliance with relevant laws and regulations and the measures taken by the Management.	Reviews the internal audit programme and internal control system; considers major findings of internal audit reviews, investigations, and management's response. Ensures coordination among internal and external auditors. Monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements. Approves and periodically reviews the Internal Audit Charter, which defines the purpose, authority, responsibilities and other aspects of internal audit activity. The Internal Audit Charter is available to internal and external stakeholders on request addressed to the Board Secretary.

Nomination, Remuneration and Governance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Deputy Chairman (Independent) **Edrees Musaed Ahmad** Member **Mohamed Abdulrahman Hussain** Member (Independent)	• The Board appoints no fewer than three members for a one-year term. The Chairman is an Independent Director and the majority of members should also be independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: 2 (actual meetings in 2020: 5). • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Assess, evaluate and advise to the Board on all matters associated with nominations and remunerations of Directors and Executive Management. Also, ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements, and which also reflect best market practices in corporate governance, and makes recommendations to the Board as appropriate.

Risk Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Hani Ali Al Maskati Chairman (Non-executive) **Jassem Hasan Ali Zainal** Deputy Chairman (Independent) **Ghaneya Al Derazi** Member **Naser Khalid Al Raee** Member	• At least four members are appointed for a one-year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 (actual meetings in 2020: 6). • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendation to the Board.	Reviews risk policies and recommends to the Board for approval. Also examines and monitors the risk issues to the Bank's business and operations and directs the management appropriately.

Independent Directors Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Zanial** Member (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Mohammed Abdulrahman Hussain** Member (Independent) **Ghaneya Al Derazi** Member (Independent)	• The Committee comprises Independent Directors. • The Committee meets at least once a year. • The meetings are attended by Independent Directors and the Group Corporate Secretary only. • Attendance should be in person. • The Committee discusses issues on the Board agenda according to its terms of reference.	Provides independent views on certain issues, especially pertaining to minority shareholders.

Note: The full wording for the Board Committees' terms of reference is available on the bank's website www.bbkonline.com

Board Committee meetings and record of attendance

Key: ⊙ Attended ○ Absent ⦸ was not a member during this period ⊖ did not attend due to conflict of interest.

Executive Committee meetings in 2020

Members	10 Feb	8 Mar	20 Apr	31 May	23 Jun	16 Jul	9 Sep	19 Oct	29 Nov
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⦸	⦸	⦸	⦸	⦸	⦸	⦸
Mishal Ali Al Hellow	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Reyadh Yousif Sater	⊙	⊙	⦸	⦸	⦸	⦸	⦸	⦸	⦸
Nour Nael Al Jassim	⦸	⦸	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Audit and Compliance Committee meetings in 2020

Members	9 Feb	19 Apr	15 Jul	18 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙

Nomination, Remuneration and Governance Committee meetings in 2020

Members	20 Jan*	9 Feb	27 Feb	16 Jul	19 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙	⊙
Marwan Mohammed Al Saleh	○	○	○	⦸	⦸
Edrees Musaed Ahmed	⦸	⦸	⦸	⊙	⊙

* Unscheduled meeting

Risk Committee meetings in 2020

Members	10 Feb	19 Apr	10 June*	15 Jul	18 Oct	28 Dec*
Hani Ali Al Maskati	⊙	⊙	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊘	⊘	⊘	⊘	⊘
Nasser Kahlid Al Raee	⊙	⊙	⊙	⊙	⊙	⊙
Ghaneya Mohsen Al Durazi	⊘	⊙	⊙	⊙	⊙	⊙

*Unscheduled meeting

Independent Directors' Committee meetings in 2020

Members	17 Feb
Murad Ali Murad	⊙
Jassem Hasan Ali Zainal	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙
Mohamed Abdulrahman Hussain	⊙
Yusuf Saleh Khalaf	⊙

Other meetings

Mr Murad Ali Murad, Chairman of the Board, attended the periodical CBB prudential meetings on 27 January 2020.

Shariah Supervisory Board disclosures

In 2016, the Bank established a Shariah Supervisory Board as the Bank conducts some of its transactions according to the Islamic Shariah and must ensure that these transactions are within Shariah standards and norms as required by the regulatory authority in the Kingdom. The AGM in its meeting on 24 March 2020 approved forming the Shariah Supervisory Board and nomination of its members for three renewable years. The Shariah Supervisory Board members and the meetings during 2019 are as follows:

Shariah Supervisory Board attendance in 2020

Members	5 May	7 Oct	29 Dec
Dr Osama Bahar (Chairman)	⊙	⊙	⊙
Sh. Abdulnasser Al Mahmood (Member)	⊙	⊙	⊙
Dr. Adel Al Marzooqi (Member)	⊙	⊙	⊙

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established an independent compliance function in keeping with Basel and CBB guidelines. The AML and Compliance function acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is: 'BBK shall continue its endeavour to enhance shareholders' value, protect their interests, and defend their rights by practising pursuit of excellence in corporate life.' Anti-money laundering measures form an important area of the compliance function, in addition to areas of corporate governance, disclosure standards, insiders'/key persons' trading, conflict of interest, and adherence to best practices.

Starting 2014, BBK implemented an automated compliance system for the monitoring and management of regulatory requirements across the Bank.

This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise, as well as monitoring the status of compliance with CBB Rulebook requirements as applicable to BBK.

The Bank has a documented anti-money laundering programme, including periodic awareness training for employees, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The AML policy and procedures are updated annually and were last approved by the Board of Directors in October 2020.

The Bank has deployed a risk-based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB. The automated AML system of the Bank was upgraded in September 2018 and was rolled over to most of all the concerned divisions as part of system overall implementation across the Bank in order to further enhance the screening and monitoring of customers and their transactions.

The Bank's anti-money laundering measures are regularly audited by the internal auditors, who report to the Audit and Compliance Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations; the last AML/CFT follow-up examination by the Central Bank was concluded in June 2020, and the most recent annual regulatory examination was conducted on March 2020 and final report is yet to be issued by the regulator. The annual inspection of the Central Bank covers all areas in the bank including Compliance and AML activities. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year. However, in light of the recent COVID-19 pandemic, the CBB has exempted licensees from the annual AML/CFT review conducted by the external auditor. The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of applicable regulatory requirements. The Bank is committed to combating money-laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' as stipulated in the Financial Crimes Module of the CBB Rulebook and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper of the Basel Committee, and best international practices.

Communication strategy

The Bank has an open policy on communication with its stakeholders, and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the annual general meeting (AGM). The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website, as well as the Bank's Corporate Governance Report, Corporate Governance Framework, Whistle-Blowing Policy, Board Charter, Code of Conduct, Key Persons' Dealing Policy, and Terms of Reference of all Board Committees. Shareholders can complete an online form, which can be found on the website, to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talent.

The Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain in 2014, and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting on 10 March 2015.

The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. Therefore, we aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank and who will perform their role in the long-term interests of our shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual (short term) performance bonus
4. Annual (long term) performance bonus
5. Subsidiaries Board Remuneration

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy. All remuneration matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration and Governance Committee (NRG).

The Bank's remuneration policy, in particular, considers the role of each employee and sets the criteria to determine whether an employee is a material risk-taker and/or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank, and an employee is considered a material risk-taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives, summarised in our performance management system.

This assessment also takes into account adherence to the Bank's values, risks and compliance measures, and, above all, integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long term but, importantly, also on how it is achieved in order to ensure the long-term sustainability of the business.

Nomination, Remuneration and Governance Committee (NRG) role and focus

The NRG has oversight of all reward policies for the Bank's employees. The NRG is the supervisory and governing body for compensation policy, practices, and plans. It is responsible for determining, reviewing, and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all remuneration decisions. The NRG ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed periodically to reflect changes in market practices, the business plan, and the risk profile of the Bank.

The responsibilities of the NRG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to the following:

- Approve, monitor, and review the remuneration system to ensure the system operates as intended.
- Evaluate the approved persons and material risk-takers performance in light of the Bank's corporate goals, agreed strategy, objectives and business plans.
- Review and recommend remuneration for the approval of the Board.
- Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, contributions, expenses, bonuses, and other employee benefits.
- Recommend the Group Chief Executive's remuneration for the Board of Directors' approval.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate the same short-run profit but take a different amount of risk on behalf of the Bank.
- Ensure that for material risk-takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and backtesting results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses, and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

NRG Members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRG members are independent including the Chairman of the Committee. The NRG comprises the following members:

NRG member name	Appointment date	Number of meetings attended	
		2020	2019
Murad Ali Murad	20 June 2004	**5**	5
Sh Khalifa bin Duaij Al Khalifa	6 March 2011	**5**	5
Marwan Mohammed Al Saleh*	10 March 2015	**–**	–
Mohamed Abdulrahman Hussain	29 March 2017	**5**	5
Edrees Musaed Ahmad**	24 March 2020	**2**	–

The aggregate remuneration paid to NRG members during the year in the form of sitting fees amounted to BD 9,750 [2019: BD 8,750].

* Seized to be a Committee member since 24 March 2020.

** Became a Committee member since 24 March 2020 and attended all meetings during his membership.

External consultancy

A consultant was appointed during the year to develop a framework that will align employees' remuneration with the compliance of AML/CFT requirements. This alignment will be reflected in the individuals annual performance assessment in the form of specific Key Performance Indicators.

Scope of application of the remuneration policy

The variable remuneration policy is adopted on a group basis covering BBK Bahrain and BBK Kuwait. BBK India compensation practices are aligned with the Principles for Sound Compensation Practices issued by the Financial Stability Board (FSB) in April 2009 and adopted by the Reserve Bank of India. Invita and CrediMax are excluded because the remuneration guidelines are not applicable to them.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10 percent of the Bank's net profit after all required deductions in any financial year. Board remuneration is subject to approval of the shareholders in the AGM. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

Employees' variable remuneration

Variable remuneration is performance-related and consists primarily of the annual performance bonus award and long-term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRG aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short-term and long-term measures and include profitability, solvency, liquidity, and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures including forward-looking considerations.

The NRG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRG demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings and risk profile. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRG.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control and support functions

The remuneration level of employees in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment, apart from value-adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, and market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRG considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken.

(b) The cost and quantity of the liquidity risk assumed in the conduct of business.

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or claw back of previous variable awards may be considered.

The NRG, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of non-cash awards.
- Recovery through malus and claw back arrangements.

Malus and claw back framework

The Bank's malus and claw back provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual performance has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and claw back provisions allow the Bank's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Claw back can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over three years.
Upfront short-term share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over three years.
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.

All deferred and long-term awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme.

All the shares and deferred cash components of the variable remuneration are being held and administered in a trust registered in the Kingdom of Bahrain.

Deferred compensation

All employees at senior management level and above or earning BD 100,000 per annum in Bahrain and overseas branches, excluding India, are subject to the following rules of deferral:

1 The Group CEO, his deputies and business line General Managers:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	40%	immediate	–	–	Yes
Deferred cash	10%	3 years	–	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2 All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	50%	immediate	–	–	Yes
Upfront share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRG, based on its assessment of role profile and risk taken by an employee, could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2020 BD '000	2019 BD '000
Sitting fees and travel allowance	**66,255**	87,850
Remuneration*	**649,500**	585,000
Others	**9,636**	27,850

* The amount received during the year for the performance of the previous year.

(b) Board of Directors of subsidiaries

	2020 BD '000	2019 BD '000
Sitting fees and travel allowance	**8,400**	6,300
Remuneration*	**110,999**	108,300
Others	**–**	–

(c) Employees

1 Employee remuneration

BD 000's	2020									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	**13**	**2,408**	**–**	**–**	**594**	**18**	**96**	**580**	**–**	**3,696**
Approved Persons Control and support	**12**	**1,594**	**–**	**–**	**385**	**65**	**-**	**268**	**–**	**2,311**
Other material risk-takers	**34**	**3,121**	**–**	**–**	**601**	**110**	**13**	**504**	**–**	**4,349**
Other Staff Bahrain Operations	**556**	**12,702**	**–**	**–**	**1,799**	**–**	**–**	**–**	**–**	**14,501**
Other Staff Branches and Subsidiaries	**769**	**9,424**	**–**	**–**	**640**	**–**	**–**	**–**	**–**	**10,064**
Total	**1,384**	**29,249**	**–**	**–**	**4,019**	**193**	**110**	**1,351**	**–**	**34,922**

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

Other adjustments to staff cost accruals amounting to BD 394,906 have not been included in the table above.

Board Remuneration paid during 2020 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 180,454 have been included in the table above.

BD 000's	2019									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	15	2,927	–	–	1,128	17	193	1,066	–	5,331
Approved Persons Control and support	9	1,450	–	–	486	80	-	345	–	2,361
Other material risk-takers	34	3,153	–	–	697	127	15	585	–	4,577
Other Staff Bahrain Operations	573	13,519	–	–	2,928	–	–	–	–	16,448
Other Staff Branches and Subsidiaries	761	8,922	–	–	724	–	–	–	–	9,646
Total	1,392	29,970	–	–	5,964	224	209	1,996	–	38,363

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

Adjustment to the accrual of Variable Pay equivalent to BD 138,086 has been included in the table above.

Other Indirect staff cost amounting to BD 192,795 has not been included in the table above.

Board Remuneration and Sitting Fees received during 2019 by Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 283,197 have been included in the table above.

2 Deferred awards

	2020			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	**596**	**15,743,685**	**6,753**	**7,349**
Awarded during the period*	**110**	**3,058,657**	**1,545**	**1,661**
Paid out/released during the period	**(197)**	**(4,881,346)**	**(2,041)**	**(2,238)**
Service, performance and risk adjustments	**–**	**43,892**	**–**	**–**
Bonus share adjustment	**–**	**551,562**	**–**	**–**
Closing balance	**509**	**14,516,450**	**6,257**	**6,772**

* The number of shares for the 2020 Deferred Awards has been calculated using the year-end closing share price at BD 0.505 fils per share, as the award price will be determined 14 days after the AGM.

	2019			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	595	16,829,259	6,481	7,075
Awarded during the period**	209	4,460,510	2,230	2,439
Paid out/released during the period	(207)	(5,546,084)	(1,958)	(2,165)
Service, performance and risk adjustments	–	–	–	–
Bonus share adjustment	–	–	–	–
Closing balance	596	15,743,685	6,753	7,349

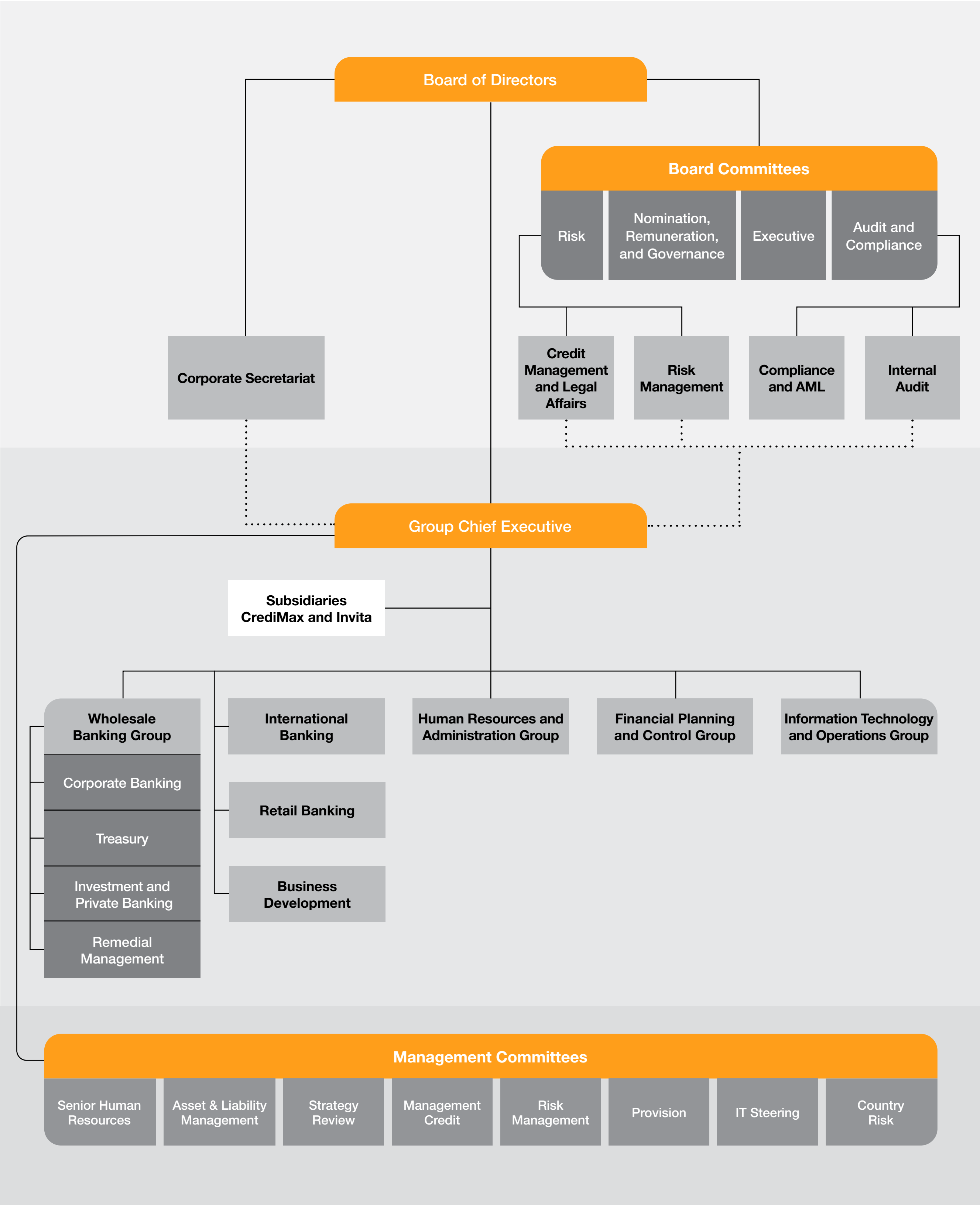
** The number of shares for the 2019 Deferred Awards have been recomputed based on the share price 14 days after the AGM of the Bank at BD 0.5 per share, and updated for the actual awards distributed to staff during 2019.

In the case of long-term incentive plan awards, the shares awarded have been included for the purposes of the table above, assuming the probability of vesting.

Information on share awards included above also include components of long-term performance-based incentive awards (LTIP shares). The amounts included in the tables are based on total awards granted for the performance year and may not necessarily match the accounting charge which factors probability of vesting.

Organisation information

Organisation structure



Executive management interests

The number of shares and bonds held by members of the Executive Management team as of 31 December 2020 was as follows:

Name	Type of shares	31 Dec 2020	31 Dec 2019	Bonds	
				31 Dec 2020	31 Dec 2019
Abdulrahman Ali Saif	Ordinary	**979,893**	532,237	**–**	–
Hassaan Mohammed Burshaid	Ordinary	**486,318**	463,160	**–**	–
Mohammed Abdulla Isa	Ordinary	**183,750**	175,000	**–**	–
Hassan Mohamed Abouzeid	Ordinary	**–**	–	**–**	–
Nadeem A. Aziz Kooheji	Ordinary	**160,102**	54,927	**–**	–
Rashad Ahmed Akbari	Ordinary	**689,243**	530,000	**–**	–
Adel Abdulla Salem	Ordinary	**82,425**	–	**–**	–
Raj Dugar	Ordinary	**103,180**	94,405	**–**	–
Ajay Jaiswal	Ordinary	**–**	46,899	**–**	–
Mohamed Ahmed Noor AlRayes	Ordinary	**8,054**	–	**–**	–
Hussain A.Majeed Toorani	Ordinary	**5,205**	–	**–**	–
Alexandar Ewan Stirling	Ordinary	**–**	–	**–**	–

Executive Senior Management trading of the Bank's shares and bonds during 2020

Name	Trading through Bahrain Bourse	Date of trading
Ajay Jaiswal	Sold 49,243 shares	22 April 2020

Management Committees

Management Committees are chaired by the Group Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Senior Human Resources Committee - SHRC	Establishes appropriate policies, procedures, and guidelines for the management of human resources.	Once every other month
Asset and Liability Management - ALMC	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year
Management Credit Committee - MCC	Approves credit and investment proposals above a specific limit. Also reviews and recommends any proposal is requiring Executive Committee or Board approval.	Once a week
Risk Management - RMC	Identifies, measures, monitors, and controls risk by establishing risk policies and procedures.	Once every quarter
Provision Committee - PC	Reviews and establishes provisioning requirements for loans, advances, and investments.	Once every quarter
IT Steering Committee	Direct, review, and approve IT strategic plans, oversee major initiatives, prioritizes initiatives across the Bank as a whole, and review/assess the Bank's technology maturity on an ongoing basis.	Every two months
Country Risk Committee - CRC	Reviews and approves the country wise strategy and exposure limits for currency, industry sector, type, secured/unsecured exposures.	Minimum 6 meetings in a year

Major BBK shareholdings as of 31 December 2020

The company's ownership in other companies listed on the Bahrain Bourse (5% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2020	Number of shares 31 Dec 2019
Bahrain Kuwait Insurance (BKIC)	Bahrain	BSC	2006	6.82	**9,759,636**	9,759,636
SICO	Bahrain	BSC (c)	2006	7.91	**33,896,140**	33,896,140
Bahrain Commercial Facilities Company	Bahrain	BSC	1994	23.03	**47,023,363**	47,023,363

Major shareholders of the company's outstanding shares (5% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2020	Number of shares 31 Dec 2019
Ithmaar Holding B.S.C.	Bahrain	BSC	2008	26.06	**354,833,086**	337,936,273
Social Insurance Organization (Pension Fund Commission)	Bahrain	Governmental Institution	1986	19.27	**262,441,331**	249,944,126
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	19.20	**261,419,723**	248,971,165
Social Insurance Organization (GOSI)	Bahrain	Governmental Institution	1986	13.70	**186,527,785**	177,645,510

The Bank's holdings in other companies (Quoted / unquoted in / out Kingdom of Bahrain) (10% and above):

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2020	Number of shares 31 Dec 2019
CrediMax	Bahrain	BSC (c)	1999	100.00	**10,000,000**	10,000,000
Invita	Bahrain	BSC (c)	2006	100.00	**1,000,000**	1,000,000
Global Payment Services (1)	Bahrain	WLL	2005	70.00	**12,728**	10,000
The Benefit Company	Bahrain	BSC (c)	1997	22.00	**6,843**	6,843
Naseej Company	Bahrain	BSC	2009	15.15	**130,909,096**	130,909,096
Alosra Bank	Bahrain	BSC	2009	10.00	**2,000,000**	2,000,000
Diyaar Al Harameen Al Ola Limited	Cayman Islands	WLL	2011	35.00	**16,450,000**	16,450,000
BBK Geojit Securities KSC	Kuwait	KSC	2012	40.00	**2,000,000**	2,000,000
Invita – Kuwait (2)	Kuwait	KSC(c)	2014	60.00	**600,000**	600,000
Aegila Capital Management Limited	United Kingdom	LTD	2015	50.00	**2,800,000**	2,500,000
Bahrain Liquidity Fund	Bahrain	LTD	2016	24.27	**9,046**	9,046
Magnum Partners Holding Limited	United States of America	LTD	2018	49.96	**6,958,001**	6,958,001
Evoque Holdings Jersey Limited	United States of America	LTD	2018	24.99	**6,082,500**	6,082,500
LSE Jersey Holdings Limited Partnership	United States of America	LTD	2019	45.00	**1**	1
Invita Claims Management Company (2)	Bahrain	BSC (c)	2017	70.00	**350,000**	350,000

(1) Shareholding through CrediMax.
(2) Shareholding through Invita

BBK offices and overseas branches

For contact details of our local and international offices and branches, please visit our website www.bbkonline.com.
The Bank is headquartered in Bahrain and also operates in Dubai, Turkey, Kuwait and India.

Part III

Financial information

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Net interest income
BD millions

Total equity
BD millions

Customer deposits
BD millions

Loans and advances
BD millions

Total assets
BD millions

The key financial indicators of the Bank remain healthy with a return on average assets of 1.3 percent and a return on average equity of 11.4 percent.

Overview

The COVID-19 pandemic resulted in unprecedented challenges and decline in profitability across various economic sectors. As a socially responsible financial institution, our priority during such a difficult time was to support our communities and our customers to alleviate the negative impact of the crisis. In addition, preserving the Group's liquidity and capital was a top priority, and the Group successfully achieved this as evident from its robust liquidity and capital indicators. The drop in profitability was anticipated and in line with the trend in the banking industry.

The Group managed to achieve a net profit, attributable to the owners of the Bank, of BD 52.0 million for the year ended 31 December 2020, representing a decrease by 31.0 percent over 2019 results.

The key financial indicators of the Group remain strong with a return on average assets of 1.3 percent and a return on average equity of 11.4 percent. Due to the drop in the profitability, the basic and diluted earnings per share also decreased from 56 fils to 39 fils. The Group managed to maintain a comfortable liquidity position this year, as its liquid assets to total assets reported at 34.8 percent by end of the year 2020 compared to 34.4 percent by end of the year 2019.

This section provides a review of our Group's financial performance, focusing on the consolidated operating results and BBK's consolidated statement of financial position, including its overseas branches, subsidiaries, joint ventures, associated companies, and indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with the International Financial Reporting Standards as modified by CBB, and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions law, and the CBB rulebook and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

Operating results

The net profit for 2020 decreased by 31.0 percent from last year, amounting to BD 52.0 million. The total operating income for the year decreased by 39.7 million or 25.1 percent (standing at BD 118.6 million), mainly due to the drop in net interest income and fees and commission due to the impact of the global pandemic, in addition to the decline in the Group's share of profit or loss from associated companies and joint ventures during the year as a result of the adverse impact of the global pandemic on the financial performance of the Bank's associated companies.

BBK's continuous investment in boosting the management of credit risk, active management of distressed exposures and step-up in remedial efforts resulted in a significant reduction in net provision charges from BD 18.9 million during 2019 to BD 5.6 million during 2020, a decrease of 70.4 percent.

Net interest income

The steep cuts of global interest rates by central banks around the world starting from the fourth quarter of 2019 resulted in a drop in net interest income by 24.7 percent to BD 80.8 million (2019: 107.3 million).

Other income

Other operating income consists of non-interest income, derived from business activities such as dealing in foreign currencies, investing in funds other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading, and income from associated companies and joint ventures.

Total other income (including share of results from associated companies and joint ventures) reported for the year 2020 stood at BD 37.8 million compared to BD 51.0 million reported for the year 2019. The net fees and commission, being the main component of total other income; stood at BD 19.6 million, compared to BD 26.6 million reported last year. The drop is mainly due to the impact of concessionary measures taken in response to the pandemic and due to the new regulations on capping fees and charges. The Bank's share of profit from associated companies and joint ventures decreased from BD 6.8 million during 2019 to a loss of BD 0.1 million during 2020 as a result of the adverse impact of the global pandemic on the financial performance of the Bank's associated companies and joint ventures. Other income relating to foreign exchange and investment income increased slightly from BD 17.6 million to BD 18.3 million during the year 2020.

Summary of the consolidated statement of profit or loss

BD millions	2020	2019	Variance BD millions	Change percent
Net interest income	**80.8**	107.3	(26.5)	-24.7%
Other income	**37.8**	51.0	(13.2)	-25.9%
Total income	**118.6**	158.3	(39.7)	-25.1%
Operating expenses	**(60.7)**	(63.2)	2.5	-4.0%
Provisions	**(5.6)**	(18.9)	13.3	-70.4%
Profit before taxation	**52.3**	76.2	(23.9)	-31.4%
Taxation/non-controlling interest	**(0.3)**	(0.8)	0.5	-62.5%
Net profit attributable to owners of the Bank	**52.0**	75.4	(23.4)	-31.0%

Operating expenses

Despite the continuous investment in human capital resources, technologies and the implementation and achievement of many strategic initiatives, the Group's operating expenses decreased by 4.0 percent, from BD 63.2 million to BD 60.7 million. Staff costs decreased by 7.9 percent, while non-staff related costs increased by 2.0 percent to reach BD 25.6 million (2019: BD 25.1 million). Nevertheless, the Bank's prudent cost control policy and strong revenue-generating capability enabled it to maintain a cost to income ratio of 51.2 percent (2019: 40.0 percent).

Net provisions

The Group follows the International Financial Reporting Standard 9 (IFRS 9) with regards to accounting for the impairment of financial assets. IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The Group applies a three-stage approach to measuring expected credit losses on financial assets carried at amortised cost and debt instruments classified as FVOCI (fair value through other comprehensive income). Assets migrate through three stages based on the significant change in credit risk since initial recognition. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the value of assets.

The net provision charges during 2020 amounted to BD 5.6 million, compared to BD 18.9 million in 2019. The decrease was due to active management of credit risk and distressed exposures and higher recovery efforts.

Comprehensive income

The Bank's total comprehensive income, attributable to the owners of the Bank, stood at BD 28.9 million for the year ended 31 December 2020, compared to BD 109.3 million for the year ended 31 December 2019. The drop is mainly due to the decrease in valuation of investment securities due to the impact of the pandemic on financial markets and lower net profit.

Financial position

The Group maintained its strong financial position and comfortable liquidity.

As at end of 2020, the total assets of the group stood at BD 3,760.4 million (2019: BD 3,865.0 million).

The Bank has been consistent in achieving a good balance between deposits and loans and advances with a comfortable ratio of net loans and advances to customer deposits of 71.8 percent as of end of 2020 (2019: 77.0 percent).

Assets

Total assets stood at BD 3,760.4 million as at 31 December 2020, a decrease of 2.7 percent over BD 3,865.0 million recorded in the previous year. Net loans and advances decreased by 6.9 percent to stand at BD 1,555.8 million (2019: BD 1,670.9 million), while the investment securities portfolio registered a healthy increase of 9.4 percent to stand at BD 957.3 million compared to BD 875.0 million as end of December 2019.

Liabilities

The funding structure of the Group remain strong with minimal reliance on the interbank market. Customer deposits remained the main source of funding, representing 66.8 percent of total liabilities. The Group continued to grow its retail customer base, increasing its retail liabilities to BD 1,053.3 million (2019: BD 901.4 million), while the total customer deposits maintained its levels to stand at BD 2,167.4 million as of end of December 2020 (2019: BD 2,169.5 million). Borrowing under repurchase agreements and term borrowings remain integral parts of the bank's medium and stable funding sources, with the former standing at BD 399.2 million at the end of the year (2019: BD 313.4 million), and the latter standing at BD 188.5 million at the end of the year (2019: BD 333.0 million) as a result of repayment of USD 400 million senior debts during the first quarter of 2020.

Consolidated statement of financial position

BD millions	2020	2019	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**256.5**	376.4	(119.9)	-31.9%
Treasury bills	**487.8**	484.4	3.4	0.7%
Deposits and amounts due from banks and other financial institutions	**318.9**	278.3	40.6	14.6%
Loans and advances to customers	**1,555.8**	1,670.9	(115.1)	-6.9%
Investment securities	**957.3**	875.0	82.3	9.4%
Investments in associated companies and joint ventures	**65.5**	70.6	(5.1)	-7.2%
Interest receivable, derivative and other assets	**83.1**	74.2	8.9	12.0%
Premises and equipment	**35.5**	35.2	0.3	0.9%
Total assets	**3,760.4**	3,865.0	(104.6)	-2.7%
Liabilities and Equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**330.3**	363.1	(32.8)	-9.0%
Borrowings under repurchase agreement	**399.2**	313.4	85.8	27.4%
Term borrowings	**188.5**	333.0	(144.5)	-43.4%
Customers' current, savings and other deposits	**2,167.4**	2,169.5	(2.1)	-0.1%
Interest payable, derivative and other liabilities	**160.5**	139.0	21.5	15.5%
Total liabilities	**3,245.9**	3,318.0	(72.1)	-2.2%
Equity attributable to the owners of the Bank	**511.8**	543.9	(32.1)	-5.9%
Non-controlling interests	**2.7**	3.1	(0.4)	-12.9%
Total equity	**514.5**	547.0	(32.5)	-5.9%
Total liabilities and equity	**3,760.4**	3,865.0	(104.6)	-2.7%

Capital adequacy

The Bank has implemented the Basel III framework for the calculation of capital adequacy since January 2015, in accordance with Central Bank of Bahrain guidelines.

Total equity, attributable to the owners of the Bank, stood at BD 511.8 million at the end of 2020 (2019: BD 543.9 million). The decrease of 5.9 percent is mainly attributed to the negative valuation of investment securities due to market volatility and the impact of the concessionary measures taken in response to the pandemic to support Bahraini citizens and companies in addition to the dividend payments during the year. The Bank maintained its capital adequacy ratio at 21.8 percent, compared to 21.7 percent at the end of the previous year, well above CBB's minimum regulatory requirement of 14.0 percent for Domestic Systemically Important Banks (D-SIBs). The Group is keen to maintain strong capitalisation to support future strategic plans, through adoption of dynamic profit retention policy.

Maintaining such healthy ratio is a result of our sustained culture of superior performance, our widespread participation in both local and international markets, and excellent customer service, which enables us to sustain the momentum we have built over the years and to enhance value for shareholders.

Building a better working world

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Expected credit loss on loans and advances

Key audit matter	How the key audit matter was addressed in the audit
The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 – Financial Instruments ("IFRS 9") is a significant and complex area. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. The key areas of judgement applied by the management in the determination of the ECL include: • Determining whether the risk of default on a customer has increased significantly, specifically as a result of regulatory payment holidays due to COVID-19 provided by the Group; • Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables; • Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models; and • The effects of COVID-19 pandemic impacting the management's determination of ECL as it required the application of a significant level of judgment and estimation uncertainty, which may materially change the estimates of ECL for Stage 1 and Stage 2 in future periods. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition to the impact of the COVID-19 pandemic and the Group's exposure to loans and advances, which account for 41% of the Group's total assets, the audit of ECL for loans and advances is a key area of focus.	Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. With the involvement of our internal specialists, our key audit procedures focused on the following: • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including approvals for any changes to the model, ongoing monitoring/validation, model governance and mathematical accuracy. We have also tested the completeness and accuracy of the data used in the measurement of the ECL. • We assessed: - the Group's IFRS 9 based ECL policy including the Group's determination of the significant increase in credit risk and its' impact on the staging criteria with the requirements of IFRS 9 and regulatory guidelines issued in relation to COVID-19; and - the basis of determination of the management overlays considering the impact of the COVID-19 pandemic against the requirements of the Group's ECL policy. • We evaluated the key management assumptions related to the determination of the future macroeconomic scenarios including forward-looking information and assigning probability weights, incorporating considerations for the impact of COVID-19.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS continued

Expected credit loss on loans and advances continued

Key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2020, the Group's gross loans and advances amounted to BD 1,648.2 million and the related ECL amounted to BD 92.4 million, comprising BD 29.1 million of ECL against Stage 1 and 2 exposures and BD 63.3 million against exposures classified under Stage 3. Refer to the summary of significant accounting policies, estimates and judgments applied in the measurement of the ECL, disclosures of loans and advances and credit quality in notes 3, 7 and 33 to the consolidated financial statements.	• We reviewed a sample of credit files and performed procedures to assess: - timely identification of exposures with a significant increase in credit risk and evaluated the Group's staging keeping in view the effects of COVID-19; - the process of collateral valuation; and - the ECL recalculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and advances as per the applicable financial reporting standards.

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by the CBB and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain Rule Book, we report that:

(a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

(b) the financial information contained in the report of the Board of Directors' is consistent with the consolidated financial statements;

(c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

(d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Mr. Essa Al-Jowder.

Ernst + Young

Partner's registration no. 45
15 February 2021
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2020

	Notes	2020 BD millions	2019 BD millions
ASSETS			
Cash and balances with central banks	4	**256.5**	376.4
Treasury bills	5	**487.8**	484.4
Deposits and amounts due from banks and other financial institutions	6	**318.9**	278.3
Loans and advances to customers	7	**1,555.8**	1,670.9
Investment securities	8	**957.3**	875.0
Investments in associated companies and joint ventures	9	**65.5**	70.6
Interest receivable, derivative and other assets	10	**83.1**	74.2
Premises and equipment	11	**35.5**	35.2
TOTAL ASSETS		**3,760.4**	3,865.0
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**330.3**	363.1
Borrowings under repurchase agreement		**399.2**	313.4
Term borrowings	12	**188.5**	333.0
Customers' current, savings and other deposits	13	**2,167.4**	2,169.5
Interest payable, derivative and other liabilities	14	**160.5**	139.0
Total liabilities		**3,245.9**	3,318.0
Equity			
Share capital	15	**136.2**	129.7
Treasury stock	15	**(5.2)**	(5.2)
Share premium	15	**105.6**	105.6
Statutory reserve	15	**66.8**	61.6
General reserve	15	**61.6**	54.1
Cumulative changes in fair values	16	**(11.4)**	11.2
Foreign currency translation adjustments		**(12.8)**	(12.2)
Retained earnings		**125.6**	144.6
Proposed appropriations	17	**45.4**	54.5
Attributable to the owners of the Bank		**511.8**	543.9
Non-controlling interests		**2.7**	3.1
Total equity		**514.5**	547.0
TOTAL LIABILITIES AND EQUITY		**3,760.4**	3,865.0

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of profit or loss

For the year ended 31 December 2020

	Notes	2020 BD millions	2019 BD millions
Interest and similar income	18a	**137.7**	176.4
Interest and similar expense	18b	**(56.9)**	(69.1)
Net interest and similar income		**80.8**	107.3
Fee and commission income – net	19	**19.6**	26.6
Investment and other income	20	**18.3**	17.6
TOTAL OPERATING INCOME		**118.7**	151.5
Staff costs		**(35.1)**	(38.1)
Other expenses		**(25.6)**	(25.1)
TOTAL OPERATING EXPENSES		**(60.7)**	(63.2)
Total provisions – net	21	**(5.6)**	(18.9)
NET OPERATING INCOME		**52.4**	69.4
Share of (loss)/profit from associated companies and joint ventures	9	**(0.1)**	6.8
PROFIT FOR THE YEAR BEFORE TAX		**52.3**	76.2
Tax write-back/(expense)	22	**0.3**	(0.2)
PROFIT FOR THE YEAR AFTER TAX		**52.6**	76.0
Attributable to:			
Owners of the Bank		**52.0**	75.4
Non-controlling interests		**0.6**	0.6
		52.6	76.0
Basic and diluted earnings per share (BD)	23	**0.039**	0.056

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020 BD millions	2019 BD millions
Profit for the year		**52.6**	76.0
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to profit or loss			
Fair value through other comprehensive income (equity instruments)		**0.8**	7.6
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
Foreign currency translation adjustments		**(0.6)**	(0.5)
Movement in hedging reserve:			
Effective portion of changes in fair value	16	**(0.7)**	(1.1)
Movement in fair value reserve:			
Net change in fair value	16	**(19.2)**	30.6
Net amount transferred to profit or loss	16	**(3.4)**	(2.7)
Other comprehensive (loss)/income for the year		**(23.1)**	33.9
Total comprehensive income for the year		**29.5**	109.9
Attributable to:			
Owners of the Bank		**28.9**	109.3
Non-controlling interests		**0.6**	0.6
		29.5	109.9

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2020

		Attributable to the owners of the Bank												
	Notes	Share capital BD millions	Treasury stock BD millions	Perpetual tier 1 convertible capital securities BD millions	Share premium BD millions	Statutory reserve BD millions	General reserve BD millions	Cumulative changes in fair values BD millions	Foreign currency translation adjustments BD millions	Retained earnings BD millions	Proposed appropriations BD millions	Total BD millions	Non-controlling interests BD millions	Total equity BD millions
Balance at 1 January 2019		108.2	(2.5)	86.1	41.0	54.1	54.1	(25.1)	(11.7)	148.9	44.6	497.7	2.7	500.4
Profit for the year		–	–	–	–	–	–	–	–	75.4	–	75.4	0.6	76.0
Other comprehensive income		–	–	–	–	–	–	36.3	(0.5)	(1.9)	–	33.9	–	33.9
Total comprehensive income		–	–	–	–	–	–	36.3	(0.5)	73.5	–	109.3	0.6	109.9
Share-based payments	42	–	–	–	–	–	–	–	–	0.6	–	0.6	–	0.6
Distribution on perpetual tier 1 convertible capital securities	23	–	–	–	–	–	–	–	–	(3.6)	–	(3.6)	–	(3.6)
Conversion of perpetual tier 1 convertible capital securities	15	21.5	–	(86.1)	64.6	–	–	–	–	–	–	–	–	–
Dividends paid	17	–	–	–	–	–	–	–	–	(12.8)	(43.0)	(55.8)	(0.2)	(56.0)
Donations	17	–	–	–	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Movement in treasury stock	15	–	(2.7)	–	–	–	–	–	–	–	–	(2.7)	–	(2.7)
Transfer to statutory reserve	15	–	–	–	–	7.5	–	–	–	(7.5)	–	–	–	–
Proposed appropriations	17	–	–	–	–	–	–	–	–	(54.5)	54.5	–	–	–
Balance at 31 December 2019		129.7	(5.2)	–	105.6	61.6	54.1	11.2	(12.2)	144.6	54.5	543.9	3.1	547.0
Profit for the year		–	–	–	–	–	–	–	–	52.0	–	52.0	0.6	52.6
Other comprehensive loss		–	–	–	–	–	–	(22.6)	(0.6)	0.1	–	(23.1)	–	(23.1)
Total comprehensive income		–	–	–	–	–	–	(22.6)	(0.6)	52.1	–	28.9	0.6	29.5
Share-based payments	42	–	–	–	–	–	–	–	–	0.4	–	0.4	–	0.4
Modification loss net of government assistance	2.5	–	–	–	–	–	–	–	–	(20.9)	–	(20.9)	–	(20.9)
Dividends paid	17	–	–	–	–	–	–	–	–	–	(38.5)	(38.5)	(0.1)	(38.6)
Stock dividends	17	6.5	–	–	–	–	–	–	–	–	(6.5)	–	–	–
Donations	17	–	–	–	–	–	–	–	–	–	(2.0)	(2.0)	–	(2.0)
Transfer to statutory reserve	15	–	–	–	–	5.2	–	–	–	(5.2)	–	–	–	–
Transfer to general reserve	15	–	–	–	–	–	7.5	–	–	–	(7.5)	–	–	–
Movement in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(0.9)	(0.9)
Proposed appropriations	17	–	–	–	–	–	–	–	–	(45.4)	45.4	–	–	–
Balance at 31 December 2020		**136.2**	**(5.2)**	**–**	**105.6**	**66.8**	**61.6**	**(11.4)**	**(12.8)**	**125.6**	**45.4**	**511.8**	**2.7**	**514.5**

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	2020 BD millions	2019 BD millions
OPERATING ACTIVITIES			
Profit for the year before tax		**52.3**	76.2
Adjustments for non-cash items:			
Depreciation	11	**7.1**	6.1
Total provisions – net	21	**5.6**	18.9
Share of loss/(profit) from associated companies and joint ventures	9	**0.1**	(6.8)
Realised gains on sale of investment securities	20	**(3.5)**	(3.0)
Accrual on term borrowings		**12.9**	5.0
Operating profit before changes in operating assets and liabilities		**74.5**	96.4
(Increase)/decrease in operating assets			
Mandatory reserve deposits with central banks		**37.5**	(13.4)
Treasury bills having original maturity of ninety days or more		**(3.4)**	(74.0)
Deposits and amounts due from banks and other financial institutions		**22.6**	(19.6)
Loans and advances to customers		**92.1**	83.4
Interest receivable, derivative and other assets		**(7.4)**	2.5
Increase/(decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**(32.8)**	104.5
Borrowings under repurchase agreements		**85.8**	114.4
Customers' current, savings and other deposits		**(2.1)**	(205.0)
Interest payable, derivative and other liabilities		**3.0**	29.5
Income tax paid		**(0.1)**	(0.6)
Net cash flows from operating activities		**269.7**	118.1
INVESTING ACTIVITIES			
Purchase of investment securities		**(538.0)**	(407.9)
Redemption/sale of investment securities		**437.6**	372.3
Net investment in associated companies and joint ventures	9	**3.0**	(6.1)
Dividends received from associated companies and joint ventures	9	**3.1**	3.9
Purchase of premises and equipment		**(7.5)**	(13.8)
Net cash flows used in investing activities		**(101.8)**	(51.6)
FINANCING ACTIVITIES			
Payment of dividends and other appropriations	17	**(40.5)**	(57.6)
Repayment of term borrowings	12	**(144.5)**	–
Issue of term borrowings	12	**–**	188.5
Distribution on perpetual tier 1 convertible capital securities	23	**–**	(3.6)
Movement in treasury stock		**–**	(2.7)
Movement in share-based payments	42	**0.4**	0.6
Net cash flows (used in)/from financing activities		**(184.6)**	125.2
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(16.7)**	191.7
Foreign currency translation adjustments – net		**(2.4)**	(0.3)
Cash and cash equivalents at beginning of the year		**536.8**	345.4
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**517.7**	536.8
Additional cash flow information:			
Interest received		**138.3**	176.4
Interest paid		**65.7**	69.2

The attached notes 1 to 49 form part of these consolidated financial statements

1 ACTIVITIES

Bank of Bahrain and Kuwait B.S.C. ("BBK" or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration ("CR") number 1234 dated 16 March 1971. The Bank operates in the Kingdom of Bahrain under a conventional retail banking license issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India. It also engages in credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 15 February 2021.

2 BASIS OF PREPARATION

2.1 Framework and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the CBB, including CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, required the adoption of all International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, directly in equity instead of profit or loss as required by IFRS 9 – Financial Instruments ("IFRS 9"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and

(b) recognition of financial assistance received from the government and/or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20").

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as "IFRS as modified by CBB", which has been applied retrospectively and did not result in any change to the financial information reported for the comparative year.

For the purpose of these consolidated financial statements, the financial information of the Bank's subsidiaries has been adjusted to align with the above framework.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with IFRS as issued by IASB. However, except for the above mentioned modifications to accounting policies and in note 3.2, all other accounting policies remain the same and have been consistently applied in the preparation of these consolidated financial statements. The change in accounting policies, as explained above, did not result in any change to the financial information reported for the comparative year.

2.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS as modified by the CBB and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

2.3 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at fair value through other comprehensive income (FVOCI), trading investments and financial assets designated at fair value through profit or loss (FVTPL), that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars, which is also the functional and presentation currency of the Bank. Furthermore, all values are rounded-off to the nearest millions, except where otherwise indicated.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"). The year end of the Bank and all of its subsidiaries is 31 December. The Bank has following principal subsidiaries:

Held directly by the Bank	Ownership 2020	Ownership 2019	Country of incorporation	Activity
CrediMax B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Credit card operations
Invita Company B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Business process outsourcing services

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

Held indirectly by the Bank	Effective ownership 2020	Effective ownership 2019	Subsidiary held through	Country of incorporation	Activity
Global Payment Services W.L.L.	**70%**	55%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Cards processing and backup services
Invita Kuwait K.S.C.C.	**60%**	60%	Invita Company B.S.C. (c)	State of Kuwait	Business processing and outsourcing services
Invita Claims Management Company	**70%**	70%	Invita Company B.S.C. (c)	Kingdom of Bahrain	Third party administrators services

During the year, the Bank and Ithmaar Holdings B.S.C. ("Ithmaar Holding") executed a memorandum of understanding ("MOU") to streamline the formal process of the potential acquisition by the Bank of certain assets belonging, directly or indirectly, to Ithmaar Holding. It should be emphasised that the spirit of the MOU is mostly not legally binding and its general terms will only be executed after obtaining all the required internal and external approvals, including regulatory authorisation. Subsequent to 31 December 2020, the Bank has appointed the main financial advisor to start the due diligence, which is under progress.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

2 BASIS OF PREPARATION continued

2.4 Basis of consolidation continued

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed-off during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.5 Accounting for modified financing assets and government grants

During the year, based on a regulatory directive issued by the CBB (refer note 2.1) as concessionary measures to mitigate the impact of COVID-19, and similar directive issued by the Central Bank of Kuwait, the one-off modification losses amounting to BD 24.5 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognised directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD 789.8 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD 3.6 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the governments and/or regulators, in response to its COVID-19 support measures, has been recognised directly in equity.

The net debit of BD 20.9 million to the Group's consolidated statement of changes in equity includes one-off modification losses of BD 3.5 million and financial assistance from government amounting to BD 0.4 million, as a result of equity accounting of the Group's investment in an associated company.

3 ACCOUNTING POLICIES

3.1 New standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted. The Group will not be affected by these amendments on the date of transition.

Amendments to IAS 37 – Onerous Contracts: – Cost of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (IBOR reform phase 2)

On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The impact of the replacement of interbank offered rates with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past FY2021, when it is likely that these IBORs will cease being published or any subsequent timeline as determined by the relevant bodies. The Group is currently assessing the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

Annual improvements 2018-2020 cycle

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter;
- IFRS 9 Financial Instruments – Fees in the '10 percent' Test for Derecognition of Financial Liabilities;
- IAS 41 Agriculture – Taxation in Fair Value Measurements; and
- Illustrative Examples accompanying IFRS 16 Leases – Lease Incentives.

These improvements are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group will not be affected by these amendments on the date of initial application.

3.2 New standards and interpretations issued and effective

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year, except the change in framework as set out in note 2.1 and for the adoption of the following new standards or amendments to existing standards, applicable to the Group, which are effective for annual periods beginning on or after 1 January 2020:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)

IBOR reform phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether an economic relationship exists and whether prospectively the hedging relationship is expected to be effective. The Group has not yet converted majority of its hedging instruments from LIBOR to an alternate benchmark rates as of the reporting date.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The above new standards, interpretations and amendments to IFRSs which were effective for annual accounting periods starting from 1 January 2020, did not have any material impact on the accounting policies, financial position or performance of the Group.

3.3 Summary of significant accounting policies

(a) Financial assets and financial liabilities

(i) Recognition and initial measurement

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(a) Financial assets and financial liabilities continued

(ii) Classification continued

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(b) Deposits and amounts due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges (if any), less any amounts written-off and related expected credit losses.

(c) Loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method, and adjusted for effective fair value hedges (if any) and net of interest suspended, expected credit losses and any amounts written-off.

(d) Investment securities

The investment securities includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are carried at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest rate method;
- Expected Credit Loss (ECL) allowances and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is impaired or derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to statement of profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of the investment.

(e) Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained above.

(f) Impairment of financial assets

The Group recognises allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Loans and advances at amortised cost;
- Financial guarantee contracts issued; and
- Loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

(g) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

(i) Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

(ii) Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

(iii) Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

(iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the IFRS 9 provision results from a two-step approach:

As step 1, the facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

As step 2, the expected credit loss is calculated i.e., 12-month expected loss for all facilities in Stage 1 and lifetime expected credit loss for all facilities in Stage 2. The facilities in Stage 3 are covered by specific provisions.

Refer to note 33 for further details.

(h) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Bahrain), is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields; or
- The rating agencies' assessments of creditworthiness.

The exposure to the home country sovereign i.e. Bahrain is considered to be low risk and fully recoverable. Refer to note 33 for further details.

(i) Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of such assets;
- Loan commitments and financial guarantee contracts as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified the ECL on the loan commitment/off-balance sheet component separately from those on the drawn component, the Group presents a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of such assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve as a provision.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(j) Write-off

Loans and debt securities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(k) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any ECL is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Refer to note 33.3 (e) and note 34 for further details.

(l) Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Investment in associated companies and joint ventures

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

Subsequently, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. It is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the consolidated statement of profit or loss.

(n) Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life. The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Properties and buildings	4 to 35 years
- Furniture and equipment	3 to 5 years
- Motor vehicles	4 years

(o) Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

(p) Deposits

These are carried at amortised cost, less amounts repaid.

(q) Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded as interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest or similar income'.

(r) Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

In India, the Bank makes provision for income tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through deferred tax asset (DTA)/deferred tax liability (DTL). Current tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under after considering the contested past adjustments on a prudent basis based on management estimates.

(s) Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each jurisdiction where the Group operates.

(t) Share-based payment transactions

For equity-settled shared-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) and the costs to settle the obligation are both probable and able to be reliably measured.

(v) Treasury stock

Treasury stock is deducted from equity and is stated at consideration paid. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

(w) Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(x) Perpetual tier 1 capital securities

Perpetual tier 1 capital securities of the Group are recognised under equity in the consolidated statement of financial position and the corresponding distribution on those securities are accounted as a debit to retained earnings.

(y) Proposed dividends

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

(z) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'interest payable, derivative and other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss on a straight line basis over the life of the guarantee.

(aa) Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'interest receivable, derivative and other assets' and derivatives with negative market values are included in 'interest payable, derivative and other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

(ab) Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project. The Group has adopted IFRS 9 hedge accounting and has determined that all hedge relationships that were designated as effective hedging relationships under IAS 39 would continue to qualify for hedge accounting under IFRS 9.

At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

Classification of hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(ab) Hedge accounting continued

(ii) Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of any gain or loss on the hedging instrument, that is determined to be an effective hedge is recognised initially in the consolidated statement of changes in equity and the ineffective portion is recognised in the consolidated statement of profit or loss.

The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss.

Discontinuation of hedges

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation, any subsequent changes in fair value of the hedging instrument are recognized in the consolidated statement of profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in the consolidated statement of changes in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

(ac) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

(ad) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

(ae) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by ninety days or more). Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

The Group's revenue contracts do not include multiple performance obligations. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees and commissions that are linked to certain performance obligations are recognised after fulfilling those obligations.

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The fee and commission linked to performance obligation include fees earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

The Group recognises dividend income when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa), the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

(af) Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are recorded in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign operation. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of profit or loss are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

(ag) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less. These cash and cash equivalent are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

(ah) Leases – Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated statement of financial position.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

(ai) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. Refer to note 2.1 and 2.5 for additional details.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3.4 Significant accounting judgment and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates were as follows:

(i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values. These judgment include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(iii) Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

(iv) Measurement of ECL

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- The Group calculates PiT PD estimates under three scenarios, a best case, base case and worst case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

Refer to note 33 for further details.

(v) Impact of COVID-19

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In addition, the Group's operations are mainly based in economies that are relatively more dependent on the price of crude oil and natural gas. During the year, oil prices have witnessed unprecedented volatility and the overall average reduction in prices is expected to have medium to long term adverse consequences on economies.

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programme besides infusing significant liquidity into the economy.

3 ACCOUNTING POLICIES continued

3.4 Significant accounting judgment and estimates continued

(v) Impact of COVID-19 continued

In preparing the consolidated financial statements, significant judgments were made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The COVID-19 pandemic significantly impacted the Group's determination of allowance for credit losses and required the application of heightened judgment. Measures to contain the COVID-19 pandemic have sharply curtailed economic activity in many countries, resulting in unprecedented declines in GDP and a substantial increase in unemployment starting in the spring of 2020. Significant fiscal and monetary policy stimulus, as well as bank-led deferral programs have generally supported lower defaults during the year. However, a resurgence of virus spread and re-imposition of containment measures to varying degrees in some regions, along with the tapering off of certain elements of fiscal support, has raised further uncertainty with regards to the timing and extent of recovery. As there is uncertainty as to how containment and support measures will evolve and the inputs used are inherently subject to change, which may materially change the Group's estimate of Stage 1 and Stage 2 allowance for credit losses in future periods.

The Group has also considered the various regulatory circulars and guidance issued by the IASB. These involved adjusting the macroeconomic factors used by the Group in estimation of ECL and revisions to the scenario probabilities that were previously being used in the ECL estimation.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

During the year, and based on regulatory directives as concessionary measures to mitigate the impact of the pandemic, the Group has provided payment holidays to financing customers without charging additional interest for its impacted customers by deferring interest for a period of six months. Further, the Group has provided additional instalment deferral with interest, as directed by regulators. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that payment holidays do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to all eligible customers.

To address the uncertainties in the current timeframe not captured in the modelled results, the management applied expert credit judgment in determining SICR since origination and weighted allowance for credit losses. In light of the significant uncertainty, the impact of expert credit judgment on allowances increased as compared to the previous year. Management also applied quantitative and qualitative adjustments for the impacts of the unprecedented macroeconomic scenarios arising from the COVID-19 pandemic, the temporary effects of the bank and government led payment support programs which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by the COVID-19 pandemic.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2020 BD millions	2019 BD millions
Cash in hand and vaults	**20.3**	21.2
Current accounts and placements with central banks	**184.7**	266.2
Mandatory reserve deposits with central banks	**51.5**	89.0
	256.5	376.4

Mandatory reserve deposits are not available for use in the Group's day-to-day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of the Kingdom of Bahrain carried at amortised cost and Republic of India carried at FVOCI amounting to BD 487.8 million and BD Nil (31 December 2019: BD 482.3 million and BD 2.1 million) respectively. At 31 December 2020, treasury bills issued by Government of the Kingdom of Bahrain includes short-term Islamic Sukuk amounting to BD 41.2 million (31 December 2019: 76.7 million).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 BD millions	2019 BD millions
Deposits with banks and other financial institutions	**187.9**	183.1
Nostro and other amounts due from banks	**131.2**	95.5
Less: Expected credit losses	**(0.2)**	(0.3)
	318.9	278.3

7 LOANS AND ADVANCES TO CUSTOMERS

	2020 BD millions	2019 BD millions
Loans and advances to customers at amortised cost:		
Commercial loans and overdrafts	**1,034.3**	1,229.0
Consumer loans	**613.9**	545.2
	1,648.2	1,774.2
Less: Expected credit losses	**(92.4)**	(103.3)
	1,555.8	1,670.9

Ageing analysis of past due but not impaired loans, after considering regulatory payment holidays, was as follows:

2020	Up to 30 days BD millions	31 to 60 days BD millions	61 to 89 days BD millions	Total BD millions
Commercial loans and overdrafts	**9.4**	**–**	**0.4**	**9.8**
Consumer loans	**14.3**	**4.6**	**12.8**	**31.7**
	23.7	**4.6**	**13.2**	**41.5**

2019	Up to 30 days BD millions	31 to 60 days BD millions	61 to 89 days BD millions	Total BD millions
Commercial loans and overdrafts	144.5	7.8	7.6	159.9
Consumer loans	20.0	4.8	10.5	35.3
	164.5	12.6	18.1	195.2

The distribution of loans and advances by geographic region and industry sector was as follows:

	2020 BD millions	2019 BD millions
Geographic region:		
Gulf Co-operation Council countries	**1,373.8**	1,384.9
Europe	**32.4**	123.1
Asia	**97.3**	113.5
Others	**52.3**	49.4
	1,555.8	1,670.9

	2020 BD millions	2019 BD millions
Industry sector:		
Trading and manufacturing	**477.5**	533.2
Banks and other financial institutions	**140.9**	239.1
Construction and real estate	**266.7**	262.9
Government and public sector	**14.9**	7.8
Individuals	**530.5**	501.9
Others	**125.3**	126.0
	1,555.8	1,670.9

Movements in allowances for ECL on loans and advances were as follows:

(i) Commercial loans and overdrafts

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit – impaired BD millions**	**Stage 3: Lifetime ECL credit – impaired BD millions**	**Total BD millions**
2020				
Balance at 1 January	**3.2**	**19.0**	**69.0**	**91.2**
Transferred to 12 month ECL	**0.8**	**(0.8)**	**–**	**–**
Transferred to lifetime ECL not credit-impaired	**(1.2)**	**1.2**	**–**	**–**
Transferred to lifetime ECL credit-impaired	**–**	**(1.1)**	**1.1**	**–**
Net remeasurement of loss allowance	**0.6**	**1.4**	**5.8**	**7.8**
Amounts written-off/reallocated during the year	**–**	**–**	**(17.5)**	**(17.5)**
Foreign exchange and other movements	**(0.5)**	**1.6**	**(2.2)**	**(1.1)**
Balance at 31 December	**2.9**	**21.3**	**56.2**	**80.4**
2019				
Balance at 1 January	6.3	20.8	81.7	108.8
Transferred to 12 month ECL	1.2	(0.8)	(0.4)	–
Transferred to lifetime ECL not credit-impaired	(0.3)	1.7	(1.4)	–
Transferred to lifetime ECL credit-impaired	–	(8.8)	8.8	–
Net remeasurement of loss allowance	(0.4)	(1.1)	17.3	15.8
Amounts written-off during the year	–	–	(33.6)	(33.6)
Foreign exchange and other movements	(3.6)	7.2	(3.4)	0.2
Balance at 31 December	3.2	19.0	69.0	91.2

(ii) Consumer loans

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit – impaired BD millions**	**Stage 3: Lifetime ECL credit – impaired BD millions**	**Total BD millions**
2020				
Balance at 1 January	**1.7**	**2.6**	**7.8**	**12.1**
Transferred to 12 month ECL	**0.6**	**(0.6)**	**–**	**–**
Transferred to lifetime ECL credit-impaired	**–**	**(0.2)**	**0.2**	**–**
Net remeasurement of loss allowance	**1.1**	**(0.3)**	**1.1**	**1.9**
Amounts written-off during the year	**–**	**–**	**(2.0)**	**(2.0)**
Balance at 31 December	**3.4**	**1.5**	**7.1**	**12.0**
2019				
Balance at 1 January	5.1	4.7	5.5	15.3
Transferred to 12 month ECL	0.7	(0.7)	–	–
Transferred to lifetime ECL not credit-impaired	(0.1)	0.1	–	–
Transferred to lifetime ECL credit-impaired	–	(0.5)	0.5	–
Net remeasurement of loss allowance	–	(0.8)	1.4	0.6
Amounts written-off during the year	–	–	(3.7)	(3.7)
Foreign exchange and other movements	(4.0)	(0.2)	4.1	(0.1)
Balance at 31 December	1.7	2.6	7.8	12.1

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be credit impaired at 31 December 2020 amounts to BD 71.8 million (31 December 2019: BD 54.8 million).

At 31 December 2020, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 89.4 million (31 December 2019: BD 93.4 million). These mainly consists of Murabaha and Ijarah financing facilities.

At 31 December 2020, interest in suspense for past due loans that are credit impaired was BD 24.1 million (31 December 2019: BD 19.5 million).

8 INVESTMENT SECURITIES

31 December 2020	FVTPL BD millions	FVOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	**–**	**375.1**	**14.4**	**389.5**
Other bonds	**–**	**350.9**	**–**	**350.9**
Equities	**–**	**43.3**	**–**	**43.3**
	–	**769.3**	**14.4**	**783.7**
Unquoted investments:				
Government bonds	**–**	**–**	**146.6**	**146.6**
Equities	**–**	**27.0**	**–**	**27.0**
Managed funds	**0.7**	**–**	**–**	**0.7**
	0.7	**27.0**	**146.6**	**174.3**
	0.7	**796.3**	**161.0**	**958.0**
Less: Expected credit losses	**–**	**(0.7)**	**–**	**(0.7)**
	0.7	**795.6**	**161.0**	**957.3**

31 December 2019	FVTPL BD millions	FVOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	–	334.2	19.5	353.7
Other bonds	–	326.8	–	326.8
Equities	–	42.1	–	42.1
	–	703.1	19.5	722.6
Unquoted investments:				
Government bonds	–	–	126.0	126.0
Equities	–	26.2	–	26.2
Managed funds	0.7	–	–	0.7
	0.7	26.2	126.0	152.9
	0.7	729.3	145.5	875.5
Less: Expected credit losses	–	(0.5)	–	(0.5)
	0.7	728.8	145.5	875.0

* At 31 December 2020, investment securities include government and other bonds of BD 534.4 million (31 December 2019: BD 409.1 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2020, investment securities include long-term Islamic Sukuk amounting to BD 94.7 million (31 December 2019: BD 90.4 million) and Islamic equity amounting to BD 1.2 million (31 December 2019: BD 0.6 million).

Movements in allowances for ECL on investment securities (government and other bonds at FVOCI or amortised cost) were as follows:

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit – impaired BD millions	Stage 3: Lifetime ECL credit – impaired BD millions	Total* BD millions
2020				
Balance at 1 January	**0.2**	**0.3**	**–**	**0.5**
Net remeasurement of loss allowance	**–**	**0.2**	**–**	**0.2**
Balance at 31 December	**0.2**	**0.5**	**–**	**0.7**
2019				
Balance at 1 January	0.1	0.3	–	0.4
Net remeasurement of loss allowance	0.1	–	–	0.1
Balance at 31 December	0.2	0.3	–	0.5

The loss allowance of the FVOCI is not recognised in the consolidated statement of financial position because the carrying amount of debt investment securities at FVOCI is at their fair value.

* This includes ECL on government and other bonds measured at amortised cost of BD 0.005 million (31 December 2019: BD 0.005 million).

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2019: 23.03%) equity interest in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 22% (2019: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40% (2019: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2019: 24.27%) stake in Bahrain Liquidity Fund, an investment vehicle established in the Kingdom of Bahrain to enhance liquidity in the market and to close the valuation gap between securities listed on Bahrain Bourse and their regional peers.

The Group has a 50% (2019: 50%) stake in Aegila Capital Management Limited, a joint venture company incorporated in the United Kingdom which is engaged in capital market advisory services for alternative investments with particular focus in the real estate.

The Group has a 49.96% (2019: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

The Group has a 24.99% (2019: 24.99%) stake in Evoque Holdings Jersey Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Germany.

The Group has a 45% (2019: 45%) stake in LSE Jersey Holdings Limited Partnership, a joint venture partnership registered in Jersey to facilitate the indirect real estate investment in the United Kingdom.

	2020 BD millions	2019 BD millions
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**70.6**	62.9
Additional contribution and acquisitions	**0.1**	7.1
Share of (loss)/profit for the year	**(0.1)**	6.8
Dividends received	**(3.1)**	(3.9)
Change in unrealised fair values – associated companies (note 16)	**(0.7)**	(1.1)
Foreign currency translation adjustments	**1.8**	(0.2)
Other equity movements/capital distribution	**(3.1)**	(1.0)
At 31 December	**65.5**	70.6

The following table illustrates the summarised most recent available financial information of the Group's interest in its non-material associated companies and joint ventures:

	2020 BD millions	2019 BD millions
Financial position related information		
Total assets	**76.0**	75.0
Total liabilities	**48.7**	36.0
Profit or loss related information		
Revenue	**3.7**	2.9
Net (loss)/profit for the year	**(1.3)**	0.6
Total comprehensive (loss)/income for the year	**(2.5)**	2.3

Investment in associated companies and joint ventures includes the Group's investment in BCFC, which is considered to be a material associate. The following table illustrates the summarised financial information of the Group's investment in BCFC:

	2020 BD millions	2019 BD millions
Net interest income	**24.6**	27.6
Gross profit on automotive sales	**4.3**	6.8
Other operating income	**7.5**	13.5
Total operating income	**36.4**	47.9
Operating expenses	**(19.1)**	(22.1)
Other expenses	**(13.2)**	(5.2)
Adjusted profit for the year	**4.1**	20.6
Group's share of adjusted profit for the year	**0.9**	4.7

	2020 BD millions	2019 BD millions
Assets		
Cash and balances with banks	**9.2**	6.7
Loans and advances to customers	**286.6**	330.6
Inventories	**22.5**	27.1
Other assets	**50.5**	57.1
Total assets	**368.8**	421.5
Liabilities		
Bank overdrafts	**–**	0.1
Trade and other payables	**25.2**	26.0
Bank term loans	**209.6**	220.0
Bonds issued	**–**	20.0
Total liabilities	**234.8**	266.1
Donation reserve	**(0.5)**	(0.7)
Adjusted equity	**133.5**	154.7
Proportion of the Group's ownership	**23.03%**	23.03%
Group's share of adjusted equity	**30.7**	35.6

The figures reported above for BCFC are based on 30 September 2020 reviewed financial statements adjusted for expected performance for the last quarter ended 31 December 2020 (2019: same).

The market value of the Bank's investment in BCFC based on the price quoted in the Bahrain Bourse at 31 December 2020 is BD 24.0 million (31 December 2019: BD 38.1 million).

10 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2020 BD millions	2019 BD millions
Accounts receivable	**29.7**	27.2
Interest receivable	**19.1**	19.7
Collateral pending sale	**12.6**	12.2
Prepaid expenses	**2.3**	2.1
Deferred tax asset (note 22)	**1.6**	1.3
Positive fair value of derivatives (note 28)	**2.7**	1.3
Other assets	**15.1**	10.4
	83.1	74.2

This includes a fully provided receivable balance of BD 6.2 million (2019: Nil) pertaining to payment made by the Group on an invoked financial guarantee.

11 PREMISES AND EQUIPMENT

	Freehold land BD millions	Properties and buildings BD millions	Furniture and equipment BD millions	Right-of-use assets BD millions	Capital work in progress BD millions	Total BD millions
Cost	**8.8**	**28.7**	**54.4**	**11.1**	**0.2**	**103.2**
Less: Accumulated depreciation	**–**	**(18.2)**	**(44.9)**	**(4.6)**	**–**	**(67.7)**
Net book value at 31 December 2020	**8.8**	**10.5**	**9.5**	**6.5**	**0.2**	**35.5**

	Freehold land BD millions	Properties and buildings BD millions	Furniture and equipment BD millions	Right-of-use assets BD millions	Capital work in progress BD millions	Total BD millions
Cost	9.0	27.7	49.3	8.4	1.4	95.8
Less: Accumulated depreciation	–	(16.8)	(41.5)	(2.3)	–	(60.6)
Net book value at 31 December 2019	9.0	10.9	7.8	6.1	1.4	35.2

The depreciation charge for the year amounted to BD 7.1 million (2019: BD 6.1 million).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprised:

		Carrying amount	
Rate of interest	*Maturity*	2020 BD millions	2019 BD millions
3.50%	2020	**–**	144.5
5.50%	2024	**188.5**	188.5
		188.5	333.0

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2020 BD millions	2019 BD millions
Term deposits	**719.7**	965.1
Savings accounts	**568.9**	655.1
Current accounts	**784.5**	491.0
Other deposit accounts	**94.3**	58.3
	2,167.4	2,169.5

14 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2020 BD millions	2019 BD millions
Accrued expenses	**38.4**	49.2
Negative fair value of derivatives (note 28)	**57.9**	27.0
Interest payable	**15.2**	24.0
Accounts payable	**31.7**	20.6
Lease liability	**6.5**	6.1
Allowance for ECL on financial contracts and commitments (note 29)	**4.1**	3.3
Other liabilities	**6.7**	8.8
	160.5	139.0

15 EQUITY

(i) Share capital

	2020 BD millions	2019 BD millions
Authorised		
1,500,000,000 shares of BD 0.100 each	**150.0**	150.0
Issued and fully paid		
1,361,736,332 shares (2019: 1,296,891,745 shares) of BD 0.100 each	**136.2**	129.7

Movement of ordinary share capital was as follows:

	Number of shares	
	2020	2019
Shares at 1 January	**1,296,891,745**	1,081,647,952
Add: Issuance of stock dividend	**64,844,587**	–
Add: Conversion of perpetual tier 1 convertible capital securities	**–**	215,243,793
Shares at 31 December	**1,361,736,332**	1,296,891,745

At the Extra-Ordinary General Meeting held on 20 March 2019, the shareholders approved the conversion of the Bank's perpetual tier 1 convertible capital securities of BD 86.1 million to ordinary shares at a price of 400 fils per share effective 2 May 2019. As a result, the issued shares increased by 215,243,793 shares, the paid up capital increased by BD 21.5 million and share premium increased by BD 64.6 million.

(ii) Treasury stock

Treasury stock represents the Bank's purchase of its own shares. At the end of the year, the Bank held 12,073,869 (2019: 12,380,542) of its own shares.

	2020 BD millions	2019 BD millions
Consideration paid	**(5.2)**	(5.2)

(iii) Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB.

(iv) Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (refer to note 42).

(v) Unclaimed dividends

Following a regulatory directive issued by Bahrain Bourse per resolution no (3) of 2020, all the unclaimed dividends were transferred to a designated Bahrain Clear account held with CBB. Prior to this directive and as per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years were transferred to equity, however were available to the respective shareholders for any future claims. During the year, no amount was transferred to equity as unclaimed dividends (2019: same). The Group paid BD 0.221 million (2019: BD 0.025 million) to its shareholders from the reserve account in the equity.

(vi) Perpetual tier 1 convertible capital securities

During the year 2016, the Bank issued BD 86,098 thousand Basel III compliant Additional Tier I Convertible Perpetual Capital Securities. Distribution Payment Amounts shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Capital Securities at rate of 8.25 per cent per annum. These securities were recognised under equity in the consolidated statement of financial position. During 2019, these securities were converted into ordinary shares [refer to note 15 (i)].

(vii) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 5.2 million to statutory reserve (2019: BD 7.5 million). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(viii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. During the year, the Bank transferred BD 7.5 million to general reserve (2019: Nil). The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

16 CUMULATIVE CHANGES IN FAIR VALUES

	2020 BD millions	2019 BD millions
Fair value through other comprehensive income		
At 1 January	**11.7**	(25.7)
Transferred to retained earnings on sale/write-off of equity securities	**(0.2)**	1.9
Transferred to profit or loss on sale of investment securities (debt)	**(3.6)**	(2.8)
Transferred to profit or loss on impairment (debt)	**0.2**	0.1
Fair value changes on investment securities carried at FVOCI	**(18.3)**	38.2
At 31 December	**(10.2)**	11.7
Cash flow hedges		
At 1 January	**(0.5)**	0.6
Change in unrealised fair values	**–**	–
Change in unrealised fair values – associated companies (note 9)	**(0.7)**	(1.1)
At 31 December	**(1.2)**	(0.5)
	(11.4)	11.2

17 PROPOSED APPROPRIATIONS

	2020 BD millions	2019 BD millions
Cash dividend	**27.0**	38.5
Stock dividend	**13.6**	6.5
Transfer to general reserve [note 15 (viii)]	**2.6**	7.5
Donations	**2.2**	2.0
	45.4	54.5

The Board of Directors proposed cash dividend of BD 0.020 per share, net of treasury stock as of 31 December 2020 and a stock dividend of BD 0.010 per share (2019: final and interim cash dividends of BD 0.030 and BD 0.010 per share respectively, net of treasury stock as of 31 December 2019 and 30 June 2019 respectively, and a stock dividend of BD 0.005 per share). Further, a transfer of 5% (2019: 10%) of the Group's annual profit to general reserve amounting to BD 2.6 million (2019: BD 7.5 million) was proposed by the Board of Directors.

During the year, the Bank paid final cash dividend of BD 0.030 per share, net of treasury stock and a stock dividend of BD 0.005 per share pertaining to 2019 (2019: BD 0.040 per share pertaining to 2018 and BD 0.010 per share pertaining to 2019, net of treasury stock).

The above appropriations will be submitted for approval at the forthcoming Annual General Assembly of the Shareholders. The payment of the final cash dividend is subject to the approval of the CBB.

18 NET INTEREST AND SIMILAR INCOME

	2020 BD millions	2019 BD millions
(a) Interest and similar income		
Loans and advances to customers	**84.4**	104.4
Investment securities	**32.0**	39.8
Treasury bills	**13.1**	16.1
Deposits and amounts due from banks and other financial institutions	**8.2**	16.1
	137.7	176.4
(b) Interest and similar expense		
Customers' deposits	**(30.6)**	(44.4)
Deposits and amounts due to banks and other financial institutions	**(26.3)**	(24.7)
	(56.9)	(69.1)
	80.8	107.3

19 FEE AND COMMISSION INCOME – NET

	2020 BD millions	2019 BD millions
Fee and commission income	**35.8**	49.3
Fee and commission expense	**(16.2)**	(22.7)
	19.6	26.6

Included in fee and commission income is BD 0.03 million (2019: BD 0.02 million) relating to trust and other fiduciary activities.

20 INVESTMENT AND OTHER INCOME

	2020 BD millions	2019 BD millions
Dividend income	**2.6**	3.9
Gain on foreign exchange	**5.3**	5.9
Realised gains on investment securities	**3.5**	3.0
Income from commercial activities *	**5.3**	4.5
Other income	**1.6**	0.3
	18.3	17.6

* This represents income arising from non-financial business process outsourcing services provided by a Bank's subsidiary.

21 TOTAL PROVISIONS – NET

	2020 BD millions	2019 BD millions
Loans and advances to customers (note 7)	**9.7**	16.4
Recoveries from fully provided loans and advances written-off in previous years	**(1.7)**	(0.5)
Investment securities (note 8)	**0.2**	0.1
Off-balance sheet exposures	**(2.6)**	2.3
Collateral pending sale	**–**	0.6
	5.6	18.9

22 TAXATION

	2020 BD millions	2019 BD millions
Consolidated statement of financial position		
Deferred tax asset (note 10)	**1.6**	1.3
Consolidated statement of profit or loss		
Deferred tax write-back/(expense) on foreign operations	**0.3**	(0.2)

Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period. Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2020 is 43.68% (2019: 43.68%).

The Group is exposed to a contingent tax liability of BD 1.8 million (2019: BD 1.9 million). Based on the opinion of the management, no liability is likely to arise from these ongoing cases with local tax authorities in the relevant country of incorporation of the group entities, in accordance with the tax laws prevailing in those jurisdictions.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank by the weighted average number of shares outstanding during the year.

	2020	2019
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	**52.0**	75.4
Less: Distribution on perpetual tier 1 convertible capital securities	**–**	(3.6)
Adjusted net profit for the year attributable to the owners of the Bank	**52.0**	71.8
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,349,951,967**	1,275,713,045
Basic earnings per share (BD)	**0.039**	0.056
Weighted average number of ordinary shares adjusted for the effect of dilution, net of treasury stock, dilution, net of treasury stock, outstanding during the year	**1,349,951,967**	1,275,713,045
Diluted earnings per share (BD)	**0.039**	0.056

24 OPERATING SEGMENTS

Segment information

For management purposes, the Group is organised into four major business segments:

Retail banking

Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.

Corporate banking

Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

International banking

Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

Investment, treasury and other activities

Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

24 OPERATING SEGMENTS continued

Segment information continued

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate, which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2020 was as follows:

	Retail banking BD millions	Corporate banking BD millions	International banking BD millions	Investment, treasury and other activities BD millions	Total BD millions
Interest income	**33.1**	**31.6**	**25.6**	**47.4**	**137.7**
Interest expense	**(5.0)**	**(11.3)**	**(15.6)**	**(25.0)**	**(56.9)**
Internal fund transfer price	**(1.1)**	**(0.8)**	**2.4**	**(0.5)**	**–**
Net interest and similar income	**27.0**	**19.5**	**12.4**	**21.9**	**80.8**
Other operating income	**12.4**	**4.5**	**4.6**	**16.4**	**37.9**
Operating income before share of profit from associated companies and joint ventures	**39.4**	**24.0**	**17.0**	**38.3**	**118.7**
Total provisions – net	**(0.4)**	**(5.2)**	**0.3**	**(0.3)**	**(5.6)**
Segment result	**12.3**	**3.9**	**5.0**	**31.5**	**52.7**
Share of profit/(loss) from associated companies and joint ventures	**0.5**	**–**	**–**	**(0.6)**	**(0.1)**
Profit for the year					**52.6**
Profit attributable to non-controlling interests					**(0.6)**
Profit for the year attributable to the owners of the Bank					**52.0**
Segment assets	**683.8**	**621.7**	**785.3**	**1,555.0**	**3,645.8**
Investments in associated companies and joint ventures	**35.7**	**–**	**–**	**29.8**	**65.5**
Common assets					**49.1**
Total assets					**3,760.4**
Segment liabilities	**1,053.3**	**699.5**	**677.9**	**708.9**	**3,139.6**
Common liabilities					**106.3**
Total liabilities					**3,245.9**

Segment information for the year ended 31 December 2019 was as follows:

	Retail banking BD millions	Corporate banking BD millions	International banking BD millions	Investment, treasury and other activities BD millions	Total BD millions
Interest income	33.7	40.3	40.8	61.6	176.4
Interest expense	(5.1)	(16.4)	(15.8)	(31.8)	(69.1)
Internal fund transfer price	5.5	4.1	(4.8)	(4.8)	–
Net interest and similar income	34.1	28.0	20.2	25.0	107.3
Other operating income	19.4	3.7	5.7	15.4	44.2
Operating income before share of profit from associated companies and joint ventures	53.5	31.7	25.9	40.4	151.5
Total provisions – net	0.8	0.6	(19.6)	(0.7)	(18.9)
Segment result	25.6	17.7	(9.0)	34.9	69.2
Share of profit from associated companies and joint ventures	5.7	–	–	1.1	6.8
Profit for the year					76.0
Profit attributable to non-controlling interests					(0.6)
Profit for the year attributable to the owners of the Bank					75.4
Segment assets	629.6	620.7	1,015.4	1,476.3	3,742.0
Investments in associated companies and joint ventures	40.6	–	–	30.0	70.6
Common assets					52.4
Total assets					3,865.0
Segment liabilities	901.4	838.8	826.6	661.7	3,228.5
Common liabilities					89.5
Total liabilities					3,318.0

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located.

	Domestic BD millions	Others BD millions	Total BD millions
31 December 2020			
Net interest and similar income	**72.5**	**8.3**	**80.8**
Share of profit/(loss) from associated companies and joint ventures	**0.5**	**(0.6)**	**(0.1)**
Other operating income	**34.4**	**3.5**	**37.9**
	107.4	**11.2**	**118.6**
Non-current assets*	**87.2**	**26.4**	**113.6**

	Domestic BD millions	Others BD millions	Total BD millions
31 December 2019			
Net interest and similar income	92.9	14.4	107.3
Share of profit from associated companies and joint ventures	5.7	1.1	6.8
Other operating income	40.0	4.2	44.2
	138.6	19.7	158.3
Non-current assets*	91.3	26.7	118.0

* Non-current assets represent investments in associated companies and joint ventures, collateral pending sale, and premises and equipment.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated statement of cash flows included the following as at 31 December:

	2020 BD millions	2019 BD millions
Cash in hand and vaults (note 4)	**20.3**	21.2
Current accounts and placements with central banks (note 4)	**184.7**	266.2
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	**312.7**	249.4
	517.7	536.8

26 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associated companies and joint ventures, 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. All the loans and advances to related parties are performing and subject to ECL allowances.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2020				
Loans and advances to customers	**–**	**26.9**	**1.9**	**28.8**
Investments in associated companies and joint ventures	**–**	**65.5**	**–**	**65.5**
Customers' current, savings and other deposits	**185.4**	**0.8**	**8.5**	**194.7**
31 December 2019				
Loans and advances to customers	–	21.9	3.0	24.9
Investments in associated companies and joint ventures	–	70.6	–	70.6
Customers' current, savings and other deposits	210.4	5.1	9.1	224.6

The income and expense in respect of related parties included in the consolidated statement of profit or loss were as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2020				
Interest income	**–**	**1.0**	**–**	**1.0**
Interest expense	**5.2**	**–**	**0.1**	**5.3**
Share of loss from associated companies and joint ventures	**–**	**(0.1)**	**–**	**(0.1)**
31 December 2019				
Interest income	–	1.5	–	1.5
Interest expense	4.6	0.1	0.2	4.9
Share of profit from associated companies and joint ventures	–	6.8	–	6.8

Compensation for key management, including executive officers, comprises the following:

	2020 BD millions	2019 BD millions
Short-term employee benefits	**10.3**	10.9
Long-term employee benefits	**0.7**	1.2
	11.0	12.1

For key management personnel interest in the employee share incentive scheme, refer to note 42.

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities given below has been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2020	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	**205.0**	**–**	**–**	**–**	**205.0**	**–**	**–**	**–**	**51.5**	**256.5**
Treasury bills	**74.6**	**164.5**	**135.7**	**113.0**	**487.8**	**–**	**–**	**–**	**–**	**487.8**
Deposits and amounts due from banks and other financial institutions	**306.7**	**5.7**	**6.0**	**0.5**	**318.9**	**–**	**–**	**–**	**–**	**318.9**
Loans and advances to customers	**208.7**	**106.2**	**124.6**	**102.2**	**541.7**	**610.6**	**323.3**	**30.3**	**49.9**	**1,555.8**
Investment securities	**31.7**	**23.7**	**37.6**	**15.8**	**108.8**	**304.2**	**333.1**	**94.7**	**116.5**	**957.3**
Investments in associated companies and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65.5**	**65.5**
Interest receivable, derivative and other assets	**70.5**	**–**	**–**	**–**	**70.5**	**12.6**	**–**	**–**	**–**	**83.1**
Premises and equipment	**–**	**–**	**0.1**	**0.2**	**0.3**	**29.1**	**0.9**	**3.7**	**1.5**	**35.5**
Total assets	**897.2**	**300.1**	**304.0**	**231.7**	**1,733.0**	**956.5**	**657.3**	**128.7**	**284.9**	**3,760.4**
Liabilities										
Deposits and amounts due to banks and other financial institutions	**225.4**	**89.9**	**9.0**	**1.9**	**326.2**	**4.1**	**–**	**–**	**–**	**330.3**
Borrowings under repurchase agreement	**20.9**	**–**	**78.7**	**95.4**	**195.0**	**204.2**	**–**	**–**	**–**	**399.2**
Term borrowings	**–**	**–**	**–**	**–**	**–**	**188.5**	**–**	**–**	**–**	**188.5**
Customers' current, savings and other deposits	**291.8**	**54.1**	**44.0**	**22.4**	**412.3**	**0.5**	**–**	**–**	**1,754.6**	**2,167.4**
Interest payable, derivative and other liabilities	**154.3**	**–**	**0.1**	**0.2**	**154.6**	**2.6**	**0.6**	**2.7**	**–**	**160.5**
Total liabilities	**692.4**	**144.0**	**131.8**	**119.9**	**1,088.1**	**399.9**	**0.6**	**2.7**	**1,754.6**	**3,245.9**
Net	**204.8**	**156.1**	**172.2**	**111.8**	**644.9**	**556.6**	**656.7**	**126.0**	**(1,469.7)**	**514.5**
Cumulative	**204.8**	**360.9**	**533.1**	**644.9**		**1,201.5**	**1,858.2**	**1,984.2**	**514.5**	

31 December 2019	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	287.4	–	–	–	287.4	–	–	–	89.0	376.4
Treasury bills	69.2	190.3	127.2	97.7	484.4	–	–	–	–	484.4
Deposits and amounts due from banks and other financial institutions	248.6	–	–	29.7	278.3	–	–	–	–	278.3
Loans and advances to customers	213.7	113.8	164.8	132.2	624.5	750.7	203.6	48.4	43.7	1,670.9
Investment securities	38.3	32.4	39.4	29.0	139.1	295.9	305.8	20.3	113.9	875.0
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	70.6	70.6
Interest receivable, derivative and other assets	62.0	–	–	–	62.0	12.2	–	–	–	74.2
Premises and equipment	0.1	0.1	0.1	0.3	0.6	27.7	2.1	3.2	1.6	35.2
Total assets	919.3	336.6	331.5	288.9	1,876.3	1,086.5	511.5	71.9	318.8	3,865.0
Liabilities										
Deposits and amounts due to banks and other financial institutions	228.7	48.9	64.5	19.2	361.3	1.8	–	–	–	363.1
Borrowings under repurchase agreement	3.0	10.2	–	129.2	142.4	171.0	–	–	–	313.4
Term borrowings	–	144.5	–	–	144.5	188.5	–	–	–	333.0
Customers' current, savings and other deposits	255.2	41.5	86.2	49.5	432.4	0.2	–	–	1,736.9	2,169.5
Interest payable, derivative and other liabilities	133.2	0.1	0.1	0.3	133.7	1.3	1.9	2.1	–	139.0
Total liabilities	620.1	245.2	150.8	198.2	1,214.3	362.8	1.9	2.1	1,736.9	3,318.0
Net	299.2	91.4	180.7	90.7	662.0	723.7	509.6	69.8	(1,418.1)	547.0
Cumulative	299.2	390.6	571.3	662.0		1,385.7	1,895.3	1,965.1	547.0	

28 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2020	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading:			
Forward foreign exchange contracts	**2.6**	**0.7**	**256.8**
Derivatives held as fair value hedges:			
Interest rate swaps	**0.1**	**57.2**	**525.7**
	2.7	**57.9**	**782.5**

31 December 2019	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading:			
Forward foreign exchange contracts	0.7	0.6	174.4
Derivatives held as fair value hedges:			
Interest rate swaps	0.6	26.4	595.4
	1.3	27.0	769.8

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back-to-back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 36 and 37 respectively.

As part of its asset and liability management, the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases, the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, fair value through other comprehensive income debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

In these hedge relationships, the main sources of ineffectiveness is the maturity mis-matches or the hedging instruments. The hedged instruments are subject to different counterparty risks, resulting in a change to hedge effectiveness measurement elements.

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Interest rate risk					
Hedge of investment securities					
31 December 2020					
Nominal amount	**–**	**5.7**	**16.8**	**198.1**	**305.1**
Average fixed interest rate	**0%**	**5%**	**4%**	**5%**	**6%**
31 December 2019					
Nominal amount	3.4	14.3	12.8	253.4	311.5
Average fixed interest rate	6%	6%	5%	5%	6%

The line item in the consolidated statement of financial position where the positive fair value of derivatives included is "Interest receivable, derivative and other assets".

The amounts relating to items designated as hedged items were as follows:

	2020		2019	
	Carrying amount	**Fair value adjustments***	Carrying amount	Fair value adjustments*
Bonds (Investment securities)	**573.9**	**51.4**	638.3	22.1

* Represents accumulated fair value hedge adjustments on the hedged item included in the carrying amount.

For the year ended 31 December 2020, the Group recognised a net gain of BD 33.4 million (2019: net gain of BD 32.3 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 33.7 million (2019: loss of BD 32.6 million).

Cash flow hedges

At 31 December 2020 and 2019, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

The line item in the consolidated statement of financial position where the negative fair value of derivatives included is "Interest payable, derivative and other liabilities".

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2020	On demand BD millions	Less than 3 months BD millions	3 to 12 months BD millions	Total BD millions
Contingencies:				
Letters of credit	2.5	20.1	13.0	35.6
Guarantees	177.3	–	–	177.3
				212.9
Commitments:				
Undrawn loan commitments	181.5	–	–	181.5
				394.4

31 December 2019	On demand BD millions	Less than 3 months BD millions	3 to 12 months BD millions	Total BD millions
Contingencies:				
Letters of credit	2.2	10.7	13.2	26.1
Guarantees	222.3	–	–	222.3
				248.4
Commitments:				
Undrawn loan commitments	154.5	–	–	154.5
				402.9

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

Exposure (after applying credit conversion factor) and ECL by stage was as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	178.7	18.4	15.4	212.5
ECL allowances	(0.5)	(0.2)	(3.4)	(4.1)

	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	197.8	75.0	22.0	294.8
ECL allowances	(0.5)	(2.8)	–	(3.3)

30 RISK MANAGEMENT

The activities of the Group entails risk taking on a regular basis through its businesses. Risk management involves the identifying, measuring, monitoring and managing of risks on a continuous basis. Efficient and timely management of risks in the Group's activities is critical for the financial soundness and profitability of the Group. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices with an aim to manage the overall risk profile of the Group in the most efficient and effective way.

Risk is measured, monitored and reported according to principles and policies approved by the Board of Directors. The Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks. The Chief Risk Officer (CRO) is head of Risk and Credit Management Division (RCMD). CRO reports to Board Risk Committee, ensuring segregation of duties and management oversight from the business originating units – a fundamental principle of risk management process.

Whilst the Board approves and periodically reviews risk management policies and strategies based on the recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC), the Country Risk Committee (CRC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to asset-liability mismatches, interest rate risks and liquidity. The CRC reviews country risk, business strategies and macro-economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee (ORMC) manages the overall operational risk of the Group by instituting CBB guidelines and Basel standards and carrying out required oversight.

RCMD of the Group maintains a high standard of risk management by means of applying available techniques and methodology. The control environment is, among other things, based on the principle of segregation of duties and independence. RCMD is responsible for looking into risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing and amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. RCMD in collaboration with Financial Control Division, prepares the Risk Appetite and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank. RCMD is also responsible for ensuring adherence to regulatory and statutory requirements related to risk management such as introducing use of IFRS 9 guidelines, ICAAP etc. in the Bank. Group Internal Audit makes an independent valuation of the processes regarding risk and capital management in accordance with the annual audit plan duly approved by the Board.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the notes below.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The business activities of the Group entail risk of loss due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligations including the whole and timely payment of principal, interest, collateral and other receivables. The failure thereby causes the Group to incur a financial loss.

The Group's credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk taking in line with the Board of Directors expectations and avoiding undesirable concentrations; and
- monitor credit risk and adherence to agreed controls.

A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry. Policy limits and operating limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated risk appetite. Limits are typically based on the nature of the lending and the amount of the underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure limits to individual counterparties exposures. Excesses are reported to the appropriate authority as set by the Credit Risk Policy.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit as well as at a portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Designated Credit and Investment Officers in RCMD before approval of the appropriate approving authority is obtained. The Bank has a tiered approval authority level matrix depending on the extent of risk, comprising individuals with proven credit and investment credentials, Management Credit Committee and Board Committees. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. All larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer/Designated Investment Officer in RCMD is one of the signatories in the credit/investment approval chain and provides independent view on credit & investment proposals.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the CBB and the local regulators in overseas locations.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return, reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position and for commitments and contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	2020 BD millions	2019 BD millions
Balances with central banks	**236.2**	355.2
Treasury bills	**487.8**	484.4
Deposits and amounts due from banks and other financial institutions	**318.9**	278.3
Loans and advances to customers	**1,555.8**	1,670.9
Investment securities	**886.3**	806.0
Interest receivable, derivative and other assets	**66.6**	59.1
	3,551.6	3,653.9
Contingent liabilities	**212.9**	248.4
Undrawn loan commitments	**181.5**	154.5
	394.4	402.9
	3,946.0	4,056.8

32 CONCENTRATION RISK

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

	2020			2019		
	Assets BD millions	**Liabilities BD millions**	**Credit commitments and contingencies BD millions**	Assets BD millions	Liabilities BD millions	Credit commitments and contingencies BD millions
Geographic region:						
Gulf Co-operation Council countries	**3,098.8**	**2,675.5**	**330.3**	3,151.1	2,475.1	345.9
North America	**152.3**	**21.9**	**0.5**	99.2	7.9	0.9
Europe	**194.6**	**338.6**	**6.2**	282.9	605.8	7.5
Asia	**231.6**	**191.9**	**54.0**	248.9	212.4	45.7
Others	**83.1**	**18.0**	**3.4**	82.9	16.8	2.9
	3,760.4	**3,245.9**	**394.4**	3,865.0	3,318.0	402.9
Industry sector:						
Trading and manufacturing	**626.1**	**175.1**	**216.9**	647.8	147.3	192.6
Banks and other financial institutions	**700.7**	**942.4**	**21.6**	763.4	1,207.8	35.6
Construction and real estate	**304.9**	**66.5**	**115.2**	302.1	58.0	132.2
Government and public sector	**1,275.0**	**369.5**	**–**	1,327.1	420.5	–
Individuals	**530.5**	**1,201.2**	**0.3**	501.9	1,077.0	0.4
Others	**323.2**	**491.2**	**40.4**	322.7	407.4	42.1
	3,760.4	**3,245.9**	**394.4**	3,865.0	3,318.0	402.9

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 and 10 as non-performing grades, in line with Basel III guidelines. Grades 1 to 3 represent high grade (undoubted through to good credit risk), 4 to 6 represent standard grade (satisfactory through to adequate credit risk) and 7 to 8 represent sub-standard grade (satisfactory through to high credit risk).

The Group's rating method comprises 19 rating levels for debt instruments. The master scale maps the external credit ratings of rating agencies for debt instruments in to high, standard, substandard and past due or individually impaired. Grades 1 to 7 represent high grade (AAA to A-), 8 to 16 represent standard grade (BBB+ to B-) and 17 to 19 represent sub-standard grade (CCC+ to CCC-).

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once a year and more frequently in the case of non-performing assets.

33.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2020				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	**176.1**	**3.0**	**–**	**179.1**
Standard (Grade 4 to 6)	**458.4**	**170.6**	**–**	**629.0**
Substandard (Grade 7 to 8)	**4.6**	**127.6**	**–**	**132.2**
Non-performing (Grade 9 to 10)	**–**	**–**	**94.0**	**94.0**
	639.1	**301.2**	**94.0**	**1,034.3**
Expected credit losses	**(2.9)**	**(21.3)**	**(56.2)**	**(80.4)**
Net carrying amount	**636.2**	**279.9**	**37.8**	**953.9**
31 December 2019				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	212.5	3.4	–	215.9
Standard (Grade 4 to 6)	632.3	168.8	–	801.1
Substandard (Grade 7 to 8)	3.8	115.3	–	119.1
Non-performing (Grade 9 to 10)	–	–	92.9	92.9
	848.6	287.5	92.9	1,229.0
Expected credit losses	(3.2)	(19.0)	(69.0)	(91.2)
Net carrying amount	845.4	268.5	23.9	1,137.8

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit-impaired BD millions**	**Stage 3: Lifetime ECL credit -impaired BD millions**	**Total BD millions**
31 December 2020				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	**587.0**	**–**	**–**	**587.0**
Standard (Grade 4 to 6)	**5.0**	**3.4**	**–**	**8.4**
Substandard (Grade 7 to 8)	**–**	**9.1**	**–**	**9.1**
Non-performing (Grade 9 to 10)	**–**	**–**	**9.4**	**9.4**
	592.0	**12.5**	**9.4**	**613.9**
Expected credit losses	**(3.4)**	**(1.5)**	**(7.1)**	**(12.0)**
Net carrying amount	**588.6**	**11.0**	**2.3**	**601.9**
31 December 2019				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	518.5	–	–	518.5
Standard (Grade 4 to 6)	–	7.3	–	7.3
Substandard (Grade 7 to 8)	–	8.0	–	8.0
Non-performing (Grade 9 to 10)	–	–	11.4	11.4
	518.5	15.3	11.4	545.2
Expected credit losses	(1.7)	(2.6)	(7.8)	(12.1)
Net carrying amount	516.8	12.7	3.6	533.1

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit-impaired BD millions**	**Stage 3: Lifetime ECL credit -impaired BD millions**	**Total BD millions**
31 December 2020				
Debt investment securities at FVOCI				
High (AAA to A-)	**161.9**	**–**	**–**	**161.9**
Standard (BBB+ to B-) *	**485.8**	**78.3**	**–**	**564.1**
	647.7	**78.3**	**–**	**726.0**
Expected credit losses	**(0.2)**	**(0.5)**	**–**	**(0.7)**
Net carrying amount	**647.5**	**77.8**	**–**	**725.3**
Debt investment securities at amortised cost				
High (AAA to A-)	**75.7**	**–**	**–**	**75.7**
Standard (BBB+ to B-) *	**573.1**	**0.1**	**–**	**573.2**
	648.8	**0.1**	**–**	**648.9**
Expected credit losses	**–**	**–**	**–**	**–**
Net carrying amount	**648.8**	**0.1**	**–**	**648.9**
Loan commitments and financial guarantees				
High (Grade 1 to 3)	**91.9**	**1.6**	**–**	**93.5**
Standard (Grade 4 to 6)	**215.3**	**34.4**	**–**	**249.7**
Substandard (Grade 7 to 8)	**5.1**	**30.7**	**–**	**35.8**
Non-performing (Grade 9 to 10)	**–**	**–**	**15.4**	**15.4**
	312.3	**66.7**	**15.4**	**394.4**
Expected credit losses	**(0.5)**	**(0.2)**	**(3.4)**	**(4.1)**
Net carrying amount	**311.8**	**66.5**	**12.0**	**390.3**

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2019				
Debt investment securities at FVOCI				
High (AAA to A-)	150.9	–	–	150.9
Standard (BBB+ to B-) *	332.9	179.3	–	512.2
	483.8	179.3	–	663.1
Expected credit losses	(0.2)	(0.3)	–	(0.5)
Net carrying amount	483.6	179.0	–	662.6
Debt investment securities at amortised cost				
High (AAA to A-)	77.9	–	–	77.9
Standard (BBB+ to B-) *	531.2	18.7	–	549.9
	609.1	18.7	–	627.8
Expected credit losses	–	–	–	–
Net carrying amount	609.1	18.7	–	627.8
Loan commitments and financial guarantees				
High (Grade 1 to 3)	125.1	–	–	125.1
Standard (Grade 4 to 6)	166.7	52.4	–	219.1
Substandard (Grade 7 to 8)	–	36.7	–	36.7
Non-performing (Grade 9 to 10)	–	–	22.0	22.0
	291.8	89.1	22.0	402.9
Expected credit losses	(0.5)	(2.8)	–	(3.3)
Net carrying amount	291.3	86.3	22.0	399.6

* Standard grade includes unrated investments amounting to BD 5.1 million (2019: BD 5.2 million).

33.2 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and bank guarantees;
- For retail lending, mortgages over residential properties;
- Cash collaterals such as bank deposits; and
- Marketable securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	2020 BD millions	2019 BD millions
Derivative assets held for risk management	**40.2**	38.9
Loans and advances:		
- Cash	**76.2**	59.3
- Secured by real estate	**765.7**	1,013.6
- Financial Instruments	**7.4**	12.9
- Others*	**25.7**	24.6

* Others include assignments of right, bank guarantees, general documents, insurance policies, offering letters, promissory notes, term loan agreements and tugs and ships.

33.3 Inputs, assumptions and techniques used for estimating impairment

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

(b) Credit risk grades

The Group allocates each borrower to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each borrower is allocated to a credit risk grade at initial recognition based on available information about the borrower. Borrowers are subject to ongoing monitoring, which may result in a borrower being moved to a different credit risk grade.

(c) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for Corporate and days-past-due for Retail portfolio. The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include: GDP Growth, Real Interest Rates, Unemployment, Domestic Credit Growth, Oil Prices, Central Government Revenue as Percentage of GDP and Central Government Expenditure as Percentage of GDP.

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS continued

33.3 Inputs, assumptions and techniques used for estimating impairment continued

(e) Renegotiated/Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in the past twelve months will be classified under Stage 2. The twelve month period is sufficient to test the adequacy of the cash flows and to test satisfactory performance under the revised terms of restructuring.

(f) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. Financial assets are written-off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any security is held);
- The borrower is past due more than 90 days on any credit obligation to the Group; and
- The borrower is rated 9 or 10 as per the Group's credit rating model.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

A financial instrument is considered as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PD's are significantly deviated from the present forecast of the economic conditions, qualitative PD overlays shall be used by management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the Stage 1 and Stage 2 exposures which are considered as performing (Stage 3 are the exposures under the default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(h) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

(i) Probability of default (PD);

(ii) Loss given default (LGD); and

(iii) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties. If a counterparty or exposure migrates between rating PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimations are estimations of:

1- Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

2- Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

3- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The contractual life have been considered as maturity for ECL computation for the assets with fixed maturity whereas, for revolving and overdraft loans a maturity of 3 years (Stage 2) and 1 year (Stage 1) shall be considered based upon the stage under which asset lies.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics and counterparty type that include:

(i) Credit risk gradings;

(ii) Product type; and

(iii) Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are banks and financial institutions, sovereign and investment securities (debt instruments).

(i) Assessment and calculation of ECL during COVID-19

The measurement of ECL is a complex calculation that involves a large number of interrelated inputs and assumptions and the allowance is not sensitive to any one single factor alone. The key drivers of changes in ECL mainly include the following:

- Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal/external risk ratings;
- Changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which the models are calibrated, which are those most closely correlated with credit losses in the relevant portfolio;
- Changes to the value of the underlying collateral held;
- Changes in scenario design and the weights assigned to each scenario; and
- Transfers between stages, which can be triggered by changes to any of the above inputs.

The economic environment remains uncertain and future impairment changes may be subject to further volatility (including from changes to macroeconomic forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of support measures from central banks, government and other institutions. Considering the current scenario, the Group has applied overlays on the ECL estimates based on internal stress testing analysis (alongside management judgments). While estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19.

The following table contains an analysis of the deferred amount of principal outstanding pertinent to loans and advances of the customers, who have been provided with such benefits during the year, and the related ECL:

31 December 2020	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
Commercial loans and overdrafts				
Gross balance	**95.6**	**118.3**	**0.2**	**214.2**
Expected credit losses	**(0.4)**	**(5.0)**	**(0.1)**	**(5.5)**
Net carrying amount	**95.2**	**113.3**	**0.1**	**208.7**
Customer count	**160**	**113**	**2**	**275**
Consumer loans				
Gross balance	**384.0**	**9.1**	**1.4**	**394.5**
Expected credit losses	**(2.3)**	**(1.3)**	**(0.8)**	**(4.4)**
Net carrying amount	**381.7**	**7.8**	**0.6**	**390.1**
Customer count	**32,546**	**869**	**103**	**33,518**

The models used by the Group have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Group operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio/segment. As a result, overlays to assumptions in calculating ECL and specific or general post-model adjustments became imperative and were considered by the Group. Given model changes take a significant amount of time to develop and test, and the data limitation issues noted above, the Group expects these overlays and post model adjustments address the uncertainties inherent in the current and future environment and reflects relevant risk factors not captured in the modelled results.

Given the unique situation wherein, central banks permitted deferral/moratorium for certain loan categories, in the midst of deteriorating economic indicators, PDs for some portfolios were qualitatively determined and integrated into the modelled ECL.

Management overlays reflect the significant uncertainty as a consequence of the COVID-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes/segments, such as construction, energy, aviation, etc.

The following table outlines the impact of multiple scenarios on the ECL (Stage 1 and Stage 2) used by the Group as compared to the ECL that would have resulted from applying more liberal/conservative weighting to the base case or worst case scenarios:

31 December 2020	Scenario mix used by the Group BD millions	Scenario 1 (improved base case) BD millions	Scenario 2 (additional weight to worst case) BD millions
Loans and advances to customers	**29.1**	**26.1**	**29.6**
Investment securities	**0.7**	**0.7**	**0.7**
Off-balance sheet exposures	**0.7**	**0.6**	**0.7**

34 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

The table below shows the carrying amount for financial assets by class that were restructured during the year and had no significant impact on ECL.

	2020 BD millions	2019 BD millions
Loans and advances to customers		
Commercial loans	**44.8**	67.6
Consumer loans	**3.2**	4.0
	48.0	71.6

35 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset – liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investments (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 36.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December 2020, VaR calculated based on the above parameters was BD 0.2 million (2019: BD 0.2 million).

The Bank's Risk Management Department conducts back testing in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Back testing of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the back testing produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the CBB requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

36 INTEREST RATE RISK

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, and foreign exchange agreements to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Head of Treasury, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2020, an increase of 200 basis points in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following 12 months, by approximately BD 16.6 million (2019: increase by BD 20.1 million). However, further downward movement of interest rates by 200 basis points might not be a practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income for the year ended 31 December 2020 is BD 12.7 million (2019: BD 19.6 million).

	Rate Shock Forecasting (+200 bps)		Rate Shock Forecasting (-200 bps)	
	2020 BD millions	2019 BD millions	**2020 BD millions**	2019 BD millions
Bahraini Dinars	**15.2**	15.7	**12.1**	15.7
US Dollar	**0.7**	5.0	**–**	4.5
Kuwaiti Dinars	**0.6**	0.6	**0.3**	0.6
Others	**0.1**	(1.2)	**0.3**	(1.2)
Total	**16.6**	20.1	**12.7**	19.6

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on capital of approximately 8.2% amounting to BD 43.0 million (2019: 3.4% amounting to BD 18.3 million). Similarly, a decrease of 200 basis points in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 8.2% amounting to BD 43.0 million (2019: 3.4% amounting to BD 18.3 million).

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars. The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	Equivalent long (short)	
	2020 BD millions	2019 BD millions
US Dollar	**100.5**	92.8
Euro	**0.1**	3.7
GCC currencies (excluding Kuwaiti Dinars)	**6.4**	13.0
Kuwaiti Dinars	**0.4**	(2.4)
Others	**0.3**	(1.2)

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US$), positions in US$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities			Effect on equity	
	2020 BD millions	2019 BD millions	% change in Index	**2020 BD millions**	2019 BD millions
Bahrain Bourse	**12.9**	9.6	± 15%	**1.9**	1.4
Other stock exchanges	**30.4**	32.5	± 15%	**4.6**	4.9
				6.5	6.3

39 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time buckets of the maturity ladder, cumulative outflow of cash limits for time buckets and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Head of Treasury, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

During COVID-19, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including BBK, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 21.8%, Liquidity Coverage Ratio (LCR) of 289.7% and Net Stable Funding Ratio (NSFR) of 134.2% as at 31 December 2020.

The tables below summarise the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2020	**On demand BD millions**	**Within 1 month BD millions**	**1 to 3 months BD millions**	**3 to 6 months BD millions**	**6 to 12 months BD millions**	**1 to 5 years BD millions**	**5 to 10 years BD millions**	**10 to 20 years BD millions**	**More than 20 years BD millions**	**Total BD millions**
Deposits and amounts due to banks and other financial institutions	**43.3**	**183.4**	**90.3**	**9.0**	**2.0**	**5.1**	**–**	**–**	**–**	**333.1**
Borrowings under repurchase agreement	**–**	**21.4**	**1.7**	**81.4**	**99.3**	**212.8**	**–**	**–**	**–**	**416.6**
Term borrowings	**–**	**5.4**	**–**	**–**	**5.4**	**219.9**	**–**	**–**	**–**	**230.7**
Customers' current, savings and other deposits	**1,432.3**	**170.6**	**221.3**	**166.1**	**153.1**	**46.0**	**–**	**–**	**–**	**2,189.4**
Total undiscounted financial liabilities	**1,475.6**	**380.8**	**313.3**	**256.5**	**259.8**	**483.8**	**–**	**–**	**–**	**3,169.8**
Letter of guarantees	**177.3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**177.3**
Undrawn loan commitments	**181.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**181.5**
Derivative financial instruments										
Contractual amounts payable	**–**	**(3.0)**	**(11.0)**	**(10.8)**	**(27.1)**	**(292.8)**	**(305.6)**	**(40.6)**	**(51.6)**	**(742.5)**
Contractual amounts receivable	**–**	**1.7**	**8.4**	**8.1**	**21.8**	**257.7**	**285.5**	**27.9**	**47.5**	**658.6**
	–	**(1.3)**	**(2.6)**	**(2.7)**	**(5.3)**	**(35.1)**	**(20.1)**	**(12.7)**	**(4.1)**	**(83.9)**

31 December 2019	On demand BD millions	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Deposits and amounts due to banks and other financial institutions	55.0	199.9	49.3	77.7	19.7	2.1	–	–	–	403.7
Borrowings under repurchase agreement	–	3.6	11.7	2.7	134.4	181.6	–	–	–	334.0
Term borrowings	–	5.3	147.1	–	5.3	230.5	–	–	–	388.2
Customers' current, savings and other deposits	1,180.0	140.2	221.2	320.8	263.5	51.5	–	–	–	2,177.2
Total undiscounted financial liabilities	1,235.0	349.0	429.3	401.2	422.9	465.7	–	–	–	3,303.1
Letter of guarantees	222.3	–	–	–	–	–	–	–	–	222.3
Undrawn loan commitments	154.5	–	–	–	–	–	–	–	–	154.5
Derivative financial instruments										
Contractual amounts payable	–	(6.8)	(19.3)	(9.5)	(27.2)	(355.9)	(318.0)	(43.3)	(54.1)	(834.1)
Contractual amounts receivable	–	6.5	18.8	8.9	26.1	347.7	310.7	38.9	52.5	810.1
	–	(0.3)	(0.5)	(0.6)	(1.1)	(8.2)	(7.3)	(4.4)	(1.6)	(24.0)

40 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2020, there was a legal case pending against the Group aggregating to BD 1.1 million (2019: BD 1.2 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from this case.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Operational Risk Department operates independently from other units of the Bank and reports to the CRO. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank's subsidiaries have similar contingency plans for their operations.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III/CBB guidelines.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The significant inputs for valuation of equities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2020 and 2019:

31 December 2020	**Level 1 BD millions**	**Level 2 BD millions**	**Level 3 BD millions**	**Total BD millions**
Financial assets				
Bonds	**725.3**	**–**	**–**	**725.3**
Equities	**43.3**	**6.7**	**20.3**	**70.3**
Managed funds	**–**	**0.7**	**–**	**0.7**
Derivatives held for trading	**–**	**2.6**	**–**	**2.6**
Derivatives held as fair value hedges	**–**	**0.1**	**–**	**0.1**
	768.6	**10.1**	**20.3**	**799.0**
Financial liabilities				
Derivatives held for trading	**–**	**0.7**	**–**	**0.7**
Derivatives held as fair value hedges	**–**	**57.2**	**–**	**57.2**
	–	**57.9**	**–**	**57.9**

31 December 2019	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	660.5	–	–	660.5
Equities	42.1	8.4	17.8	68.3
Managed funds	–	0.7	–	0.7
Derivatives held for trading	–	0.7	–	0.7
Derivatives held as fair value hedges	–	0.6	–	0.6
	702.6	10.4	17.8	730.8
Financial liabilities				
Derivatives held for trading	–	0.6	–	0.6
Derivatives held as fair value hedges	–	26.4	–	26.4
	–	27.0	–	27.0

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2020 and 2019, there were no transfers into or out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	31 December 2020		
	Carrying value BD millions	**Fair value BD millions**	**Difference BD millions**
Financial liabilities			
Term borrowings	**188.5**	**195.4**	**6.9**
Financial assets			
Investment securities	**161.0**	**161.5**	**(0.5)**

	31 December 2019		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	333.0	339.7	6.7
Financial assets			
Investment securities	145.5	146.1	(0.6)

The above financial liabilities and assets are Level 1 fair value.

As at 31 December 2020 and 2019, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE – BASED PAYMENTS

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the newly revised remuneration framework mandated by the CBB and is referred to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan

Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2020 BD millions	2019 BD millions
Expense arising from equity-settled share-based payment transactions	**2.4**	2.6
Shares vested during the year	**(2.0)**	(2.0)

The movement in the number of shares in the Bank's LTIP and STIP was as follows:

	Number of shares	
	2020	2019
Opening balance of shares granted but not vested	**11,042,091**	11,547,534
Equity shares transferred to trust	**5,055,964**	964,270
Shares released during the year to the participants	**(5,114,201)**	(1,469,713)
	10,983,854	11,042,091

The market price of the Bank's shares based on the price quoted in the Bahrain Bourse at 31 December 2020 was BD 0.505 (2019: BD 0.573) per share.

43 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Group is as follows:

	2020 BD millions	2019 BD millions
CET1 capital	**523.6**	535.7
Tier 2 capital	**27.6**	28.5
Total capital base (a)	**551.2**	564.2
Credit risk weighted exposure	**2,208.0**	2,282.6
Operational risk weighted exposure	**282.6**	267.9
Market risk weighted exposure	**37.5**	47.4
Total risk weighted exposure (b)	**2,528.1**	2,597.9
Capital adequacy (a/b*100) – %	**21.8%**	21.7%
Minimum requirement – %	**14.0%**	14.0%

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the 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 or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit was reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2020 is 134.2% (31 December 2019: 128.7%).

The main drivers behind our robust Available Stable Funding (ASF) are the solid capital base, sizable retail and small business deposits portfolio, large portfolio of non-financial institutions deposits (related to government and corporate deposits), as well as medium term funding from repo and Euro Medium Term Notes (EMTN). The capital base formed 21.2% of our ASF, while the retail and small business deposits formed 47.4% of the ASF (after applying the relevant weights).

For the Required Stable Funding (RSF), the primary reason for the relatively low RSF, in comparison to the ASF, is related to the sizeable portfolio of BBK's High Quality Liquid Assets (HQLAs) which accounts for around a quarter of total RSF (before applying the relevant weights).

In comparison to year-end December 2019, the NSFR ratio increased from 128.7% to 134.2% mainly due to significant increase in retail and small business customer deposits.

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity BD millions	Less than 6 months BD millions	More than 6 months and less than one year BD millions	Over one year BD millions	Total weighted value BD millions
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	528.1	–	–	27.6	555.7
Other Capital Instruments	–	–	–	–	–
Retail deposits and deposits from small business customers:					
Stable deposits	–	499.6	3.5	0.2	478.2
Less stable deposits	–	723.9	81.5	37.3	762.1
Wholesale funding:					
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,188.7	159.0	391.7	822.4
Other liabilities:					
NSFR derivative liabilities	–	61.9	–	–	–
All other liabilities not included in the above categories	–	158.1	–	–	–
Total ASF	528.1	2,632.2	244.0	456.8	2,618.4
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	264.7
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	–	415.8	7.5	46.8	112.9
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	319.6	109.1	897.8	977.4
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	0.5	–	66.5	43.5
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	–	–	–	–	–
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	61.9	60.4	194.0	243.2
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	–	12.6	–	–	12.6
All other assets not included in the above categories	248.9	–	–	–	248.9
OBS items	–	961.5	–	–	48.1
Total RSF	248.9	1,771.9	177.0	1,205.1	1,951.3
NSFR (%) – As at 31 December 2020					134.2%

The NSFR (as a percentage) as at 31 December 2019 was calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity BD millions	Less than 6 months BD millions	More than 6 months and less than one year BD millions	Over one year BD millions	Total weighted value BD millions
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	540.7	–	–	28.5	569.2
Other Capital Instruments	–	–	–	–	–
Retail deposits and deposits from small business customers:					
Stable deposits	–	415.8	6.5	0.2	401.4
Less stable deposits	–	640.5	96.6	48.4	711.8
Wholesale funding:					
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,303.5	306.9	360.7	862.2
Other liabilities:					
NSFR derivative liabilities	–	30.4	–	–	–
All other liabilities not included in the above categories	–	137.5	–	–	–
Total ASF	540.7	2,527.7	410.0	437.8	2,544.6
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	268.2
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	–	345.0	61.0	111.4	193.7
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	405.7	101.0	826.5	955.8
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	2.4	5.2	89.9	62.3
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	–	–	–	–	–
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	4.9	49.5	203.0	219.2
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	–	6.2	–	–	6.2
All other assets not included in the above categories	228.9	–	–	–	228.9
OBS items	–	869.4	–	–	43.5
Total RSF	228.9	1,633.6	216.7	1,230.8	1,977.8
NSFR (%) – As at 31 December 2019					128.7%

45 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible “natural persons” (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution as mandated by CBB is paid by the Bank under this scheme.

46 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employees of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that the total Bank contribution is not in excess of 10% of the employees’ salary.

The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2020, the total contribution fund including the earned income stands at BD 19.0 million (2019: BD 19.0 million). Out of the total fund amount, payment of the principal amount equal to BD 16.3 million (2019: BD 16.4 million) consisting of the respective staff and Bank’s contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 6.7 million (2019: BD 4.9 million) is invested in Bahrain sovereign bonds and GCC bonds.

47 FUDICIARY ASSETS

Funds under management as at 31 December 2020 amounted to BD 82.3 million (2019: BD 66.0 million). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position. The total market value of all such funds at 31 December 2020 was BD 87.7 million (2019: BD 68.3 million).

48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

31 December 2020	Designated as at FVTPL BD millions	FVOCI – debt instruments BD millions	FVOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	256.5	256.5
Treasury bills	–	–	–	487.8	487.8
Deposits and amounts due from banks and other financial institutions	–	–	–	318.9	318.9
Loans and advances to customers	–	–	–	1,555.8	1,555.8
Investment securities	0.7	725.3	70.3	161.0	957.3
Interest receivable, derivative and other assets	–	–	–	66.0	66.0
Total assets	**0.7**	**725.3**	**70.3**	**2,846.0**	**3,642.3**
Deposits and amounts due to banks and other financial institutions	–	–	–	330.3	330.3
Borrowings under repurchase agreement	–	–	–	399.2	399.2
Term borrowings	–	–	–	188.5	188.5
Customers' current, savings and other deposits	–	–	–	2,167.4	2,167.4
Interest payable, derivative and other liabilities	–	–	–	116.5	116.5
Total liabilities	**–**	**–**	**–**	**3,201.9**	**3,201.9**

31 December 2019	Designated as at FVTPL BD millions	FVOCI – debt instruments BD millions	FVOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	376.4	376.4
Treasury bills	–	2.1	–	482.3	484.4
Deposits and amounts due from banks and other financial institutions	–	–	–	278.3	278.3
Loans and advances to customers	–	–	–	1,670.9	1,670.9
Investment securities	0.7	660.5	68.3	145.5	875.0
Interest receivable, derivative and other assets	–	–	–	59.9	59.9
Total assets	0.7	662.6	68.3	3,013.3	3,744.9
Deposits and amounts due to banks and other financial institutions	–	–	–	363.1	363.1
Borrowings under repurchase agreement	–	–	–	313.4	313.4
Term borrowings	–	–	–	333.0	333.0
Customers' current, savings and other deposits	–	–	–	2,169.5	2,169.5
Interest payable, derivative and other liabilities	–	–	–	89.8	89.8
Total liabilities	–	–	–	3,268.8	3,268.8

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2019 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications did not affect previously reported net profit, total assets, total liabilities or total equity of the Group.

Supplementary public disclosure – financial impact of COVID-19

At 31 December 2020

In line with Central Bank of Bahrain ("CBB") directions per circular no. OG/259/2020 dated 14 July 2020 that aims to maintain transparency amidst the current implications of Coronavirus (COVID-19), the Bank discloses herewith additional information pertaining to the financial impact of COVID-19 on its consolidated financial statements and results of operations.

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. These included business closures, travel restrictions, quarantines, and limits on public and private gatherings. These measures led to a sharp reduction in economic activity over the period in a large number of developed and emerging economies.

The Group has demonstrated financial strength and operational resilience despite these events, while protecting the health and safety of employees, and supporting customers. There remains uncertainty about the evolution of the virus, the measures that may be implemented to slow its spread, and the progress in taking the vaccine. These factors add to uncertainty surrounding the outlook.

The Group is constantly working to monitor the situation and has always considered its employees and its clients alike, as their number one priority. BBK is totally committed to support the communities in which it operates and the Group will go the extra mile to support them at all times.

In line with the Kingdom of Bahrain's wise leadership's precautionary measures to control the spread of COVID-19 and CBB's directives to reduce the financial strain on citizens and businesses, the bank has established a taskforce dedicated to implement all these measures and ensure the full support to our country and its citizens, to our loyal clients and to our dedicated employees, throughout this time. The Bank has implemented a number of actions to guarantee operational readiness and continue offering clients the full range of products and services, including:

- Ensure that the Bank's operations are business as usual;
- Distributed the employees between Head Office, branches, sites and working from home to ensure continuity;
- Online and telephone meetings have replaced most of the physical meetings;
- Disinfecting protocols and physical distancing measures have been implemented; and
- Continuous communication to clients to take full advantage of BBK's wide range of e-channels offering seamless and outstanding experience.

On the other side, central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase program besides infusing significant liquidity into the economy.

During the year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, and similar directive issued by the Central Bank of Kuwait, the one-off modification losses amounting to BD 24.5 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognised directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD 789.8 million as part of its support to impacted customers. It is worth to mention that the application of the 6-month deferral is estimated to cause a delay in the Bank's total cash inflow for around BD 109.0 million.

Further, as per the regulatory directive, financial assistance amounting to BD 3.6 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the governments and/or regulators, in response to its COVID-19 support measures, has been recognised directly in equity. On the other hand and as part of Bank's social responsibility, the Bank has contributed BD 3.0 million as a donation to "Fina Khair" national campaign to support the individuals and business entities most affected by the pandemic.

Furthermore, based on regulatory directives issued by the CBB, the Group have offered the customers an additional four months installments deferment option starting from beginning of September 2020 by extending the tenor to take into account the additional interest while keeping the installment unchanged without increasing the interest or charging fees. The application of this additional deferral option is estimated to cause a delay in the Bank's total cash inflow for around BD 39.3 million. This has been extended by another six months up to June 2021.

The table below summarises the overall financial impact of the above:

	Net impact on		
	Group's Consolidated Profit or Loss Statement	**Group's Consolidated Total Assets**	**Group's Consolidated Total Equity**
Overall Impact on Consolidated Financial Statements:			
Regulatory and Governments Measures			
Modification loss*	**-**	**-**	**(24.5)**
Government grants*	**-**	**-**	**3.6**
Market Conditions			
Estimated ECL attributable to COVID-19	**(2.6)**	**(2.6)**	**-**
Impact on credit card business	**(5.9)**	**(5.9)**	**-**
Impact on income from associates	**(6.9)**	**(6.9)**	**-**
Impact of cumulative changes in fair values	**-**	**(22.6)**	**(22.6)**
Fees forgone as a result of all loan deferment	**(2.3)**	**(2.3)**	

* This includes a one-off modification losses of BD 3.5 million and financial assistance from government amounting to BD 0.4 million, as a result of equity accounting of the Group's investment in an associated company.

Incremental COVID-19 impact on ECL were estimated based on updating the probability weightings assigned to each macro-economic scenario to 60% to the base case, 30% to worst case and 10% to the best case (as against standard/policy weights of 70% to the base case, 15% to worst case and 15% to the best Case). As a result of this assessment, an estimated amount of BD 2.6 million resulted as an additional ECL attributable to COVID-19 during the year 2020. In addition, as part of the policy to be updated annually, the macro environment forecasts available from external sources have been updated.

In general, the Group's financial performance was negatively impacted due to the global and domestic cut in interest rates in addition to the COVID-19 pandemic economic impact. This has resulted in a drop in net interest income from BD 107.3 million during the year 2019 to BD 80.8 million during the year 2020, a decrease of 24.7%. Moreover, the Group's share of profit from associated companies and joint ventures decreased from BD 6.8 million during 2019 to a loss of BD 0.1 million for the year 2020 as a result of the adverse impact of COVID-19 on the financial performance of the bank's associated companies. Net fees and commission dropped by 26.3% from BD 26.6 million reported during 2019 to BD 19.6 million during 2020, largely due to the impact of concessionary measures (i.e. capping the merchant fees) taken in response to COVID-19 to support the domestic business community, as well as the drop in volume of credit cards utilisation due to economic lockdown and travel ban, in addition to the application of the new regulations on capping fees and charges. The Group achieved a net profit for the year attributable to the owners of the Bank of BD 52.0 million compared to BD 75.4 million in 2019, registering a drop of 31.0%.

In addition to the drop in net profit, the other comprehensive income was impacted by lower mark to market valuation of the Bank's investment portfolio as a result of COVID-19 outbreak and wide volatility in financial markets. Total comprehensive income attributable to owners of the Group for the year 2020 amounted to BD 28.9 million compared to BD 109.3 million during the year 2019, registering a drop of 73.6%.

Excluding the negative impact of COVID-19 pandemic, the Bank was aiming to achieve an estimated growth in net profit of around 6%. In addition, couple of strategic business and investment initiatives have been postponed due to the global situation, waiting the clarity of the business environment.

Despite all the difficulties and uncertainties caused by the pandemic, BBK continued to maintain a very robust liquidity position and inject liquidity in the markets in which it operates to support the domestic economies and its customers at such a critical time. The consolidated Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remain very comfortable at 289.7% and 134.2% respectively as of end of 2020, well above the CBB's reduced limit of 80% and the standard limit of 100%. Moreover, other liquidity indicators, such as the ratio of net loans and advances/customer deposits, continued to be at very solid levels. Prudent liquidity management is of utmost importance for BBK and liquidity is managed on a very dynamic, yet conservative basis.

The Group is keen to maintain strong capitalisation to support future strategic plans. The Group's policy is to maintain a strong capital base to preserve investors, creditors and market confidence and to sustain the future development of the business. As of the end of 2020, the Group maintained a healthy level of capital adequacy ratio (CAR) of 21.8% compared to CBB's minimum threshold for domestic systematically important banks (D-SIB) of 14.0%.

The above information should not be relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information to be outdated. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.

1. EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, hereafter referred to as "CBB". The report has been designed to provide BBK Group's stakeholders with detailed information on our approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2020 presented in accordance with the International Financial Reporting Standards (IFRS), as modified by the CBB. Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of bank's capital. To this end, Tier 1 capital "T1" must be the main component of capital, and the predominant form of T1 capital must be common shares and reserves. Deductions from capital and prudential filters are generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital "T2" instruments are restricted and have a limit on their contribution to total regulatory capital. Furthermore, Basel III introduced a number of capital buffers to promote the conservation of capital (Capital Conservation Buffer or "CCB") and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer) and the high loss absorbency buffer for Domestic Systemically Important Banks (DSIBs).

CBB minimum required total capital adequacy ratio (including CCB) is 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are limits and minima introduced by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB. BBK had been designated as a DSIB by the CBB. Consequently, BBK is required to maintain an effective minimum total capital adequacy ratio above 14 percent, including 1.5 percent as a DSIB buffer.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

(i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. Credit risk constitutes nearly 90 percent of the overall risk for the Bank. The Bank has a robust credit risk management architecture which is explained in greater details in note 30 and 31 of the Annual Report. The credit 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.

(ii) Market Risk

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

(iii) Operational Risk

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 Standardised Approach. The CBB's capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach whereby, the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

2 INTRODUCTION TO THE BASEL III FRAMEWORK continued

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain total capital adequacy ratio above 12.5 percent, except those assigned as DSIB where the minimum capital is 14 percent.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed an ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' funds and the corresponding capital requirement are estimated by the Bank as part of the 3 years strategy approved by the Board. In addition, the Bank also forecasts the Capital Base whenever there is likely reduction in the capital components, and necessary actions are taken in order to ensure regulatory compliance. Moreover, the Bank has a Dividend Policy in place as part of capital management strategy.

The Bank uses the Risk-Adjusted Return On Capital (RAROC) model in its credit decisions in order to assess risk-reward matrix for each credit exposure. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages 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 I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

BBK conducts stress testing of its portfolio apart from the ICAAP process. The Bank has implemented the CBB requirements for Stress Testing, in line with the timelines specified by CBB.

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The Bank publishes regulatory disclosures periodically and in the Annual Report.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III 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 toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and risk weighting consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

Subsidiaries	Domicile	Ownership	Consolidation basis
CrediMax B.S.C. (c)	Kingdom of Bahrain	100.00%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100.00%	Risk Weighted
Invita Claims Management Company*	Kingdom of Bahrain	70.00%	Risk Weighted
Invita Kuwait K.S.C.C*	State of Kuwait	60.00%	Risk Weighted
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	70.00%	Full Consolidation
Associates			
Bahrain Liquidity Fund	Kingdom of Bahrain	24.27%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23.03%	Risk Weighted
The Benefit Company B.S.C. (c)	Kingdom of Bahrain	22.00%	Risk Weighted
Joint Venture			
Aegila Capital Management Limited	United Kingdom	50.00%	Risk Weighted
Magnum Partners Holding Limited	Jersey	49.96%	Risk Weighted
LSE Jersey Holdings Limited Partnership	Jersey	45.00%	Risk Weighted
BBK Geojit Securities K.S.C.	State of Kuwait	40.00%	Risk Weighted
Evoque Holdings Jersey Limited	Jersey	24.99%	Risk Weighted

** Shareholding through Invita Subsidiary*
*** Shareholding through CrediMax Subsidiary*

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

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION

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

	Statement of financial position as in published financial statements BD millions	Statement of financial position as per Regulatory Reporting BD millions	Reference
Assets			
Cash and balances with central banks	**256.5**	**256.5**	
Treasury bills	**487.8**	**487.8**	
Deposits and amounts due from banks and other financial institutions	**318.9**	**318.6**	
Loans and advances to customers	**1,555.8**	**1,555.8**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)	27.6	27.6	a
Of which net loans and advances (gross of Expected Credit Loss)	1,528.2	1,528.2	
Investment securities	**957.3**	**957.3**	
Of which investments in financial entities under CET1		26.0	b
Of which investments in financial entities under Tier 2		2.4	c
Of which related to other investments		928.9	
Investments in associated companies and joint ventures	**65.5**	**68.4**	
Of which Investment in own shares	0.9	0.9	d
Of which equity investments in financial entities	39.4	39.4	e
Of which other investments	25.2	28.1	
Interest receivable, derivative and other assets	**83.1**	**81.0**	
Of which deferred tax assets due to temporary differences	1.6	1.6	f
Of which intangibles	4.8	4.8	g
Of which interest receivable and other assets	76.7	74.6	
Premises and equipment	**35.5**	**34.7**	
Total assets	**3,760.4**	**3,760.1**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**330.3**	**330.3**	
Borrowings under repurchase agreement	**399.2**	**399.2**	
Term borrowings	**188.5**	**188.5**	
Customers' current, savings and other deposits	**2,167.4**	**2,170.9**	
Interest payable, derivative and other liabilities	**160.5**	**158.1**	
Total liabilities	**3,245.9**	**3,247.0**	
Equity			
Share capital	**136.2**	**136.2**	h
Treasury stock	**(5.2)**	**(5.2)**	i
Share premium	**105.6**	**105.6**	j
Statutory reserve	**66.8**	**66.8**	k
General reserve	**61.6**	**61.6**	l
Cumulative changes in fair values	**(11.4)**	**(11.4)**	
of which cumulative changes in fair values on bonds and equities	(10.2)	(10.2)	m
of which fair value changes in cash flow hedges	(1.2)	(1.2)	n
Foreign currency translation adjustments	**(12.8)**	**(12.8)**	
Of which related to unconsolidated subsidiary		(0.1)	o
Of which related to Parent		(12.7)	p
Retained earnings	**125.6**	**124.8**	
Of which employee stock options	3.4	3.4	q
Of which related to modification loss net of government assistance	(20.9)	(20.9)	r
Of which retained earnings	143.1	142.3	s
Proposed appropriations	**45.4**	**45.4**	t
Attributable to the Owners Of the Bank	**511.8**	**511.0**	
Non-controlling interests	**2.7**	**2.1**	
Total equity	**514.5**	**513.1**	
Total liabilities and equity	**3,760.4**	**3,760.1**	

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION continued

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

Name	Principle activities	Total assets BD millions	Total equity BD millions
Invita Company B.S.C. (c)	Business processing outsourcing services	6.6	4.2

5 CAPITAL COMPONENTS – CONSOLIDATED

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1". CET1 capital consists of: (a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes, (b) Disclosed reserves including: i) General reserves; ii) Legal/statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses (including net profit/loss for the reporting period, whether reviewed or audited), (c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1. AT1 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in AT1, (b) Share premium resulting from the issue of instruments included in AT1, (c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and (d) Regulatory adjustments applied in the calculation of AT1. T2 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in T2, (b) premium resulting from the issue of instruments included in T2, (c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1, (d) Expected Credit Loss reserve for stage 1 and 2 exposures, (e) Asset revaluation reserves which arise from the revaluation of fixed assets and investment properties from time to time in line with the change in market values, and (f) Regulatory adjustments applied in the calculation of T2. At present, the T2 capital of BBK consists solely of Expected Credit Losses reserve for Stage 1 and 2 exposures.

The CBB applies various limits and minima to the components of the regulatory capital, as shown in the below table. There is also a restriction on the amount of Expected Credit Losses (ECL) reserve that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

	Optional	Minimum Ratio
Components of Consolidated CAR		
Core Equity Tier 1 (CET 1)		6.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		8.00%
Tier 2 (T2)	2.00%	
Total Capital		10.00%
Capital Conservation Buffer (CCB)		2.50%
Domestically Systemic Important Bank (D-SIB) Buffer		1.50%
CAR including Buffers		
CET 1 plus Buffers		10.50%
Tier 1 plus Buffers		12.00%
Total Capital plus CCB		12.50%
Total Capital plus CCB and DSIB Buffer		14.00%

	Optional	Minimum Ratio
Components of Solo CAR		
Core Equity Tier 1 (CET 1)		4.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		6.00%
Tier 2 (T2)	2.00%	
Total Capital		8.00%
Capital Conservation Buffer (CCB)		0%

In accordance with the CBB's Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. The CBB's Basel III capital adequacy framework requires that most of the deductions to be made from the CET1.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure that minimum regulatory capital requirements are met for subsidiary companies.

	Component of regulatory capital BD millions	Source based on reference letters of the statement of financial positions under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	236.6	h+i+j
Retained earnings*	187.3	o+s+t
Accumulated other comprehensive income and losses (and other reserves)	104.3	k+l+m+n+p
Common Equity Tier 1 capital before regulatory adjustments	**528.2**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	4.8	g
Cash flow hedge reserve	(1.2)	n
Investments in own shares	0.9	d
Total regulatory adjustments to Common equity Tier 1	**4.5**	
Common Equity Tier 1 capital (CET1)	**523.6**	
Tier 1 capital (T1 = CET1 + AT1)	**523.6**	
Tier 2 capital: instruments and provisions		
Provisions	27.6	
Tier 2 capital before regulatory adjustments	**27.6**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	–	
Tier 2 capital (T2)	**27.6**	
Total capital (TC = T1 + T2)	**551.2**	
Total risk weighted assets	**2,528.1**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	20.71%	
Tier 1 (as a percentage of risk weighted assets)	20.71%	
Total capital (as a percentage of risk weighted assets)	**21.80%**	
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%	
of which: capital conservation buffer requirement	2.50%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	1.50%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	20.71%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.50%	
CBB Tier 1 minimum ratio	12.00%	
CBB total capital minimum ratio	14.00%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	28.4	b+c
Significant investments in the common stock of financials	39.4	e
Deferred tax assets arising from temporary differences (net of related tax liability)	1.6	f
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	30.7	
Cap on inclusion of provisions in Tier 2 under standardised approach	27.6	a

** Variance due to round off*

6. CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and other discretionary payments and the issue of new shares and other capital instruments.

As per its ICAAP, BBK aims to maintain a minimum total capital adequacy ratio in excess of the capital assessed as per its ICAAP document (considering DSIB and CCB). As part of the data sensitive reporting requirements exemptions granted by CBB to Banks in the region subsequent to the onset of COVID, submission of ICAAP was exempted for 2020. The CBB's current minimum total capital adequacy ratio (including CCB and DSIB) for banks incorporated in Bahrain is set at 14 percent. The total capital adequacy ratio of the Group as at 31 December 2020 was 21.80 percent.

Strategies and methods for maintaining a strong capital adequacy ratio
BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

Capital ratios – consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK – Consolidated	21.80%	20.71%
CrediMax	59.22%	59.22%

7. CREDIT RISK – PILLAR III DISCLOSURES

This section describes the BBK'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 III disclosure requirements.

Definition of exposure classes
BBK has a diversified on and off statement of financial position 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 standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel III capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

Sovereigns portfolio
The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero percent risk weighting.

Public Sector Entities (PSE) portfolio
Claims on Bahraini PSEs, and claims on PSEs on domestic currency – which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk weighted according to their external ratings.

Banks portfolio
Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on certain investment firms which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio
Claims on corporates are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

Regulatory retail portfolio
Claims on retail portfolio are risk weighted at 75%, except for past due portfolio. As part of regulatory concessionary measures required by the CBB, risk weight for Bahraini based SMEs was reduced from 75% to 25% up till 31 December 2021.

Mortgage portfolio
Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims secured by mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio
The equities portfolio comprises equity investments in the banking book. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent, unless subject to the following treatments. The amount of any significant investments in commercial entities (A "significant investment" in a commercial entity is defined as any investment in the capital instruments of a commercial entity by the bank which is equivalent to or more than 10 percent of the issued common share capital of the issuing commercial entity) above 15 percent (individually) and 60 percent (collectively) of the bank's capital (the "Total Capital materiality thresholds") must be risk weighted at 800 percent. Moreover, significant investments in the common shares of unconsolidated financial entities must be risk weighted at 250 percent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio
The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100% if listed, and 150% if not listed.

Past due exposures
This includes claims, for which the repayment is overdue for ninety days or more. The risk weighting applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

Holding of real estate
All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

Other assets and holdings of securitisation tranches
Other assets are risk weighted at 100 percent, whereas securitisation exposures are risk weighted at 20 percent to 1,250 percent, depending on the external rating.

All BBK's holding of securitisations, if any is reported part of the Bank's investment portfolio.

Large exposures
The excess amount of any exposure above 15% of the bank's regulatory capital to any counterparty or a group of closely related counterparties must be risk weighted at 800%, unless it is an exempted exposure in accordance with the requirements of the CBB Rulebook.

External rating agencies
BBK uses ratings issued by Moody's and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel III

The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel III framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- In case of Over-the-Counter (OTC) derivative contracts, in addition to the default risk capital requirements for counterparty credit risk, the bank must add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments or CVA).
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel III capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel III guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

8. CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

	Gross credit exposures (before risk mitigation) BD millions	Eligible financial collateral BD millions	Credit risk after risk mitigation BD millions	Risk weighted asset BD millions	Regulatory capital required 14.0% BD millions
Sovereign	1,187.5	–	1,187.5	53.4	7.5
Public sector entities	0.1	–	0.1	–	–
Banks	532.2	–	532.2	294.4	41.2
Corporates	1,316.4	36.4	1,280.0	996.5	138.5
Regulatory retail and SME	508.0	4.0	504.0	369.2	51.7
Mortgage	105.0	0.3	104.8	78.6	11.0
Investment in securities	104.1	–	104.1	168.4	23.6
Past due exposures	40.1	0.3	39.8	43.8	6.1
Real estate	65.8	–	65.8	116.9	16.4
Other assets and cash items	98.3	–	98.3	86.8	12.1
Total Credit Risk	**3,957.5**	**41.0**	**3,916.6**	**2,208.0**	**308.1**
Market Risk	–	–	–	37.5	5.3
Operational Risk *	–	–	–	282.6	39.6
Total Risk Weighted Exposure	**3,957.5**	**41.0**	**3,916.6**	**2,528.1**	**353.0**

* The Bank is currently using the Basic Indicator Approach whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the year 2020 is BD 150.7 million.

Credit Risk Mitigation and Collateral Valuation Policy

BBK employs a range of techniques to mitigate risk in its credit portfolio. Credit risk mitigation includes an objective assessment of the counterparty's capacity and willingness to meet its commitments in the normal course. The bank strives to optimize facility structure, collateral, lending covenants, terms and conditions.

The Bank has detailed policies and procedures for valuing collateral/ securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security. More frequent valuations are also considered if warranted by market volatility and declining trends in valuations are observed. The collaterals and support include mortgages, cash collaterals, marketable securities, personal and corporate guarantees and guarantees from sovereigns and financial institutions. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

9. FUNDED, UNFUNDED AND AVERAGE CREDIT EXPOSURE

Total gross credit exposures	Total funded credit exposure BD millions	Total un-funded credit exposure BD millions	Average quarterly credit exposure BD millions
Sovereign	1,187.5	–	1,254.9
Public sector entities	0.1	–	5.2
Banks	514.8	17.4	609.5
Corporates	1,159.7	156.7	1,326.3
Regulatory retail and SME	508.0	–	489.9
Mortgage	105.0	–	97.2
Investment in securities	104.1	–	98.0
Past due exposures	40.1	–	30.8
Real estate	65.8	–	65.4
Other assets and cash items	98.3	–	99.9
Total credit risk	**3,783.4**	**174.1**	**4,077.1**

10. CONCENTRATION OF CREDIT RISK BY REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Gulf Cooperation Council (GCC) BD millions	North America BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	244.8	–	–	11.7	–	**256.5**
Treasury bills	487.8	–	–	–	–	**487.8**
Deposits in banks and other financial institutions	126.9	137.1	48.0	6.6	0.1	**318.7**
Loans and advances to customers	1,402.0	–	32.5	97.8	52.6	**1,584.9**
Investments in associated companies and joint ventures	42.8	–	21.7	–	–	**64.5**
Investment securities	713.8	15.3	91.1	106.6	30.8	**957.6**
Other assets	102.8	–	1.3	9.3	–	**113.4**
Total funded exposure	**3,120.9**	**152.4**	**194.6**	**232.0**	**83.5**	**3,783.4**
Unfunded commitments and contingencies	144.0	0.1	10.7	18.0	1.3	**174.1**
Total credit risk	**3,264.9**	**152.5**	**205.3**	**250.0**	**84.8**	**3,957.5**

11 CONCENTRATION OF CREDIT RISK BY INDUSTRY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	–	20.3	–	236.2	–	–	**256.5**
Treasury bills	–	–	–	487.8	–	–	**487.8**
Deposits in banks and other financial institutions	–	318.7	–	–	–	–	**318.7**
Loans and advances to customers	496.9	141.0	270.3	14.9	535.2	126.7	**1,584.9**
Investments in associated companies and joint ventures	–	43.1	21.4	–	–	–	**64.5**
Investment securities	148.7	176.4	16.8	536.1	–	79.6	**957.6**
Other assets	–	–	–	–	–	113.4	**113.4**
Total funded exposure	**645.6**	**699.5**	**308.5**	**1,275.0**	**535.2**	**319.7**	**3,783.4**
Unfunded commitments and contingencies	100.3	20.0	33.0	1.3	0.2	19.3	**174.1**
Total credit risk	**745.9**	**719.5**	**341.5**	**1,276.3**	**535.4**	**339.0**	**3,957.5**

12 CONCENTRATION OF CREDIT RISK BY MATURITY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	Above 20 years BD millions	Total BD millions
Cash and balances with central banks	205.0	–	–	–	–	–	–	51.5	**256.5**
Treasury bills	74.6	164.5	135.7	113.0	–	–	–	–	**487.8**
Deposits in banks and other financial institutions	306.5	5.7	6.0	0.5	–	–	–	–	**318.7**
Loans and advances to customers	212.6	108.2	126.9	104.1	622.0	329.4	30.9	50.8	**1,584.9**
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	64.5	**64.5**
Investment securities	32.5	23.7	37.6	15.8	304.9	331.8	165.7	45.6	**957.6**
Other assets	70.5	–	0.1	0.2	36.6	0.9	3.7	1.5	**113.4**
Total funded exposure	**901.7**	**302.1**	**306.3**	**233.6**	**963.5**	**662.1**	**200.3**	**213.9**	**3,783.4**
Unfunded commitments and contingencies	18.3	14.2	13.1	82.9	42.5	2.4	–	0.7	**174.1**
Total credit risk	**920.0**	**316.3**	**319.4**	**316.5**	**1,006.0**	**664.5**	**200.3**	**214.6**	**3,957.5**

13 IMPAIRED LOANS AND PROVISIONS

	Impaired loans BD millions	Allowances for ECL: Stage 3: Lifetime ECL credit-impaired BD millions	Allowances for ECL: Stage 1: 12 month ECL and Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Net remeasurement of loss allowance for the year BD millions	Write offs/ reallocations during the year
Trading and manufacturing	49.8	31.6	19.4	4.7	13.8
Banks and other financial institutions	2.8	1.8	0.1	(0.7)	0.6
Construction and real estate	21.6	10.2	3.6	1.1	–
Government and public sector	16.2	8.9	–	–	–
Individuals	7.3	6.8	4.7	0.5	5.1
Others	5.8	4.0	1.4	1.3	0.1
Total	**103.4**	**63.3**	**29.1**	**6.9**	**19.5**

14 AGEING OF IMPAIRED LOANS BY REGION

	GCC BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
3 months up to 1 year	23.8	–	0.2	–	**24.0**
1 to 3 years	32.1	2.8	0.6	–	**35.5**
Over 3 years	43.9	–	–	–	**43.9**
Total impaired loans	**99.8**	**2.8**	**0.8**	**–**	**103.4**
Stage 3: Lifetime ECL credit- impaired	60.0	2.2	1.1	–	**63.3**
Stage 1: 12-month ECL and Stage 2: Lifetime ECL not credit- impaired	28.2	0.1	0.5	0.3	**29.1**

15 AGEING OF IMPAIRED LOANS BY INDUSTRY

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
3 months up to 1 year	11.9	–	5.0	–	5.1	2.0	**24.0**
1 to 3 years	12.7	2.8	15.5	–	0.7	3.8	**35.5**
Over 3 years	25.2	–	1.1	16.2	1.5	–	**43.9**
Total impaired loans	**49.8**	**2.8**	**21.6**	**16.2**	**7.3**	**5.8**	**103.4**

16 RESTRUCTURED LOANS

	BD millions
Loans restructured during the year	48.0
Impact of restructured facilities and loans on provisions	3.4

The above restructurings did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

17. MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

The "Market Risk Internal Model" is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading Book. The VaR Model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to Manage Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

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

The summary of VaR of the trading book for the period January 2020 to December 2020 is as follows:

VaR Results for 2020 (10 day 99%)
Global (BAHRAIN and KUWAIT)

1 January 2020 to 31 December 2020

Asset class	Limit BD millions	VaR 31 December 2020 BD millions	High VaR BD millions	Low VaR BD millions	Average VaR BD millions
Foreign exchange	0.6	0.2	0.3	0.2	0.2
Interest rate	0.2	–	–	–	–
	0.8	**0.2**	**0.3**	**0.2**	**0.2**

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

The Backtesting results for the period January 2020 to December 2020 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

17. MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS (continued)

Stress Testing

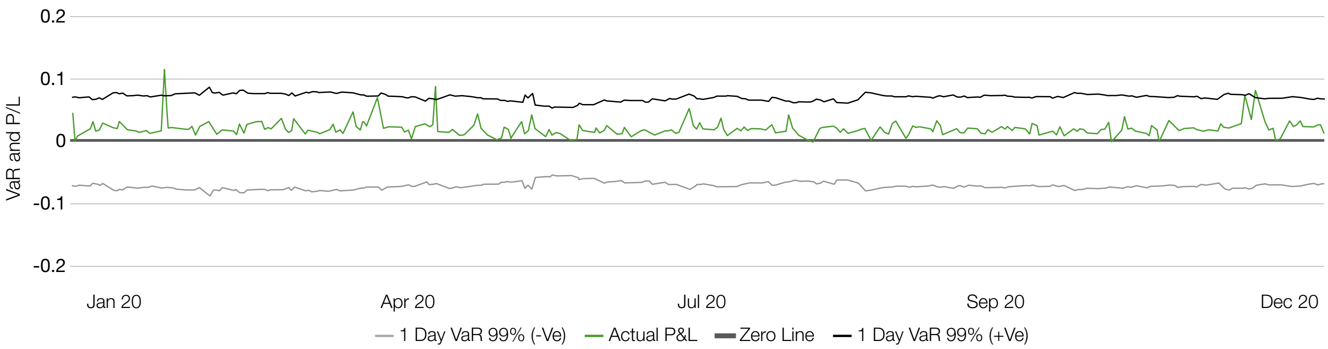
The Bank conducts stress testing of VaR, under various 'What If' scenarios such as increasing volatility and varying correlations. The stress testing methodology uses historical data capturing periods of significant disturbance and covering all types of risks associated with the asset classes which are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

Month end VaR (10 day 99%)

Month	VaR BD millions
January 2020	0.23
February 2020	0.24
March 2020	0.24
April 2020	0.21
May 2020	0.18
June 2020	0.22
July 2020	0.19
August 2020	0.22
September 2020	0.22
October 2020	0.22
November 2020	0.20
December 2020	0.21

The following graph shows that the daily average Profit and Loss (Actual Average P&L basis) vis-à-vis one day VaR, for the review period.

Value-at-Risk Backtesting January 2020 to December 2020



18. CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD millions
Sovereign	1,070.4
Total	**1,070.4**

19. CREDIT DERIVATIVES EXPOSURE

BBK is not exposed to any credit derivatives as at 31 December 2020.

20. EQUITY POSITIONS IN THE BANKING BOOK

	BD millions
Publicly traded equity shares	48.0
Privately held equity shares	22.3
Total	**70.3**
Regulatory capital required 14.0%	9.8

21. GAINS ON EQUITY INSTRUMENTS

	BD millions
Realised gains/losses in retained earnings	0.2
Unrealised gains/losses in CET1 Capital	(3.4)

22. LEVERAGE RATIO

In November 2018, the CBB issued its final Leverage regulation, with an effective date of 30 June 2019. The leverage ratio is a simple ratio that serves as a supplementary measure to the risk-based capital requirements. It aims to constrain the build-up of leverage in banking sector, reinforce the risk-based requirements with a simple non-risk based "backstop" measure, and serve as a broad measure of both the on and off-balance sheet sources of bank leverage.

The leverage ratio is measured as Tier 1 capital divided by Total Exposures. Total exposures consist of on-balance sheet, off-balance sheet, derivatives and securities financing transactions exposures. As per CBB regulations, Bahraini banks must meet a 3% leverage ratio minimum requirement at all times, except for Domestic Systemically Important Banks (DSIBs) where the minimum ratio is higher at 3.75%. Accordingly, as a DSIB bank, the minimum ratio for BBK is 3.75%. As of 31 December 2020, the leverage ratio for BBK stood at 12.79%.

Part IV

Minutes

102 Minutes of the Ordinary General Meeting
109 Minutes of the Extraordinary Meeting
111 Addendum to the Annual General Meeting

These meetings are conducted in Arabic, hence the minutes are recorded in Arabic.