

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 **BBKPLUS** 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 **BBKPLUS** 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 **BBKPLUS** 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