



**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
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables;</li> <li>• Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models; and</li> <li>• 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.</li> </ul> <p>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.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates.</p> <p>With the involvement of our internal specialists, our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• We assessed:                     <ul style="list-style-type: none"> <li>- 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</li> <li>- 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.</li> </ul> </li> <li>• 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.</li> </ul>

## 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
<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• We reviewed a sample of credit files and performed procedures to assess:                             <ul style="list-style-type: none"> <li>- 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;</li> <li>- the process of collateral valuation; and</li> <li>- the ECL recalculation.</li> </ul> </li> <li>• 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.</li> </ul>

### 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.

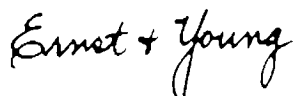
From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless 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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

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