NBB

Your **National** Partner

Annual Report 2019

#TeamBahrain

Table of Contents

www.nbbonline.com

National Bank of Bahrain B.S.C.
NBB Tower, Government Avenue,
P.O. Box 106, Manama, Kingdom of Bahrain
T: (+973) 17 228800, F: (+973) 17 228998
E: nbb@nbbonline.com
Social Media: @NBBONLINE

Licensed by CBB as a conventional retail bank

This annual report contains QR codes to view videos and website links using your smart-phone/device

1- Download the QR code application from your app store
2- Look for the QR code and scan it to view interactive content

English and Arabic versions of the annual report are available in PDF format.
To download please visit:
https://www.nbbonline.com/en/investor-relations/financial/financial/annual-reports

Designed and Produced by **The Bridge Partnership**

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty
King Hamad bin Isa
Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

Corporate Profile

Since our establishment in 1957 as Bahrain's first national bank, we have been enriching the lives of generations. We have set the foundations for the development of the local banking sector over six decades ago and have been guiding its progress ever since. Following an ambitious growth strategy, we have spearheaded financial presence across the Kingdom and have expanded to key GCC markets including Riyadh, in the Kingdom of Saudi Arabia and Abu Dhabi in the United Arab Emirates, with Dubai soon to follow.

We have vested heavily in growing our reach and presence in new locations as part of our mission to provide existing and new customers with easy access to our services. With the largest network of branches and ATMs in Bahrain, to advanced omnichannel banking, we have paved the way in innovation and convenience banking services for our customers.

With a plan to further enhance our services and product range in Bahrain and the GCC, we look forward to bringing new and improved experiences to our customers and to the market. We have embarked on a journey of digital and internal transformation to improve our agility even further and to anticipate customer needs. Driven by our brand promise, cumulative expertise fused with a solid corporate culture, we focus our efforts on being closer to our customers, offering products and services that will truly enrich their lives. We have heavily invested in infrastructure upgrades that have equipped us with modern robust internal systems that have allowed us to deliver our products and services efficiently and seamlessly.

A proudly Bahraini brand, we are listed on the Bahrain Bourse with a strong local stakeholder profile. Our ownership is comprised of 44.94% local private and institutional investors, 44.18% Bahrain Mumtalakat Holding Company, wholly-owned by the Government of the Kingdom of Bahrain, and 10.88% by the Social Insurance Organisation.

The year 2019 saw the introduction of our new brand identity, which was swiftly implemented across our branch network, ATMs, digital and social media channels, as well as our overseas offices. The new, and enhanced brand experience began to be felt across the Kingdom, both with customers and non-customers as we continued to place our brand promise of 'closer to you' at the heart of everything, directly influencing what our customers think, feel and do.

Our drive to ensure we deliver against our brand promise resulted in increased investment and activity in customer research, insight and satisfaction ratings, allowing us to quickly identify areas of strength and improvement, truly bringing the voice of the customer into the organisation.

We continued to focus on key events and milestones throughout the year, including Euromoney, F1, Ramadan, International Monetary Fund Conference, regional specialist conferences, Ironkids and National Day. Subject matter experts represented NBB on numerous panels, further driving our growing contribution to providing thought leadership in the region. Our Public Relations efforts focused on many of the 'firsts' we achieved during the year, including the launch of Open Banking, Tap and Go payments, Cash Deposit Machines (CDM) and adherence to the requirements of data protection.

The positivity and momentum generated throughout 2019 resulted in NBB being awarded 'The Best Bank in Bahrain' for the first time at the Euromoney Middle East Awards for Excellence held in Dubai.

For 2020 and beyond, we will continue to build on each of our strategic initiatives, empowering our people to excel in our quest to maintain our constant objective to be the best customer service oriented banking institution in Bahrain.

Our Purpose

"Enriching the lives of generations"

Our Mission

"To always connect with you, to understand you and help give you what you need, when you need it, in a way that works for you"

Our Promise

"Closer to you"

Our Values

Pride
Work with heart

Teamwork
Collaborate for success

Ethics
Always do the right thing

Respect
Connect with respect

Responsibility
Own it and embrace it

Transparency
Be fearlessly transparent

Milestones of NBB during 2019

Euromoney award for “Best Bank in Bahrain” at the Euromoney Middle East Awards for Excellence 2019

Launched the Bank’s new brand identity as part of the transformation journey

Acquired a majority stake in Bahrain Islamic Bank as part of the Bank’s efforts to further develop its Islamic activities and to offer clients a range of both conventional and Islamic banking services locally and regionally

The first bank in Bahrain, the Middle East and North Africa region to introduce Account Aggregation by leveraging on its Open Banking platform

Commited to constructing, refurbishing and equipping the Khalifa City Health Centre in Jaaw, a project that will be completed at an approximate cost of BHD 6 million

Supported Children with Cancer through a nationwide Ramadan CSR campaign and created a special race for Kids with Cancer in the international IronMan Bahrain 2019

Created the Diversity and Inclusion Committee to create an inclusive culture that embraces age, gender, ethnicity and disability and ensure that our people are afforded dignity, are valued, and are provided equal opportunities to thrive

Created the Directors’ Development Programme for Women, an exclusive initiative, with various partners designed to provide aspiring female professionals with the essential skills and competencies to succeed in executive positions across the Kingdom in any industry

Launched the “RISE”, a unique internal training programme, designed to groom high-performing talents into vital drivers of NBB’s strategy

Launched “INSPIRE” mentorship programme to create a knowledge sharing culture within the organisation that leverages the expertise and skills of employees

Successfully structured and executed a landmark USD 1.5 billion syndicated loan financing for Bahrain Aluminium Company (ALBA), acting as a Coordinator and Mandated Lead Arranger

Participated and supported the design of the Liquidity Support Fund scheme, as announced during the government forum in October of 2019 by the Government of Bahrain under directives of HRH the Crown Prince, through the Ministry of Finance and National Economy and other stakeholders in addition to a number of local banks

Cemented the Bank’s position as the number one Debt Capital Markets (DCM) house in the Kingdom, bridging the gap between Bahraini based issuers and international institutional investors

The first bank in Bahrain to support businesses with cash management solution in the form of two types of bulk cash deposit solutions; customer dedicated office machines and public cash deposit machines accessible in branches and selected malls

Introduced the first flagship branch concept in Seef Mall with a new customer experience. Upgraded Al Muthana and Muharraq Souk branches, reopened Sitra branch and expanded the branch network by adding the Atrium branch

Expanded the ATM network further to 102 locations across the Kingdom increasing NBB’s footprint by 30% (the largest in the Kingdom) and extended the ATM Van presence at prime locations, events, and partners’ premises during the year

Upgraded all cards to leverage Near Field Communication (NFC) technology (contactless payments) and became the first bank in Bahrain to enable all its POS for this service

Established a dedicated Financial Restructuring Department to support the efforts by companies to restructure

Established a dedicated Strategic Accounts Management Department to provide personalised services to Strategic Governmental entities and Ultra High Net Worth customers

Strategically partnered with Eskan Bank to provide housing loans for Mazaya Scheme beneficiaries

Introduced video teller machines (VTMs) with the first card issuance, statement and IBAN letter printing features

'Proud to be your National Partner'

by committing to constantly develop our customer experience.

Aspired to meet the expectations of our discerning clients, the new branch model is energy cautious, environmentally friendly and has a modern edge. The newly upgraded Seef Mall Flagship Branch provides an enhanced service offerings with extended opening hours for greater convenience and access.

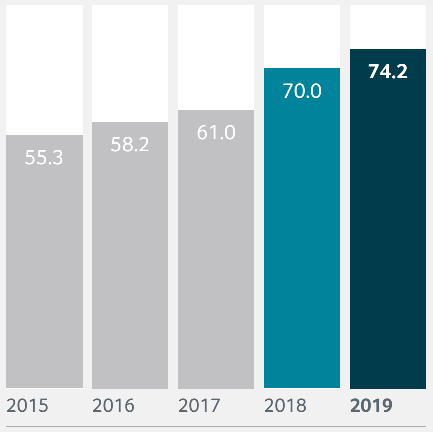
Financial Highlights

The National Bank of Bahrain delivered sustained growth in revenue and profit, increased productivity and shareholder value.

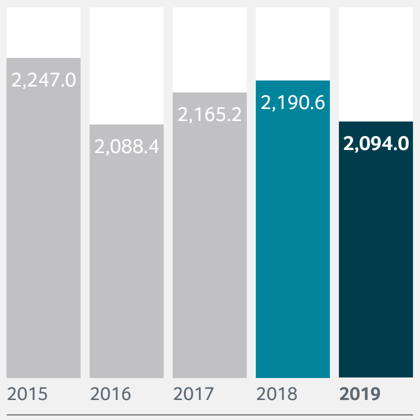
	2019	2018	2017	2016	2015
Earnings (BHD millions)					
Net interest income	**93.3**	87.2	73.1	66.0	59.5
Other income	**32.5**	30.2	31.4	30.9	34.9
Operating expenses	**45.2**	41.8	33.0	34.1	30.1
Profit for the year	**74.2**	70.0	61.0	58.2	55.3
Cash dividend	**38.7**	34.8	31.5	28.7	26.0
Stock dividend	**15.5**	14.0	12.8	11.6	10.5
Financial Position (BHD millions)					
Total assets	**3,194.5**	3,195.5	3,101.5	2,977.1	2,999.7
Loans and advances	**1,213.7**	1,190.1	1,226.9	1,031.9	1,051.7
Investment securities	**1,070.7**	1,132.2	1,067.3	1,092.9	1,094.0
Earning assets	**2,992.1**	3,020.7	2,939.7	2,823.0	2,837.9
Total deposits	**2,599.0**	2,675.9	2,617.1	2,526.4	2,588.2
Customer deposits	**2,094.0**	2,190.6	2,165.2	2,088.4	2,247.0
Shareholders' equity	**532.3**	475.8	447.9	414.7	364.8
Ratios (%)					
Earnings					
Return on average equity	**14.7**	15.2	14.1	14.9	14.9
Return on average assets	**2.3**	2.2	2.0	2.0	1.9
Earnings per share (fils)	**49**	46	40	38	36
Cost-to-income ratio	**35.9**	35.6	31.6	35.2	31.9
Earnings per full-time employee (BHD 000's)	**102.1**	102.6	98.6	102.4	98.3
Capital					
Shareholders' equity as % of total assets	**16.7**	14.9	14.4	13.9	12.2
Total liabilities to shareholders' equity (times)	**5.0**	5.7	5.9	6.2	7.2
Capital adequacy ratio	**37.3**	33.8	36.3	35.4	30.0

Profit for the year
BHD 74.2 million

Profit for the year
(BHD millions)

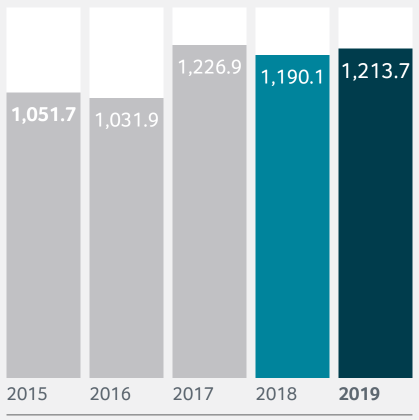


Customer deposits
(BHD millions)



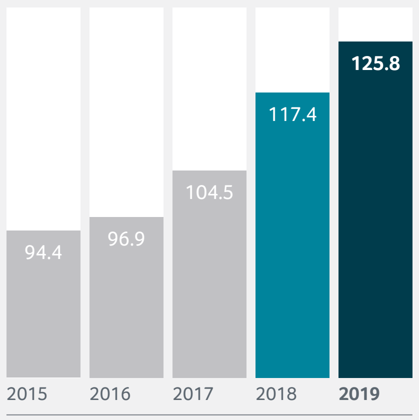
BHD 2,094.0 million

Loans and advances
(BHD millions)



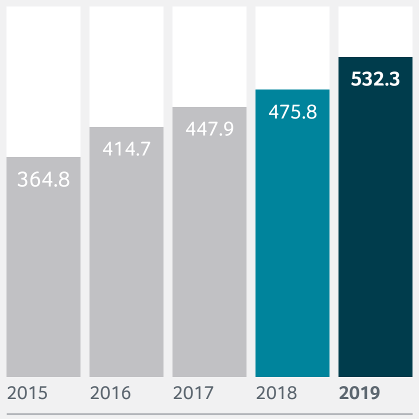
BHD 1,213.7 million

Total income
(BHD millions)



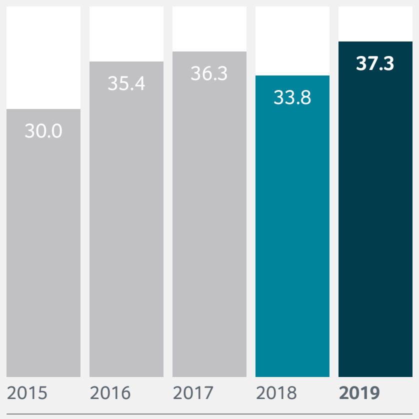
BHD 125.8 million

Equity
(BHD millions)



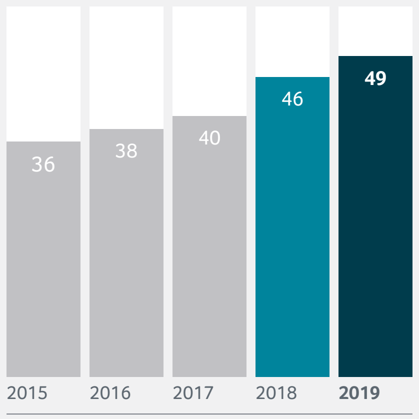
BHD 532.3 million

Capital adequacy
(%)



37.3%

Earnings per share
(Bahraini fils)



49 bahraini fils

Board of Directors

Farouk Yousif Khalil Almoayyed
Chairman

Non-executive

Appointed to the Board in 1997

Chairman: Nomination, Remuneration and Governance Committee, Donations and Contributions Committee.

Chairman: Yousif Khalil Almoayyed and Sons Co. B.S.C.(c), Almoayyed International Group B.S.C.(c), Ashraf Holding W.L.L, Bahrain Duty Free Co. W.L.L., Gulf Hotels Group B.S.C, Arab Academy for Research and Studies (Ahlia University) B.S.C.(c) and Bahrain National Holding Company B.S.C.

Director: Economic Development Board.

Dr. Essam Abdulla Yousif Fakhro
Deputy Chairman

Non-executive

Appointed to the Board in 2008

Chairman: Executive Committee.

Member: Nomination, Remuneration and Governance Committee, Donations and Contributions Committee.

Chairman: Bahrain Cinema Company B.S.C., Abdulla Yousif Fakhro and Sons B.S.C. (c) and Bahrain Islamic Bank B.S.C.

Khalid Yousif Abdulrahman Abdulrahim
Director

Independent

Appointed to the Board in 2001

Chairman: Audit Committee.

Chairman: The Food Supply Co. Ltd. W.L.L.

Deputy Chairman: Awal Dairy Company W.L.L.

Deputy Chairman and CEO of National Transport Co. S.P.C.

Director, Member of the Executive Committee and Audit Committee: Bahrain Ship Repairing and Engineering Company Co. B.S.C

Director and Member of the Executive Committee: Bahrain Islamic Bank B.S.C

Fawzi Ahmed Ali Kanoo
Deputy Chairman

Independent

Appointed to the Board in 2010

Member: Executive Committee, Donations and Contributions Committee.

Chairman: Abdulrahman Jassim Kanoo Co. W.L.L., Bahrain Ship Repairing and Engineering Co. B.S.C.

Deputy Chairman: Yusuf Bin Ahmed Kanoo (Holdings) Co. W.L.L., APM Terminals B.S.C. and Gulf Hotels Group B.S.C.

Hussain Sultan Sultan Al Ghanem
Director

Non-executive

Appointed to the Board in 2004

Member: Executive Committee.

Assistant Undersecretary for Human and Financial Resources at H.R.H. the Prime Minister's Court.

Khalid Omar Al Romaihi
Director

Non-executive

Appointed to the Board in 2014

Chairman: Risk Committee.

Chairman: Bahrain Real Estate Investment Company (Edamah) B.S.C. (c) and Bahrain Development Bank B.S.C. (c).

CEO: Bahrain Mumtalakat Holding Company B.S.C. (c).

Director: Economic Development Board, Bahrain Mumtalakat Holding Company B.S.C. (c), National Oil and Gas Authority and The National Oil and Gas Holding Company B.S.C. (c).

Yusuf Abdulla Yusuf Akbar Alireza
Director

Independent

Appointed to the Board in 2018

Member: Executive Committee; Nomination, Remuneration and Governance Committee.

Founder of ARP Global Capital Limited (DIFC), an alternative asset management firm. He was the CEO of Noble Group Holdings Limited, the largest Asian commodity firm and a Fortune 100 company from 2012 to 2016 after working for 20 years with Goldman Sachs Group Inc. where his last role was Co- President of Asia.

Director: Economic Development Board, Bahrain Ship Repairing and Engineering Co B.S.C., the Global Board of Room to Read and the Center for Contemporary Arab Studies Georgetown University.

The first Arab Partner in Goldman Sachs Group Inc. and the only Arab to ever be elected to the firm's Global Management Committee.

Sh. Rashid Bin Salman Mohamed Al Khalifa
Director

Non-executive

Appointed to the Board in 2014

Member: Executive Committee, Nomination, Remuneration and Governance Committee.

Retired banker and independent consultant for investment and banking services.

Rishi Kapoor
Director

Independent

Appointed to the Board in 2018

Member: Risk Committee.

Investcorp's Co-Chief Executive Officer, responsible for overseeing activities across North America, Europe, India and the Middle East, covering private equity, real estate investments, credit management and absolute return investments. He is the Chairman of Investcorp Investment Committees and is a Member of the Executive Committee, Operating Committee and the Financial Risk Management Committee.

Director: Duke University's regional advisory board for the Middle East, Gulf Air Group Holding B.S.C. (c), Bahrain Airport Company S.P.C. and Gulf Aviation Academy B.S.C. (c).

In 2018, Forbes Middle East recognised Rishi as a top Indian leader in the Arab World.

Hala Ali Hussain Yateem
Director

Independent

Appointed to the Board in 2018

Member: Audit Committee, Donations and Contributions Committee.

Director: Bahrain Real Estate Investment Company (Edamah), B.S.C. (c), Ali Hussain Yateem Holding Co. W.L.L. and A.M. Yateem Brothers W.L.L.

Mohammed Tareq Mohammed Sadeq Mohamed Akbar
Director

Non-executive

Appointed to the Board in 2018

Member: Audit Committee.

Fellow: Institute of Chartered Accountants in England and Wales (ICAEW).

Director: Ahli United Bank K.S.C.P., Ahli United Bank (Egypt) S.A.E. and Bahrain International Golf Course Company B.S.C. (c).

Director and Chairman of the Audit Committee: Al Baraka Bank (Pakistan) Limited.

Board of Directors' Report

FAROUK YOUSUF KHALIL ALMOAYYED
CHAIRMAN

The continued strong results achieved in 2019 demonstrate the efficacy of the Board's direction in aligning NBB's strategy to a banking industry undergoing rapid technological change, and ensuring that the Bank remains focused in serving the evolving needs of each segment of its customer base.

The Board of Directors is pleased to present the annual report of the Bank together with the financial statements for the year ended 31 December 2019, another year of continued profitability and growth.

Overall performance

The strength of the financial results is shown in the strong net profit of BHD 74.2 million (USD 197.4 million) compared to BHD 70.0 million (USD 186.1 million) for the previous year, an increase of 6.0%. Key performance indicators remain robust with a return on average assets of 2.3% (2018: 2.2%) and earnings per share of 49 fils (2018: 46 fils). The Bank's financial position remains strong with total assets standing at BHD 3,194.5 million (USD 8,496.0 million) as at 31 December 2019, in line with total assets as at 31 December 2018.

NET PROFIT

BHD 74.2 million

The Bank achieved strong financial results and net profit

LOANS AND ADVANCES

BHD 1,213.7 million

Loans and advances grew by 2.0% compared to 2018 level

Scan QR code to watch the Chairman video.

2019 ANNUAL REPORT

NATIONAL BANK OF BAHRAIN B.S.C.

Board of Directors' Report (continued)

In 2019, we built further on our commitment to the SME sector, a key element of Bahrain's economy. We participated in the Government's new Liquidity Support Fund, providing vital support to our local business constituents. In addition, we participated in arranging major governmental projects throughout the year.

Loans and advances grew by 2.0% to BHD 1,213.7 million (USD 3,227.9 million) compared with BHD 1,190.1 million (USD 3,165.2 million) last year. The Bank's capital base is strong with a capital adequacy ratio of 37.3% (before proposed appropriations) as at 31 December 2019.

The continued strong results achieved in 2019 demonstrate the efficacy of the Board's direction in aligning NBB's strategy to a banking industry undergoing rapid technological change, and ensuring that the Bank remains focused in serving the evolving needs of each segment of its customer base.

In 2019, we built further on our commitment to the SME sector, a key element of Bahrain's economy. We participated in the Government's new Liquidity Support Fund, providing vital support to our local business constituents. In addition, we participated in arranging major governmental projects throughout the year. Heightened focus on delivering to our retail and corporate clients resulted in significant and systematic overhaul of our physical branch network, with enhanced self-service capabilities. The range of digital technology applications accessible through NBB's virtual channels provides an even greater choice of easier points of contact for our customers.

Further details of the Bank's financial position and performance are shown in the financial review and financial statements sections which follow.

Recommended appropriations

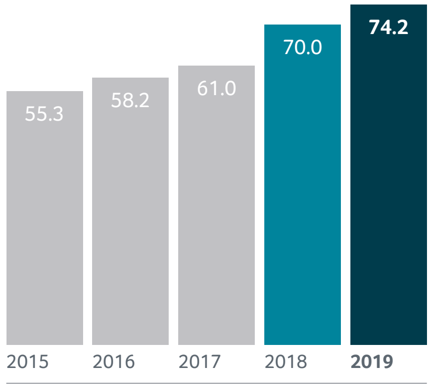
Based on the results, the Board of Directors has recommended for approval by shareholders the following appropriations:

	BHD millions
Cash dividend (25%)	38.7
Bonus shares (10%)	15.5
Donations and contributions	3.7
Transfer to statutory reserve	8.0

Donations and Contributions

The Board recommends the allocation of BHD 3.7 million (USD 9.8 million) to the Donations and Contributions Fund representing 5% of the Bank's 2019 profit. The cumulative allocation under the programme since inception now stands at BHD 52.9 million (USD 140.7 million).

Profit for the year
(BHD millions)



Corporate Governance

The Board recognises that good governance is essential to the success of any organisation and is fully committed to protecting the interests of all stakeholders through robust and international standard governance policies. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the Central Bank of Bahrain's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated on in the corporate governance report section of the annual report. The report also contains disclosures on the number of shares held as at 31 December 2019 by Directors and trading during the year in the Bank's shares by Directors, senior management, approved persons and related parties.

Acknowledgements

On behalf of the shareholders, the Directors extend their gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister and the many government ministries and institutions. We acknowledge the excellent ongoing support and guidance extended to us by the Ministry of Finance and National Economy, and the Central Bank of Bahrain. The Directors also thank our loyal customers and business partners for their ongoing trust and faith in NBB. In conclusion, I offer my thanks to our outstanding management team and all of our employees for their consistently high standards of performance and commitment to NBB.

Farouk Yousuf Khalil Almoayyed
Chairman
12 February 2020

Executive Management

1. Jean-Christophe Durand
Chief Executive Officer

2. Abdul Aziz Al Ahmed
Chief Executive – Strategic Accounts

3. Hussain Al Hussaini
Chief Executive – Treasury, Capital Markets and Wealth Management

4. Bruce Wade
Chief Executive – Financial Restructuring

5. Yaser AlSharifi
Chief Strategy Officer

6. Iain Blacklaw
Chief Operating Officer

7. Dana Buheji
Chief Human Resources Officer

8. Hisham Al Kurdi
Chief Executive - Corporate and Institutional Investment Banking

9. Gaby El Hakim
Chief Legal Officer and Corporate Secretary

10. Isa Maseeh
Chief Risk Officer

11. Russell Bennett
Chief Financial Officer

12. Richard Hicks
Chief Marketing Officer

13. Subah Al Zayani
Head of Retail Banking

Executive Management Profiles

1. Jean-Christophe Durand

Chief Executive Officer

Mr. Jean-Christophe Durand joined the National Bank of Bahrain (NBB) as CEO in December 2016 with a focus on reinforcing and expanding the Bank's role as a driver for economic growth and development.

Mr. Durand brings over 38 years of international and regional banking and finance experience which he gained from senior leadership roles at leading global banking institutions, 31 years of which were in the GCC. Prior to taking on the role of CEO of NBB, he was the CEO of BNP Paribas Middle East and Africa Region for Corporate and Institutional Banking and Asset Management.

He holds several Board positions locally and regionally including Gulf Air and Bahrain Telecommunications Company (Batelco). He is also the Chairman of Batelco's Executive Committee and Member of the Nomination, Remuneration, Donations and Corporate Governance Committee. Additionally, he is the Vice Chairman for Umniah Telecommunication Company in Jordan, and a Director for Bahrain Institute of Banking and Finance (BIBF) and the Chairman of the French Chamber of Commerce and Industry in Bahrain (FCCIB).

Other notable achievements include receiving the 'Legion d' Honneur' from the Government of France and is a graduate from ESSEC (Ecole Superieure des Sciences Economiques et Commercialles) in Paris.

2. Abdulaziz Al Ahmed

Chief Executive – Strategic Accounts

Mr. Abdulaziz Al Ahmed joined NBB in 1974. He assumed his role as Chief Executive – Strategic Accounts in 2019, with a mandate to manage, service and grow the Bank's Strategic Accounts and ultra high net worth individuals.

Over the last 45 years, Mr. Al Ahmed has gained extensive experience in almost all the functional areas of Retail, Commercial, SMEs and Corporate Banking. Prior to his current position, he held successive senior leadership roles across the organisation including Chief Executive of Retail, Commercial and SMEs and Corporate Businesses and General Manager of Retail Banking, Commercial Banking and Corporate Banking segments. He brings to the role his vast experience and also the benefit of the strong relationships he has nurtured over the years with high-profile clients, senior government functionaries and other key players in the Bahrain economy.

Mr. AbdulAziz is a Member of the Board of Directors of Bahrain Commercial Facilities Co. (BCFC) and Vice Chairman of the Remunerations Committee. He is also the Vice Chairman of the Automotive Board and Member of Board of Directors of National Motor Company (NMC), Tas'heelat Automotive Co S.P.C and Tas'heelat Car Leasing Co W.L.L. He is also a Board Member of Trustees of Primary Healthcare of Supreme Council of Health.

Mr. Al Ahmed holds an Executive Diploma from University of Virginia, USA.

3. Hussain Al Hussaini

Chief Executive – Treasury, Capital Markets and Wealth Management

Mr. Hussain Al Hussaini joined NBB in 1982. With 37 years of experience at NBB, he assumed his position as Chief Executive – Treasury, Capital Markets and Wealth Management in 2017.

He also serves as Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO) BSC; Member of the Board of Directors; Executive Committee, Investment Committee and Nomination and Remuneration Committee in Esterad Investment Company; Member of Board of Trustees in Bahrain Polytechnic and Member of the Deposit Protection and Unrestricted Investor Accounts in Central Bank of Bahrain. Mr. Hussaini is also a Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association and Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association.

Mr. Al Hussaini holds an MBA in Marketing and Management, DePaul University, USA; PMD (Programme for Management Development) from Harvard Business School and a B.A. in Economics, Concordia University, Canada.

4. Bruce Wade

Chief Executive – Financial Restructuring

Mr. Bruce Wade joined NBB in 2014 and currently holds the position of Chief Executive-Financial Restructuring, having set up this new division mid-2019 to support local and regional markets by acting as an independent advisor to companies facing challenges.

Mr. Wade brings more than 35 years of banking experience with previous positions in regional and international banks such as Saudi Hollandi Bank, Riyadh Bank, Citibank and Bank of Tokyo Group. He is also the Chairman of the Risk Management Committee at Bahrain Association of Banks.

He holds an MBA and a Bachelor of Applied Science from Queensland University of Technology, Australia and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

He is also a Fellow Australian Institute of Company Directors, a Fellow Financial Services Institute of Australasia, a Member of Finance and Treasury Association Limited and a Senior Certified Treasury Professional.

5. Yaser AlSharifi

Chief Strategy Officer

Mr. Yaser AlSharifi joined NBB in 2017 as the Chief Strategy Officer, leading the Bank's transformation and innovation efforts, the project management office, business development, as well as the Bank's operations in Saudi Arabia and the United Arab Emirates.

He boasts over 25 years of experience in investment management and corporate finance across the GCC, Europe and the US, with past roles in Al Rajhi Holdings where he was a key Member of the team that established Corporate Finance services for the Middle East firm, and as a Partner at Ernst & Young.

Additionally, Mr. AlSharifi serves as the Chairman of Bahrain Institute for Pearls and Gemstones (Danat). He is also a Board Member of Bahrain Real Estate Investment Company (Edamah), Bahrain Bourse, Bahrain Clear and Bahrain Car Parks Company B.S.C. Mr. AlSharifi represents NBB on the Limited Partners Advisory Committee of the Al Waha Fund of Funds and is a Member of the Advisory Board of Bahrain Fintech Bay.

Furthermore, he is a Member of the Young Presidents Organisation (YPO) and holds a B.A. in Business Administration from the University of Massachusetts at Amherst, USA.

6. Iain Blacklaw

Chief Operating Officer

Mr. Iain Blacklaw joined NBB in 2017 with a mandate to strengthen the Bank's structure and foundation to create a more competitive bank. His role focuses on identifying greater efficiencies and streamlining operations through optimised and modernised practices both on a brick and mortar level and through the adoption of the latest technologies.

Mr. Blacklaw has more than 30 years of experience as an international banking and finance executive. He has built and run large-scale operations across various sectors including banking and technology in complex organisations which require careful stakeholder management and has a successful track record of implementing major change initiatives including profit uplift programmes, cost reduction programmes, compliance and governance frameworks, customer experience programmes and outsourcing and management of major outsourcing contracts. Mr. Blacklaw was also a Board Member of EDS Australia and Cyberlynx.

Having graduated from Aberdeen University with an Honours Degree in Economics, Mr. Blacklaw went on to qualify with the Institute of Costs Management Accountants, followed by the Stanford University Executive Management Programmes. He was also part of the London Business School Proteus Programme.

7. Dana Buheji

Chief Human Resources Officer

Ms. Dana Buheji joined NBB in 2017 as the Chief Human Resources Officer with a mandate to ensure that the Bank efficiently maximises its talent base, invests in the training and development of staff and effectively recruits and retains staff to support the Bank's efforts to grow and diversify.

Ms. Buheji has 19 years of experience in Human Recourses with previous positions in Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, Ministry of Finance and National Economy, and Ahli United Bank.

She also serves as a Board Member in Injaz Bahrain, Member of Consultative Committee for Bahrain International Federation for Business and Professional Women (BPW) and a Member of the Human Resources and Remuneration Committee of Bahrain Association of Banks (BAB).

Ms. Buheji holds a Certificate in Personnel Practice (CPP), London, UK and B.A. in Commerce, Concordia University, Canada.

8. Hisham Al Kurdi

Chief Executive - Corporate and Institutional Investment Banking

Mr. Hisham Al Kurdi joined NBB as Chief Executive – Corporate, Institutions and Investment Banking in 2018, where he defines and implements the department's business strategy to ensure that revenue and profitability targets are met. With more than 22 years of local and international experience in Global Markets and Institutional Coverage, Mr. Al Kurdi brings a wealth of knowledge to the Bank.

Previously, Mr. Al Kurdi assumed the role of Head of Global Markets for the MEA region at BNP Paribas and was a Member of the CIB Regional Board and Executive Committee, having previously assumed position at Bank of Bahrain and Kuwait.

He holds a Bachelor in Engineering in Systems Control from the University Of Huddersfield, UK.

9. Gaby El Hakim

Chief Legal Officer and Corporate Secretary

Mr. Gaby El Hakim joined NBB in 2017 as the Chief Legal Officer and Corporate Secretary. He is responsible for handling all legal matters and advising management and the Board with respect to all aspects of the business

He previously worked with GFH Financial Group and BNP Paribas and has over 18 years of experience practicing law in areas including corporate and investment banking, Islamic finance, structured finance, capital markets, private equity, regulatory investigation and dispute resolutions.

Mr. El Hakim is the Vice Chairman of the Lawyer's Committee of ICC Bahrain, Chamber of Industry and Commerce, a Member of ICC Paris Commission on Arbitration and ADR and serves as a Board Member of ICC Bahrain. He has been recently appointed as a Member of the ICC Task Force in relation to Corruption in Arbitration.

He holds an LLM in Banking and Finance from Osgood Hall Law School, York University, Canada and an LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon and several postgraduate qualifications.

Mr. El Hakim is a regular contributor to articles that are published in newspapers and law journals. Other achievements include receiving the 'MEA General Counsel Power List 2016" award from the Legal 500.

10. Isa Maseeh

Chief Risk Officer

Mr. Isa Maseeh joined NBB in 2017 as Deputy Chief Risk Officer and took over as Chief Risk Officer in July 2019 to focus on reinforcing and further developing the risk management framework in support of the Bank's future growth and transformation. Mr. Maseeh carries with him over 22 years of banking experience spanning commercial and investment banking in the Kingdom of Bahrain in the areas of risk management, credit and compliance.

Prior to joining NBB, Mr. Maseeh was the Group Chief Risk Officer of Al Salam Bank Bahrain where he was focused on the integration and management of the risk function post the acquisition of BMI Bank. He has also held various other senior risk management positions with Islamic and conventional banks including BMI Bank, United Gulf Bank, and Gulf Finance House.

Mr. Maseeh holds an MBA (Hons) from DePaul University, USA and a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

11. Russell Bennett

Chief Financial Officer

Mr. Russell Bennett joined NBB as Chief Financial Officer in 2018. Boasting over 20 years of banking and finance expertise, he joined with the mandate to strengthen the Bank's financial and analytical credentials. His role includes introducing enhanced data analytics and ensuring the adoption of latest technologies to provide business insight.

Mr. Bennett is a UK qualified Chartered Accountant with previous roles in Gulf International Bank, the National Bank of Kuwait and Ernst & Young.

Beyond being the CFO at NBB, he is a Member of, and secretary for, the Bahrain Association of Banks' International Standards Committee, and is a founding Member of the Bahrain Chapter of the Middle East Investor Relations Association.

Mr. Bennett holds a BSc (Hons) in Mathematics and Economics from the University of Essex in the United Kingdom.

12. Richard Hicks

Chief Marketing Officer

Mr. Richard Hicks joined NBB in 2016 as the Chief Marketing Officer with specialisation in digital marketing, customer experience and digital transformation. He leads the marketing and communications team responsible for developing the NBB brand and supporting the business' goals through engaging marketing events and campaigns, targeted sponsorships and a sophisticated PR and communications strategy. He places customer insight and user experiences at the heart of the Bank's initiatives with a growing focus on digital channels.

He joined NBB after more than 30 years of banking and marketing experience with Nat West, RBS and HSBC where he was part of the Global Marketing Team based in the London Head Office working across all business lines and geographies.

He is a long-standing Member of the Chartered Institute of Marketing. He has a BA (Hons) degree in Economics from De Montfort University in UK.

13. Subah Al Zayani

Head of Retail Banking

Mr. Subah Al Zayani joined NBB in 2019 as Head of Retail Banking and he leads NBB's ongoing efforts to innovate its retail operations in order to gain more market share and further elevate the customer journey and enhance the delivery of market leading financial products and services across its digital platforms and branch network, which remains the largest in Bahrain.

He has more than 12 years experience in this field having held a number of senior positions at some of Bahrain's largest local and regional banks. Most recently, he served as Deputy Head of Retail Banking at Kuwait Finance House-Bahrain in addition to his former experiences with Batelco and the Bahrain Defence Force.

His innovative product and digital solutions received local and international recognition within the retail banking sector, driving growth with an efficient, customer-centric strategy.

As a graduate of the US Army's ROTC Leadership Programme, he holds a B.S. in Business Administration from The Citadel, the Military College of South Carolina, M.S. in Computer Information Systems, and an Executive Fintech accreditation from Georgetown University, USA.

Statement of the Chief Executive Officer

Our clients are at the heart of our strategy and I am very pleased to see the continued broadening of our clientele base, the increased quality of our dialogue with all segments, and the leading role played by NBB in financing the local economy at all levels and accompanying major Government initiatives.

I am very proud of our teams which have contributed through their spirit and hard work to make 2019 a great year for NBB. They have proved their alignment with the Bank's strategic vision and our institution's core values. These teams have achieved key milestones, part of our journey to make NBB a leading force in a fast-moving industry. This year was indeed a challenging year for banks with the declining interest rate environment and the more subdued economic growth. Despite these challenges, NBB's profitability has continued improving both at operating profit and net profit levels, thanks to the increase and diversification of our revenues and the careful management of our cost base.

A number of strategic initiatives have been successfully implemented or undertaken during the year, all aimed at improving our customers' experience and serving them better. Our clients are at the heart of our strategy and I am very pleased to see the continued broadening of our clientele base, the increased quality of our dialogue with all segments, and the leading role played by NBB in financing the local economy at all levels and accompanying major Government initiatives. This is indeed the role of the National Bank of Bahrain and we have every intention to fulfil it in the most innovative manner.

NET PROFITABILITY GROWTH

6.0%

This was achieved without compromising on risk management

OPERATING PROFIT GROWTH

BHD 80.6 million

Compared to BHD 75.6 million in 2018, reflecting a 6.6% growth

Scan QR code to watch the CEO video.

JEAN-CHRISTOPHE DURAND
CHIEF EXECUTIVE OFFICER

Statement of the Chief Executive Officer (continued)

It is also important to underline the major projects undertaken internally over the past two years in order to sustain our business development in a safe and well-controlled manner and complying with the different regulations we are subject to as a bank. These projects include the complete transformation of our information technology, the digitalisation of the internal processes, the constant improvement of the risk management structures and the uplift of the compliance function to international standards.

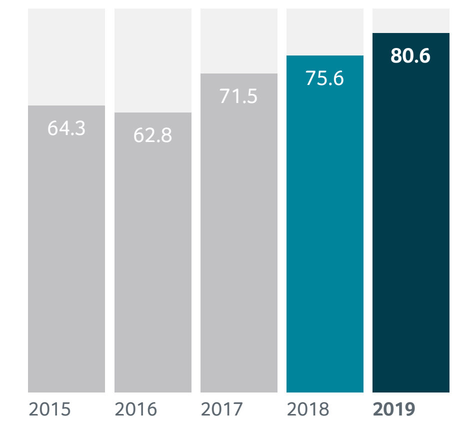
We started the year by revealing our new brand, illustrating both our awareness of the Bank's rich history and our ambitions to simplify the customers' journey and attract new clients. It is fully aligned with NBB's core values and our engagement to be 'Closer to You'. This new brand has been deployed in our revamped branches, starting with our new flagship branch in Seef Mall and others in Muharraq, the Atrium Mall, Sitra and the Al Muthana in Manama. These recently redesigned branches showcase our new digital services and provide a new customer experience.

One of our key strategic objectives has been to contribute to Bahrain's economic development in a meaningful manner. The year 2019 has seen our engagement with smaller, mid-size companies increase substantially as per our plans and we intend to pursue this commitment by reaching to new clients and broadening the range of services offered, including dedicated online services.

Our Corporate and Institutional Investment teams have played a key role in most major transactions in the Kingdom, from lead-arranging sovereign capital markets issues, arranging several major structured financing transactions with the country's major corporates and providing structured working capital solutions. In this respect, we are grateful for the trust demonstrated by the Government and these large entities towards our specialised teams. The recognition of their competence and experience is a great achievement for our Bank as part of Team Bahrain.

Our different teams are continuing to develop prudently NBB's business in the other GCC countries where solid relationships have been established. Our penetration of the GCC markets is an important objective and we intend to pursue it in line with our strategic plan.

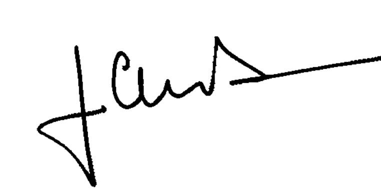
Total operating profit
(BHD millions)



It is also important to underline the major projects undertaken internally over the past two years in order to sustain our business development in a safe and well-controlled manner and complying with the different regulations we are subject to as a bank. These projects include the complete transformation of our information technology, the digitalisation of the internal processes, the constant improvement of the risk management structures and the uplift of the compliance function to international standards.

Among our strategic initiatives was the recently completed acquisition of a controlling stake in Bahrain Islamic Bank. This acquisition adds a new dimension to our institution in line with our growth plan. We felt that, as the National Bank, it was key to develop our Sharia compliant activities to reach to new clients and broaden the range of services to our existing clients. We are confident that this well-planned strategic move will create positive synergies between our two institutions and enable them to take advantage of both banks' best practices.

We are confident that NBB is well positioned to pursue its diversification and growth in 2020 in an improving economic environment. I would like to take this opportunity to acknowledge the unwavering support received from our shareholders, our Board, and of course, our management and the whole NBB staff.



Jean-Christophe Durand
Chief Executive Officer

Our **National** Talent

Our human capital is fundamental to deliver our vision and the Bank's transformation. Our commitment to attract and continuously develop human capital, and groom leaders from within, is a strategic priority of the management to sustain a high performance workforce. Tangible results have been achieved in this respect and National Bank of Bahrain has become an employer of choice for Bahraini talent. Concurrently, skills transfer and knowledge share from recent senior executive hires has been launched to ensure continuity and motivation.

In 2019, the continuation of the comprehensive groundwork from the previous years in developing a focused suite of personal growth and professional business development initiatives has provided a solid base for internal excellence. The investment in the Bank's personnel extends to all divisions and all levels within the organisation, truly driven from within.

A comprehensive range of training and development programmes have been designed with an aim of building employee capacity to deliver success and to enable and empower our personnel to excel in their various functions within the Bank as we focus on remaining abreast with evolving industry best-practices.

The launch of the 'RISE' programme heralded a partnership with international training consultants, designed to develop a range of soft and hard skills for the cadre of young and upcoming Bahraini employees within the Bank which demonstrate our core values. Through the programme, employees will be provided exclusive training, and coaching, whilst also contributing directly in transformation projects aligned to the Bank's strategy.

NBB continues its focus on leadership and has graduated 17 Bahraini employees across the Bank in 2019, from the London-based Leadership in Management course.

Our approach to performance within NBB is examined from several angles, as we emphasise the importance of teamwork and a united spirit, acknowledging that emotional intelligence plays an important role in achieving harmony within the Bank's culture and delivering sustainable organisational performance.

Through the creation of our Diversity and Inclusion Committee, NBB aspires to create an inclusive culture that embraces age, gender, ethnicity and disability and ensures that our people are afforded dignity, are valued, and are provided equal opportunities to thrive. Through which, we strive to be strong influencers beyond our own Human Capital needs in the Kingdom.

Our desire to contribute in a meaningful manner to the growth of Bahrain as a whole and to Vision 2030, was further demonstrated by creating the Directors' Development Programme for Women, an exclusive initiative, with various partners designed to provide aspiring female professionals with the essential skills and competencies to succeed in executive positions across the Kingdom in any industry. To support their pursuit of executive roles, the programme empowers the participants to unlock their full potential by providing a clear understanding of the principles of good corporate governance, and the duties and responsibilities that come with holding a leadership role.

We are committed to support INJAZ Bahrain, a non-profit organisation that was established as part of Junior Achievement Worldwide with the aim of empowering young people to own their economic success and be prepared for today's business challenges. Through a bank wide mentorship programme, NBB's employees have volunteered to bring many students closer to the real world and open their minds to their own potential; a further tenet of our Team Bahrain spirit.

In efforts to ensure the Bank's sustainable pursuit of recruiting and developing local talent, 91 Bahraini nationals were hired for permanent employment positioning NBB among the highest Bahrainisation rates in the industry. Additionally, 98 Bahraini fresh graduates were trained through internship programmes, of which 30% were permanently employed within the organisation. Through our internship programmes we provide interns with a broad view of the banking industry while ensuring they have an engaging and rewarding experience.

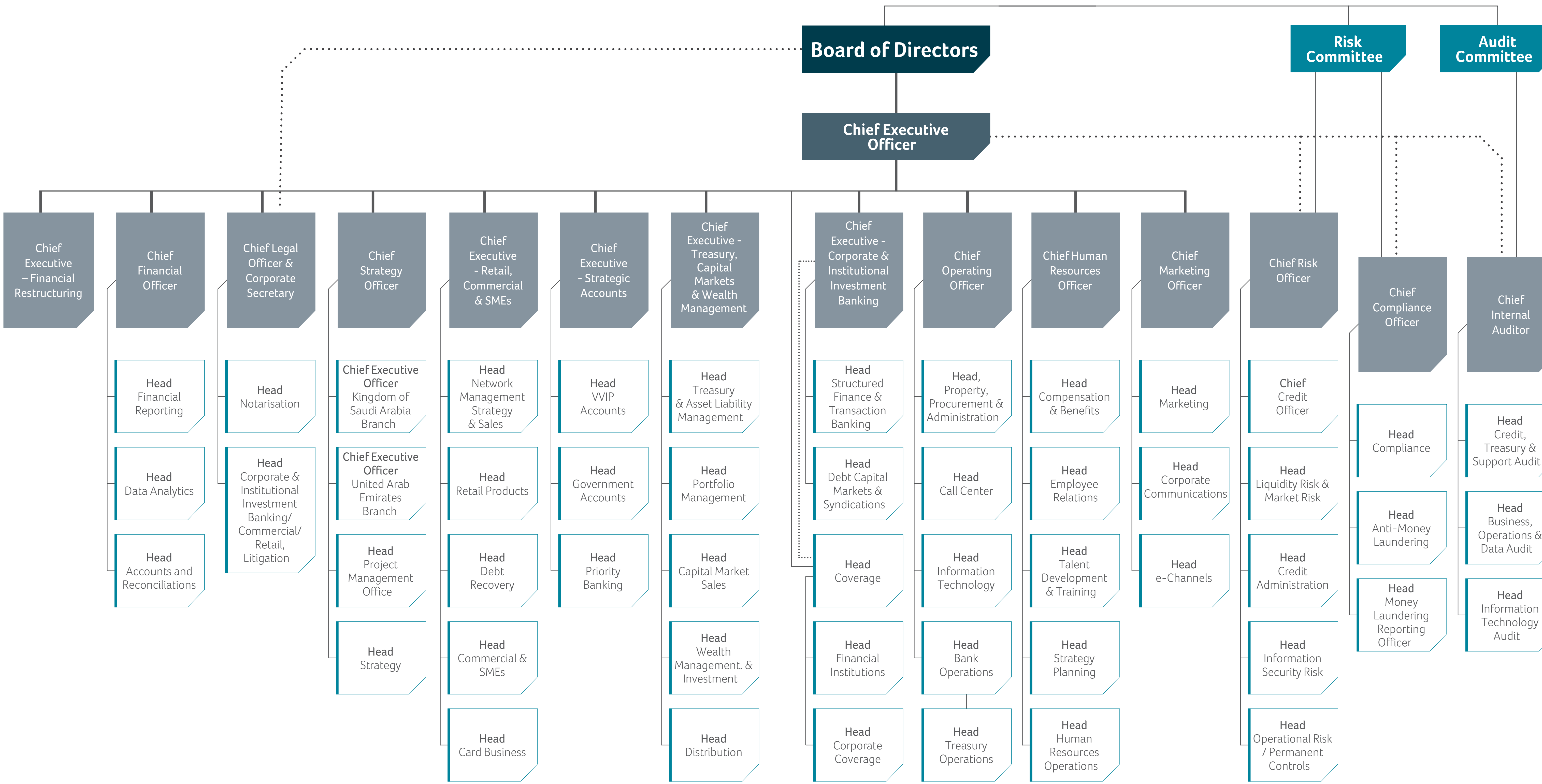
Flip over the next page to view NBB organisation structure >

The launch of 'RISE' programme, a unique training initiative designed to groom high-performing talents whilst contributing directly in transformation projects aligned to the Bank's strategy.

Spearheading change by introducing the Director Development Programme for Women exclusively aimed at boosting women's accession into leadership roles.

Creating a knowledge sharing culture with "INSPIRE" mentorship programme.

Organisation Structure



‘Proud to be your National Partner’

by empowering our employees.

Our continuous commitment towards attracting, developing and grooming leaders from within, made National Bank of Bahrain the employer of choice for Bahraini talents.

Your **National** Bank

NBB has maintained tremendous momentum in its transformation journey, consolidating its strength as a market leader and a national enabler. Our continuous progress is powered by our people and fuelled by a shared passion for business success. With a results-oriented approach, we successfully accelerated our business, modernised our infrastructure and built best-in-class capabilities with new partnerships, new clients, new products, and increased market share. Our investments ensured we remain solid, agile, and flexible to adapt to changing marketing dynamics and mitigate risks. Our focus in 2019 was to strengthen every department to maintain business sustainability to be positioned as a market benchmark.

Retail Banking

Making banking a smooth life experience

In 2019, Retail Banking Group breathed substance into the philosophy of making banking a smooth life experience for our customers. A major shift towards enhancement of the customer experience has resulted from a methodical and measured approach in several aspects of the business. Key among these are innovation, customer centricity and growth.

Excellent service translates to customer loyalty, which in turn comes from aligning the delivery channels and speed of response to the client's demands, whether at branch level or through virtual offerings via state-of-the–art technologies.

The universe of personal banking has changed radically in recent years with the advent of innovative 'Fintech' solutions and digital technology within the financial industry. We became the first bank in Bahrain to be compliant with Open Banking and the first in the region to introduce an "Aggregator" service as a secure platform which allows customers to access all their account information with other banks under one umbrella. This initiative falls in line with the Bank's efforts to support key national projects under the directives of the Central Bank of Bahrain (CBB). Allied to this, and in response to customer needs, we have expanded our network range to 102 ATM locations, enhanced our branch operating times, and introduced breakthrough branch designs. The service touchpoints are fit to serve different community members, including the special needs where they are provided with physical, visual, and hearing supported services.

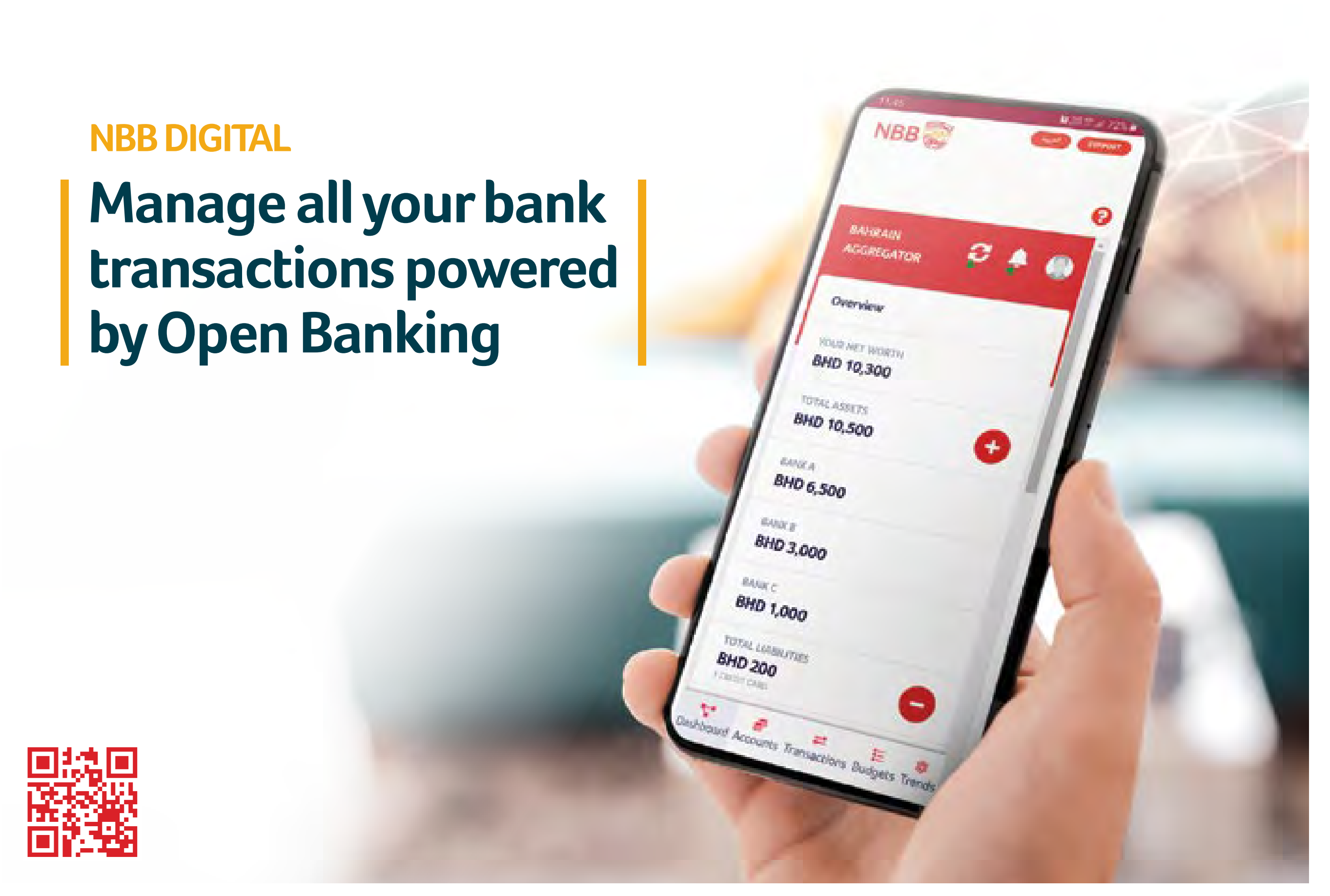
Over the past year, we have increased service levels beyond industry standards with a new automated Contact Centre offering a wider range of telebanking services, as well as a social media management team ready to field customers' queries. In addition, clients wishing to bank on the go will find the new environmentally friendly, digital forms that are now available online, and the online ticketing application suitable to their lifestyle. The onboarding customer journey has been further enriched with the introduction of instant card issuance at the time of opening the account. In addition, the Video Teller Machines (VTMs) was introduced with many features available around the clock, also among them instant debit card issuance, to make the customer experience even smoother. Through effective investments in technology and people, the enhancement of customer experiences is a continuous promise to the Bank's clients.

In true commitment to deliver on our promise to be "Closer To You", this year saw the opening of several new branches and relocations, strategically planned to bring our banking services nearer to our customers, including the opening of the Atrium Mall branch and the reopening of Sitra branch.

With the new branches comes new designs, aimed at enhancing the overall customer journey and making banking more efficient and seamless for all of those we serve. Aspired to meet the expectation of our discerning clients, the new branch model is energy cautious, environmentally friendly and has a modern edge. In April, the new upgraded Seef Mall Flagship Branch was unveiled, providing an enhanced service offering with extended opening hours for greater convenience and access. The branch offers a host of new services for retail, business and VIP customers, three ATMs with advanced withdrawal/deposits capabilities, a Bulk Cash Deposit Machine (CDM), and an Executive lounge. We are continuing the branch enhancements for next year, with plans well underway for more upgrades throughout 2020.

Retail Banking also continued the mission of enhancing the products and services offerings with the re-launch of Al Watani Personal Loan, Home Finance Loan and Home Equity to support existing and new customers' needs along with an exceptional service and competitive rates. The Bank's flagship saving scheme "Al Watani Savings" was also revamped with an attractive yearlong cash prizes in line with the Bank's objective of rewarding savings among customers.

The newly revamped NBB debit and credit cards have been upgraded to be contactless by using Near Field Communication (NFC) technology which enables customers to tap and pay at local and international NFC enabled machines such as NBB's. The upgrades include the introduction of 'Personal' cards, and two Platinum MasterCard product upgrades for the Bank's 'Premium' and 'Prestige' clients. Based on their bank relationship and needs, our customers are now offered Visa's Elite credit card products, Visa Signature and Infinite cards, with more exceptional benefits and rewards, in addition to travel lounge access, catering to various lifestyles.



Business Review (continued)

In an effort to actively participate in our customers' happy occasions to be closer to them in true fashion, we have extended special offers during the year to our cardholders, amongst them was the Mother's day promotion, Ramadan and Eid, as well as offering other lifestyle benefits through many retail partnerships primarily focused on the kids and youth account, SaveWave.

With the trend of increasing online purchases, we have ensured that our customers continue enjoying this experience by further strengthening their cards' security levels with the use of dynamic transaction authentication for purchases made online. Whenever they transact online, our cardholders will be asked to further verify their identity with a one-time passcode (OTP).

Contributing to our Team Bahrain range of initiatives, as well as Bahrain's Economic Vision 2030, we have become the largest bank to participate with Bahrain's Mazaya programme that supports the government's housing initiative through the Ministry of Housing. The Mazaya Mortgage Loan is now one of the Retail's leading products and aims to serve the customers with excellence during their quest to find their dream home.

Commercial and SMEs Department

Strong sectoral support

NBB acknowledges that Commercial and SME businesses constitute the backbone of any economy. The Bank's support of the sector is strongly aligned with the country's Vision 2030 and embraces the spirit of Team Bahrain. During the year, the department recorded growth in all business aspects, including asset and liability portfolios, number of customers, and reaching out to different clusters of customers with suitable and effective banking products. The department continued to build on the success of 2018 in growing the non-borrowing portfolio through point of sale, payment gateway, cash deposit machines and the online portal.

Along with a select group of local banks, Commercial and SMEs department played a vital role in creating a robust framework for the Liquidity Support Fund (LSF). This lending scheme is led by the Government of Bahrain under direct orders and oversight by HRH the Crown Prince, through the Ministry of Finance and National Economy, and other stakeholders, in addition to a number of local banks. The Fund is set to alleviate liquidity constraints by providing low-cost funding for local corporate entities facing temporary liquidity mismatches. This is part of NBB's mandate to support the Kingdom's economy. Business Management, a new division established within the department, connecting internal and external stakeholders, channels the banking needs of local SMEs to other parts of the Bank and recommends various products and services. It also coordinates with relationship managers to rollout these products and services to the Commercial and SMEs customer base.

Commercial and SMEs staff embodied the cultural transformation within NBB, evidenced by outstanding efforts toward achieving the department's financial and non-financial targets with minimal guidance. The department continued investing in human resources to develop team members' competencies and skillsets on various fronts. This was done through enrolment in high-standard training Programmes, allowing members of the team to conduct presentations to senior management, and creating different working groups with other internal stakeholders to achieve specific tasks within defined timelines.

Partnerships with interest groups and business societies were formed to further extend the reach of the department in communicating the offerings of the Bank and to build direct relationships with active actors in the business community. The department is aligned and set to improve on all financial results for the year 2020, optimise all client files and data as well increasing the number of clients using transactional banking products. Partnerships with more industry interest groups are planned to expand on the successes of 2019.

Corporate and Institutional Investment Banking

Expansion grows apace

At the core of NBB's drive as Team Bahrain's business and financial markets leader, Corporate and Institutional Investment Banking (CIIB) spearheaded several new initiatives in 2019.

We are proud to see our relationship interaction move to a level where our customers acknowledge that 'NBB Corporate delivers.' We have a strengthened team, unmatched in its capabilities in Bahrain. Relationship consolidation and growth continues in our traditional spheres of regional and multinational companies present in the country, and the wider GCC as well as with mid-size and large Bahraini companies.

Our product offerings in Transaction Banking (Cash Management and Trade Finance) have developed well over the past year. NBB's Bulk Cash Deposits Machines for Corporates, the first in Bahrain, have been enthusiastically received as another demonstration of

Business Review (continued)

making our services closer and banking easier for our customers. Our multi-channel ability to process and make bulk payments, such as salaries, pensions and invoices for government, commercial and corporate clients marks a substantial upgrade of our Transaction Banking Capabilities. In this context, NBB leads the way in the market by being the pilot bank for the nationwide deployment of direct debits.

Corporate business transacted through our digital channels has grown exponentially. Further growth is expected following the technological and functional upgrade that our corporate digital platform is undergoing. NBB's superior transaction capabilities have placed us as the "go to" bank for the Government of Bahrain's tax and levy collection services.

The Debt Capital Markets (DCM) and Syndications team were active throughout the year, cementing its position as the number one DCM house in the Kingdom of Bahrain as well as leading key landmark syndicated loan transactions during the year. Furthermore, we broke fresh ground with our first ever DCM transaction outside of the country, for a major client in the United Arab Emirates.

In Structured Finance, we continue to make our presence felt and are becoming a recognised and respected player in Bahrain and the GCC. Further expansion in structured finance business is expected and will cover new sectors for NBB such as aircraft finance, reserve base lending and renewables finance.

The quality of coverage with major corporations has been enhanced to meet syndicate service requirements for large clients such as ALBA and BAPCO, with the Bank well-positioned to cater to these needs.

In 2019, Structured Finance, DCM and Syndications and Corporate Coverage teams have joined forces to win, structure and successfully take to market a Mandated Lead Arranger and Coordinator role in a landmark USD 1.5 billion transaction for a major Bahraini client. This mandate showcased CIIB's firepower and the ability of its product and coverage teams to work together to achieve excellence for the client.

In 2019, CIIB has been able to attract high-level, seasoned talent to strengthen our excellent team in all disciplines – Project and Structured Finance, DCM and Syndication, Transaction Banking, and Financial Institutions Coverage.

Equipped with top-class execution capability, a good array of services and products, CIIB looks forward to continue expanding its activities in Oman, Saudi Arabia, Kuwait and the United Arab Emirates.

Strategic Accounts Management

Strengthening the Relationship Base

NBB is committed to evolving the industry and enriching the lives of generations. Our existing and future clients remain at the epicentre of our strategic efforts and customer-centricity is a priority focus as we continue to direct our work to simplify the customer journey through personalisation and convenience to make client's daily lives easier.

Our drive to deliver against our brand promise has pushed more investments bringing the voice of the customer into our organisation. Our strategic accounts management department was created with the objective to build high quality customer relationship and ensure that our customers receive the attention and management time they require.

With the aim of serving our customers more comprehensively, NBB has dedicated relationship managers to manage the respective accounts and build relationships with the clientele, positioning NBB top-of-mind for all their banking needs.

With ultra high net worth customers, our team is focused on delivering high quality and personalised services in line with clients' expectations. Strategic government accounts are managed by a dedicated team that ensures relationships are strengthened with a global view of account requirements.

The strategic accounts management department continues to maintain a proactive approach to guide customers through sound advice and solutions and continues to support other business units to broaden our range of services and practical solutions based on customer requirements.

Financial Restructuring

Specialised support for corporates and commercial

In the latter part of 2019, the Bank launched a new Financial Restructuring business as part of its ongoing diversification and efforts to step up its participation and support for the local and regional markets.

This major initiative by NBB fulfills a need for specialised financial restructuring advice for companies in Bahrain and the GCC markets, with a primary focus on corporate clients in addition to selective commercial banking clients. This includes acting as an independent advisor to companies facing challenges, as well as for companies where NBB is a creditor.

As part of NBB's transformation, strengthening our presence and support for local and regional companies continues to be a central focus for the Bank. Looking at the needs of the market and where NBB's experience and resources can best be deployed, the Financial Restructuring Division, with the right expertise and advice, plays an important role in supporting efforts by companies to restructure. Our team of experts work shoulder to shoulder with management teams to help them do what's necessary to protect, maintain and unlock the value that exists within their businesses.

NBB understands the numerous factors impacting companies today both in Bahrain and across the GCC. Initial responses to this unique initiative in the marketplace have been gratifying, with requests from some of our existing customers, and many who do not yet have a relationship with NBB. The new division focuses on helping them to navigate the current environment, with the aim of putting their companies back on the path to growth, and giving them the ability to resume making positive contributions to the local and regional markets.

Treasury, Capital Markets and Wealth Management

Comprehensive customer offerings

Following the financial crisis, the market witnessed change in the regulatory environment and NBB has ever since adapted its business model to further enhance its balance sheet. Today, NBB has a solid position in the local market and continues to withstand any potential disruptions.

Treasury, Capital Markets and Wealth Management performed well in 2019, a year of fluctuating market sentiment and regional volatility. We reorganised our business and support function and re-engineered our internal systems and processes to achieve a higher level of efficiency and turnaround time, resulting in a more comprehensive offering and a superior customer experience. Part of this process included revamping our Treasury system to further enable our clients to execute their foreign exchange requirements through online banking. The new system included a new suite of currencies and products that cater for clients in currencies across the MENA and G10 region.

In 2019 we also successfully became compliant with the European Market Infrastructure Regulations (EMIR) clearing requirements which aim to empower the Bank to continue its leading position. Locally, we continue to support Government issuances by leading bond and sukuk transactions for the government and distributing those bonds to our clients.

NBB has invested in attracting the right talent with best global practices which highly contributed to the success of positioning NBB as a principle go-to bank for solution-related and risk management products. Our highly skilled Treasury CM Sales Unit provide tailor-made solutions support clients hedge risks. Having previously established Islamic Commodity Murabaha as a product, NBB has been able to significantly grow the volume of transactions occurring under this line of business in 2019 through increased collaboration with local Islamic players. This has enabled the Bank to optimise its liquidity management and tap into new streams of revenue.

In May 2019, NBB launched Al Watani Trade service, providing online equity trading to its clients, strengthening our digital offering. This comes in line with customer-oriented strategy to meet their needs and pursue digital transformation. Al Watani Trade was designed as a trading platform to fulfill a market demand for easier, faster access to online trading, enabling NBB's wide customer base to directly invest in stocks on the Bahrain Bourse on-the-go, through multi-digital channels, including laptops, tablets and smartphones. Al Watani Trade is further complemented by a host of support features to help customers track, analyse, and stay informed of stock and global financial market performance. With this solution, NBB took another step toward making its customers' lives easier.

Donations and Contributions

Our **National** Responsibility

Since the Bank's inception, the spirit of giving into the various communities of which we are privileged to be part was always a priority and a part of our core values. In 1980, this practice was formally enshrined in the creation of NBB's Donations and Contributions Policy, which dictates that 5% of our net annual profit is earmarked to support our social outreach activities. The aggregate amount disbursed to date has reached in excess of BHD 50 million. The monetary element represents only half of what the Policy comprises. The second, equally important element is the warm enthusiasm with which the ideals of giving, sharing and helping have been consistently adopted by our executives and staff who repeatedly contribute their own time, care and effort, far beyond the norm, in participating and devising events, programmes and campaigns to breathe life into the Policy. The desire to better the lives of our fellow citizens is at the heart and soul of all of these undertakings.

As the leading local bank, NBB pioneers in executing initiatives in support of the Kingdom and its needs. We are pleased to see our benchmark presence frequently have the ancillary effect of encouraging others to be involved in similar initiatives.

In the field of education, several highlights in 2019 included the continued participation in the Isa Bin Salman Education Charitable Trust, the Crown Prince's International Scholarship Programme for students, in addition to donations and contributions across schools, universities, colleges and other centres of learning. These and others, such as Bahrain Polytechnic Competition – Innovation in Artificial Intelligence, the Bahrain Gulf University – Biotechnology Conference, and INJAZ, offer wonderful opportunities for our youth to commence their career development journey, by which contributing directly to the Bahraini society.

Quality and preservation of life is foremost in our health care outreach, encompassing donations to hospitals, medical centres and health providers, and arranging vital well-being awareness campaigns throughout the year. During Ramadan, NBB collaborated with Smile Initiative and Dream Society in association with the Ministry of Health to alleviate the plight of children with cancer, and their families, with assistance and care to enhance their quality of life. Their expression of happiness was priceless.

In social welfare, we are keen to contribute in meaningful ways through special programmes that uplift the quality of life for the disadvantaged sectors of society, with the aim of creating a better and more cohesive community.

As a leader in Team Bahrain, our focus on Bahrain embraces development programmes and activities such as specialised conferences and events of strategic importance to the Kingdom. The seeds of future prosperity are planted in many of these conventions, gatherings and networking opportunities, often importing invaluable expertise, knowledge share and skill transfer.

Diversity and inclusion is important to NBB as an organisation, and our partnership with the Bahrain Down Syndrome Society, supported by Tamkeen, is exemplified by the smooth transition of three candidates into our organisation as valued colleagues.

We continue to seek and develop opportunities to be active partners with various communities' and collaborate with them in activities, events and others, for example in the National Sports Day. The guiding principle is our willingness to engage in meaningful ways to improve the physical, mental and spiritual well-being of others, thereby truly enriching the lives of generations.

Donations and Contributions (continued)

As the leading local bank, NBB pioneers in executing initiatives in support of the Kingdom and its needs.

Financial commitment towards Khalifa City Health Centre Project

Continued support to the Crown Prince International Scholarship Progamme (CPISP)

Multiple Sclerosis Centre Signing Ceremony Agreement for constructing the Centre.

Collaborating with the Bahrain Down Syndrome Society as part of the Diversity & Inclusion initiative

Eid Visit to NBB Home for the Elderly

Visit to Yoko Parents Care

Government schools' support

Financial Review

Overview

The Bank's financial result for 2019 achieved a record net profit, with increased performance over the prior year in all categories of income. The result was achieved despite the tough external economic environment and internal transformational investments that were present throughout 2019. During the year, the Bank focused on further diversification of the asset and liability portfolios, augmenting the overall income by enhanced asset liability management whilst prudent risk management remained a core tenet. This resulted in the Bank recording a net profit of BHD 74.2 million for 2019, an increase of 6.0 percent over the previous year result of BHD 70.0 million.

At 2019 year-end, the total balance sheet stood at BHD 3,194.5 million, aligned with the close of the previous financial year. The Bank has a well-diversified asset profile, with loans and advances representing 38.0 percent of total assets, the core remaining assets comprise of a sound liquidity base with a quarter of the balance sheet held in short term liquid assets, and a third of the balance sheet held in investment securities. Customer deposits stood at BHD 2,094.0 million which represent 65.6 percent of total liabilities and equity, while shareholders' funds represent 16.7 percent of total liabilities and equity.

Key performance indicators continue to remain strong in relation to our regional peers and international benchmarks, with a return on average equity at 14.7 percent and a return on average assets of 2.3 percent for the year. Earnings per share improved from 46 fils in 2018 to 49 fils for 2019. The cost to income ratio at 35.9 percent compared favourably with the local and regional marketplace and is achieved despite increased investment to improve customer experiences, both physical through the new branch network and digitally through enhanced technological offerings. The Bank continues to have a strong and stable capital adequacy ratio of 37.3 percent before the proposed appropriations calculated in accordance with Basel 3 guidelines as adopted by the Central Bank of Bahrain. Liquidity continues to be comfortable with the Bank being a net contributor of funds into the interbank markets throughout the year.

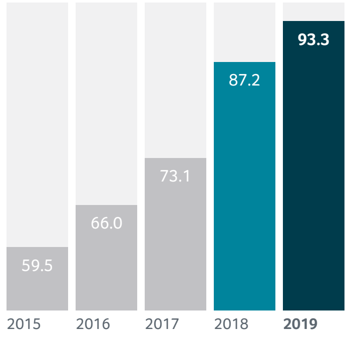
Net interest income

Net interest income for 2019 was BHD 93.3 million compared to BHD 87.2 million for 2018, reflecting a healthy increase of 7.0 percent. The increase is attributable to positive volume and rate metrics within the loan portfolio due to active and effective internal management. Accordingly, the net interest income as a percentage of earning assets, improved to 3.1 percent in 2019 compared to 2.9 percent in 2018.

Net fee and commission and other income

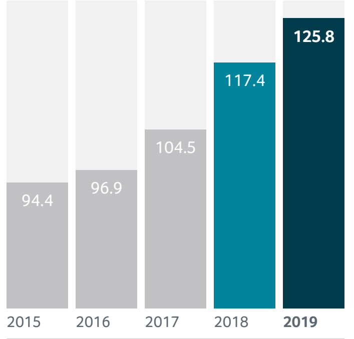
Net fee and commission and other income recorded for the year were BHD 13.7 million and BHD 18.8 million respectively compared to BHD 11.8 million and BHD 18.4 million recorded for the previous year. The increase represents an improvement in the Bank's fundamentals and is in line with a business diversification strategy to increase the contribution from non-interest related activities, which now represents a quarter of total income. Details of net fee and commission and other income, with comparative figures for the previous year, are set out in notes 23 and 24 of the financial statements.

Net interest income
(BHD millions)



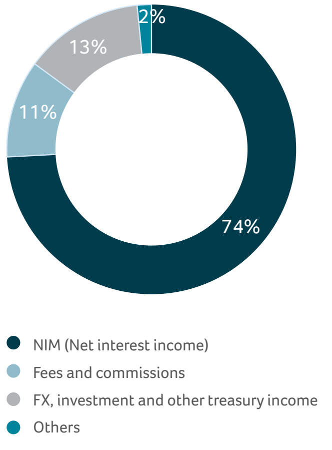
BHD 93.3 million

Total operating income
(BHD millions)



BHD 125.8 million

Composition of total income
(%)



Operating expenses

Operating expenses at BHD 45.2 million represented an increase of 8.1 percent over the previous year, reflecting the investment in people, processes and digital infrastructure required to maintain the Bank's competitive advantage of being closer to our customers whether they be within Bahrain or in the wider region. Despite the cost of the strategic investments, an element of which will reduce future expenses or contribute to increases in the future revenue opportunities, the Bank's cost to income ratio was contained at a low 35.9 percent.

Provisions

Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. However, impairment charges on the wider portfolio of financial assets which are not individually identified as impaired is a forward-looking calculation and is established based on various factors. These factors include internal risk ratings, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given an event of default, and rating migrations. Based on the ongoing assessment of the provision requirement, an amount of BHD 6.4 million was provided towards impairment during the year compared to BHD 5.6 million in 2018.

Loans are classified as part of the non-performing portfolio upon an impairment event. Based on the Central Bank of Bahrain regulations, such assets will remain classified as non-performing for a one-year cure period even after the underlying facility becomes fully performing. The non-performing loan portfolio of BHD 95.8 million at the end of 2019 compared to BHD 101.3 million at the end of 2018. Absent the current facilities, the technical non-performing portfolio was BHD 51.2 million as at 31 December 2019, representing 4.1 percent of gross loans and advances.

Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in note 7 of the financial statements

Assets

Total assets stood at BHD 3,194.5 million as at 31 December 2019, in line with the 31 December 2018 level. The Bank has a well-diversified asset profile with loans and advances representing 38.0 percent of the total assets, while treasury bills represent 13.3 percent, placements with banks and other financial institutions represent 7.2 percent; investment securities represent 33.5 percent of total assets.

The loan portfolio is diversified with widespread participation in the domestic market with a constant broadening of business relationships in Bahrain and the wider region. At the year-end, the Bank's investment portfolio of BHD 1,070.7 million consisted mainly of debt securities. A major part of the debt securities comprised Government of Bahrain bonds and Islamic sukuk.

Notes 30 and 31 to the financial statements provide details of the distribution of total assets by geographical region and industry.

Liabilities

Customer deposits at the year-end stood at BHD 2,094.0 million. The Bank continues to be successful in generating core customer deposits resulting from its 'Closer to you' brand promise which entails rich product offerings, superior service and a dominant position in the domestic market. The Bank is also recognised as being the national bank, a rich pedigree that signifies the highest levels of safety and soundness of any financial services institution in the Kingdom of Bahrain.

Borrowings under repurchase agreements and due to banks and financial institutions stood at BHD 505.0 million as at 31 December 2019, compared to BHD 485.3 million at the 2018 year-end. Such interbank funding is considered supplementary funding, and the Bank places a greater amount back into the interbank and treasury bill markets than it receives. Customer deposits continue to be the major source of funding with the ratio of customer deposits to total liabilities standing at 78.7 percent at the year-end and representing the funding source for 91.7 percent of the combined loan and investment portfolios.

Capital strength

Shareholders' equity, inclusive of the proposed appropriations, reflected a balance of BHD 532.3 million as at the year-end, compared to BHD 475.8 million as at the close of the previous financial year. At the year-end, shareholders' equity as a percentage of total assets was 16.7 percent. The Bank's capital adequacy ratio as at 31 December 2019 was 37.3 percent with the common equity tier 1 (CET 1) ratio at 36.3 percent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 3 regulations as adopted by the Central Bank of Bahrain. The Bank's capital adequacy ratio is significantly above both the Basel Committee's requirement for internationally active banks and above the minimum level of 12.5 percent set by the Central Bank of Bahrain. The main factors that contribute to the Bank's strong capital adequacy ratio are the high capital base, prudent risk management practices and a low risk profile of on-balance sheet and off-balance sheet exposures. The Bank's profile includes significant exposures to low risk asset classes such as sovereigns, public sector undertakings and prime banks and financial institutions. Note 42 to the financial statements and the risk and capital management disclosures provide further details on the Bank's capital strengths.

Risk Management

The financial sector continues to grow in complexity and sophistication with ongoing changes in the regulatory and operating environments globally. Moreover, advances and developments on the technological front are introducing new challenges and opportunities for banks. With this dynamic environment comes a growing need to continue to strengthen existing frameworks and bolster controls. NBB has over the years developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

The overall authority for risk management in the Bank is vested in the Board of Directors and a Board Risk Committee at Board level has been established to provide oversight and advice to the Board of Directors. The Board authorises appropriate credit, operational, liquidity, market and information security risk policies based on the recommendation of management. Approval authorities are delegated in the hierarchy depending on the amount, type of risk and collateral security. Moreover, the Bank has established an Operational Risk Management Committee (ORMC), Asset Liability Committee (ALCO), Management Credit Committee (MCC) and Information Security Committee (ISC) to address different areas of risk.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, to review asset quality and highlight areas of concern so that corrective action can be taken in time.

The Bank's risk management process encompasses the various dimensions of risk as follows:

Credit risk

We actively strive to manage risk to protect and enable the business.

NBB has maintained a conservative and consistent approach to risk since its inception, helping to ensure we protect customers' funds, lend responsibly and support the local economy. The team at credit risk works carefully to ensure the alignment between our credit risk appetite and vision calls of our new corporate strategy.

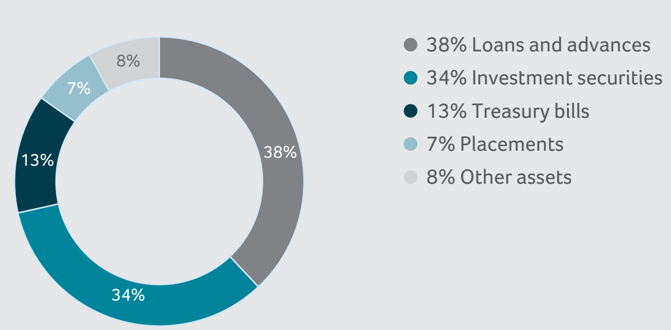
With regulatory and market pressures driving the industry to heightened risk controls and wise use of capital, the team continues to undertake more scrutiny in detailed reviews of our portfolios and are proactively assessing clients and sectors likely to come under stress, taking corrective risk management action plans when necessary.

An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 16-point scale that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to exit accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans.

Composition of total assets
(%)



Legal risk

The Legal Department manages and mitigates the legal risks of the Bank through prompt review and advice on transaction documents. It also generally advises the Bank's various departments regular review of standard documentation to ensure the Bank's interests are protected. Furthermore, they negotiate with counterparties/ lawyers, keep abreast of latest developments in domestic and international banking laws, as well as corporate and other laws and regulations, and initiate corrective action when the Bank's business is likely to be affected. In-house expertise independently ensures the above objectives are properly maintained.

In addition, firms of international repute have been retained by the Bank to advise on local and foreign law related matters and represent the Bank in legal proceedings before local and foreign legal authorities as and when such representation is required.

Liquidity and market risk

Liquidity risk is classified as the potential inability of the Bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management of the Bank ensures various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The strategy of the Bank has ensured a balanced mix of demand and time deposits.

The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near term changes in interest rate levels.

The Head of Treasury and ALM is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

Market risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems.

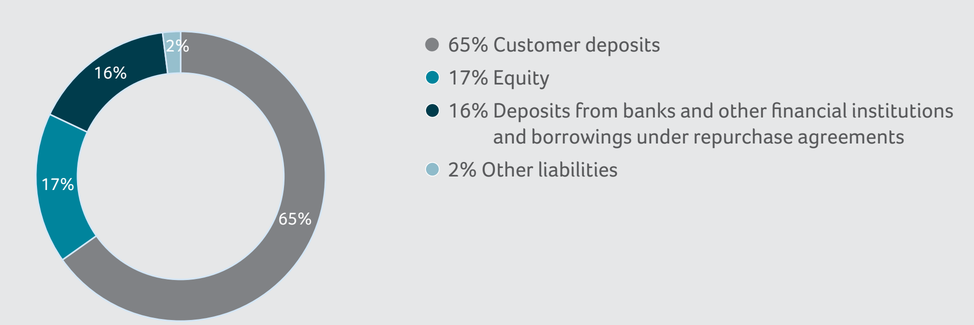
The limits are set annually and regularly reviewed. Quality and rating are the main criteria in selecting a trading asset.

The Bank uses the standardised method to calculate capital charge for market risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk capital requirement of the Bank.

Operational risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk arises from day-to-day operations or external events and is relevant to every aspect of our business.

Composition of total liabilities and equity
(%)



Risk Management (continued)

Operational risk (continued)

Operational risk is:

- Measured using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls, and measured for capital management using risk event losses;
- Monitored using key risk indicators and other internal control activities; and
- Managed primarily by business and functional managers who identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls using the operational risk management framework.

The objective of our operational risk management framework (ORMF) is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite.

We have a dedicated Operational Risk Management Department (ORMD) within our Risk Group. It is responsible for leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defense. It supports the Chief Risk Officer and the Operational Risk Management Committee (ORMC), which meets on a periodic basis to discuss key risk issues and review the implementation of the ORMF.

Heads of departments and functions throughout the Bank are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

In 2019 we continued our ongoing work to strengthen those controls that manage our most material risks. Among other measures, we are:

- Further developing controls to help ensure that we know our customers, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter fraud risk;
- Improving controls and security to protect customers when using digital channels;
- Increasing monitoring and enhancing detective controls to manage those fraud risks which arise from new technologies and new ways of banking.

Information security risk

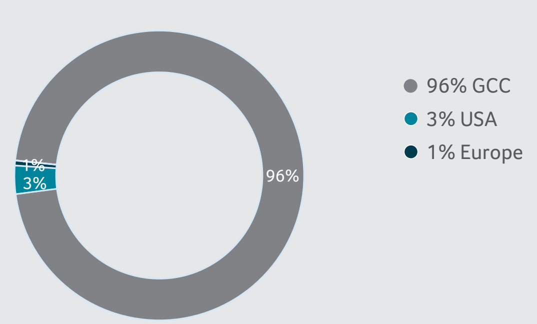
Information security risk is the risk associated with the operation and use of information systems that support the mission and business functions of the Bank. It is defined as a function of the likelihood of a given threat-source's exercising (accidentally triggering or intentionally exploiting) a particular potential vulnerability, and the resulting impact of that adverse event on the organisation.

The Bank is aligning its security function to the ISO/IEC 27000 standard. This is done by implementing an Information Security Management System (ISMS) framework consisting of policies and procedures to support information risk management processes. It is a systematic approach to managing sensitive company information so that it remains secure, by including people, processes and technology. The strategic objective is to adopt a risk based approach by integrating the information security risk management processes into the life cycle of all information systems and infrastructures, thus mitigating and minimizing the risk to an acceptable level.

The department is also responsible for all information and cyber security activities across NBB including security event monitoring, monitoring of compliance with information security regulations, policies, standards and procedures, overseeing the investigation of information security incidents and gathering and analyzing threat intelligence from internal and external sources. Information security risk assessments and reviews are also a core activity of the team as well as proactively supporting other functions on information security, defining and conducting the information security awareness Programmes and measuring and reporting the information security KRIs and KPIs.

In 2019 we continued to strengthen the ISMS system and enhance the maturity of the associated processes. Further, the Bank invested in the implementation of security systems to improve the controls needed to access, use and share the information across the Bank.

Geographical distribution of assets
(%)



Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/ non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them.

All the aspects of risk mentioned above are reviewed regularly at meetings of the Board Risk Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

Regulatory compliance and financial crime risks

Promotion of a healthy compliance culture lies at the heart of NBB's strategy. With the appointment of a new Chief Compliance Officer in 2019, the Bank reinforced its efforts to develop a sound compliance framework, which oversees adherence to Bahrain's laws and regulations, as well as those from other countries where NBB has operations. Also, the Bank established the Group Compliance Management Committee (GCMC) as the rightful forum to discuss the compliance agenda, update on the progress towards closing audit and self-identified issues and as an escalation point to bring to the attention of senior management any issues requiring their attention. The Chief Compliance Officer reports relevant management information from the GCMC sessions to the Board Risk Committee on a quarterly basis.

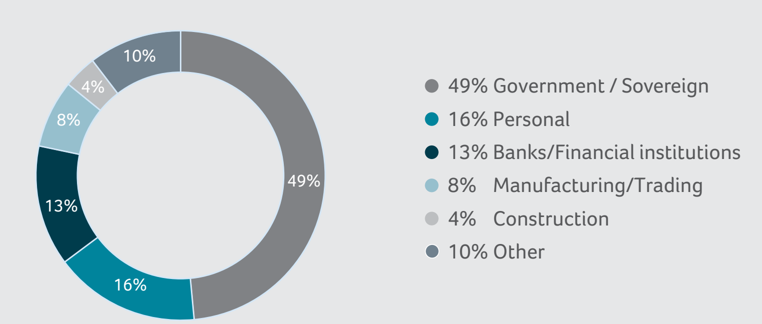
As part of NBB's annual compliance plan, the department is prioritising resources on two main pillars, namely, regulatory compliance and financial crime. By the end of 2019, NBB successfully launched an automated system for the tracking, monitoring and completion of regulatory reporting obligations. The system strengthened the framework across the Bank's various lines of business and support functions enabling them to comply with their periodic reporting obligations under the CBB Rulebook.

As part of the Bank's efforts to combat financial crime, anti-money laundering and countering the financing of terrorism, NBB continues to apply a risk based approach to address Know Your Client requirements, sanctions screening, anti-money laundering transaction monitoring, as well as other concerns from a broader financial crime perspective. In that regard, NBB conducts periodic testing of its systems to ensure transaction-monitoring scenarios, configuration of parameters and applicable thresholds remain relevant for the generation of alerts that are investigated by our compliance officers.

Additionally, NBB successfully launched various initiatives to enable the embedding of a speak-up compliance culture with the introduction of a biweekly compliance news bulletin and a compliance topic of the month article that are distributed electronically across the entire organization. These publications discuss relevant compliance topics, trends and developments in the industry, highlighting the importance to conduct ourselves individually, and as a firm, with full transparency. A strong compliance culture ultimately facilitates full compliance with the requirements set forth by our regulators, but furthermore, enable us to meet the expectations by our correspondent banks.

In support of NBB's efforts to strengthening its compliance culture, the Chief Compliance Officer introduced the delivery of roles-based, in-classroom training to all compliance officers at our head office and at NBB's branches in Riyadh and Abu Dhabi. The training focuses on specialised topics, to enable our compliance officers to discharge their responsibilities effectively while enhancing a collaborative relationship with the Bank's lines of business.

Sector distribution of assets
(%)



‘Proud to be your National Partner’

by paving the way to innovative banking solutions.

With a results-oriented approach, we successfully accelerated our business, modernised our infrastructure and built best-in-class capabilities with new partnerships, new clients, new products, and increased market share.

Corporate Governance Report

The Board of Directors is responsible for the overall governance of the National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognises that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

Board of Directors

The Board's composition is governed by the Bank's Memorandum and Article of Association and comprises of eleven members. Four Members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 44.18% of the Bank's share capital and one Member is appointed by Social Insurance Organization, which holds 10.88% of the Bank's Share Capital. The remaining six Members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The six Members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in March 2018 and their term expires at the Annual General Meeting to be held in March 2021.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on business profile, opportunities, challenges and risks faced by the Bank.

In accordance with the definitions stipulated by the CBB, Directors are categorised as independent, executive and non-executive. The Board currently comprises of five independent directors and six non-executive directors. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organisation structure in line with the Bank's business requirements.
- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.
- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.

The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and Members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget and operating limits for various activities of the Bank.

Committees of the Board of Directors

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee, the Nomination, Remuneration and Governance Committee, the Risk Committee and the Donations and Contributions Committee.

Executive Committee

The Executive Committee comprises of not more than five Board Members selected and appointed by the Board, with at least two of the members being independent directors. The Executive Committee meets at least six times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending and investments in debt securities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Executive Committee is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.

Audit Committee

The Audit Committee comprises of three non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. The Audit Committee is responsible for recommending to the Board of Directors, the appointment and compensation of the external auditors, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of the internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

Donation and Contributions Committee

The committee is created to manage the distribution of funds allocated towards corporate donations and contributions. The Committee is comprised of a maximum of four Board Directors and two members of management as decided by the Board of Directors. The allocated annual contribution towards the fund is equivalent to 5% of the Bank's net profit.

Risk Committee

The Risk Committee comprises of four members selected and appointed by the Board. It includes two directors and two independent advisors. The Risk Committee meets at least four times a year. The role of the Committee is to oversee and monitor the risk management framework established by the Board of Directors including reviewing and reporting its conclusions and recommendations to the Board on the Bank's current and future risk appetite and policies. The Committee is additionally responsible for overseeing and assessing the compliance framework of the Bank.

Nomination, Remuneration and Governance Committee

The Nomination, Remuneration and Governance Committee comprises of four Board Members selected and appointed by the Board of Directors. A minimum of one Director must be independent and attending every meeting. The Committee meets at least three times a year. The role of the Nomination, Remuneration and Governance Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination, remuneration policies and corporate governance guidelines of the Bank based on regulatory requirements or industry best practices. The Committee has the mandate of identifying persons qualified to become members of the Board, CEO, CFO, Corporate Secretary, and any other officer positions as considered appropriate by the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the Board of Directors and senior management.

Corporate Governance Report (continued)

Board Meetings and Attendance

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2019 and attendance are detailed below:

	Board		Executive Committee		Audit Committee		Risk Committee		Nomination, Remuneration and Governance Committee		Total		
Name of the Director	Total No of meetings *	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	% of Meetings attended
Farouk Yousuf Khalil Almoayyed Chairman	6	6							4	4	10	10	100%
Dr. Essam Abdulla Fakhro Deputy Chairman	5	5	5	5					4	4	14	14	100%
Fawzi Ahmed Kanoo Deputy Chairman	6	6	5	5							11	11	100%
Khalid Yousif Abdulrahman Abdulrahim Director	5	5			5	5					10	10	100%
Hussain Sultan Sultan Al Ghanem Director	6	6	5	5							11	11	100%
Khalid Omar Al Rumaihi Director	6	5					4	3			10	8	80%
Sh. Rashid Bin Salman Al-Khalifa Director	5	5	5	5					4	4	14	14	100%
Hala Ali Hussain Yateem Director	6	6			5	5					11	11	100%
Rishi Kapoor Director	6	6					4	4			10	10	100%
Mohamed Tareq Mohamed Sadeq Mohamed Akbar Director	6	6			5	5					11	11	100%
Yusuf Abdulla Yusuf Akbar Alireza Director	6	6	5	5					4	4	15	15	100%

* One Board meeting was Ad-hoc. Conflicted Members did not attend this meeting.

Dates of meetings and attendance details:

Board Meetings: Total number of meetings held: 6

	Meeting dates					
Members	28/1/2019	24/2/2019 (Ad hoc)	17/4/2019	16/7/2019	23/10/2019	20/11/2019
Farouk Yousuf Khalil Almoayyed – Chairman	✓	✓	✓	✓	✓	✓
Dr. Essam Abdulla Fakhro – Deputy Chairman	✓	X (conflict of interest)	✓	✓	✓	✓
Fawzi Ahmed Kanoo – Deputy Chairman	✓	✓	✓	✓	✓	✓
Khalid Yousif Abdulrahman Abdulrahim – Director	✓	X (conflict of interest)	✓	✓	✓	✓
Hussain Sultan Sultan Al Ghanem – Director	✓	✓	✓	✓	✓	✓
Khalid Omar Al Romaihi – Director	✓	✓	✓	×	✓	✓
Sh. Rashid Bin Salman Al Khalifa – Director	✓	X (conflict of interest)	✓	✓	✓	✓
Hala Ali Hussain Yateem – Director	✓	✓	✓	✓	✓	✓
Rishi Kapoor – Director	✓	✓	✓	✓	✓	✓
Mohamed Tareq Mohamed Sadeq Mohamed Akbar – Director	✓	✓*	✓	✓	✓	✓
Yusuf Abdulla Yusuf Akbar Alireza – Director	✓	✓	✓	✓*	✓	✓

* Attended by phone

Board Meetings and Attendance (continued)

Executive Committee Meetings: Total number of meetings held: 5

	Meeting dates				
Members	13/2/2019	28/3/2019	27/6/2019	26/9/2019	11/12/2019
Dr. Essam Abdulla Fakhro – Deputy Chairman and Chairman of Executive Committee	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo – Deputy Chairman	✓	✓	✓	✓	✓
Hussain Sultan Sultan Al Ghanem – Director	✓	✓	✓	✓	✓
Sh. Rashid Bin Salman Al Khalifa – Director	✓	✓*	✓	✓	✓
Yusuf Abdulla Yusuf Akbar Alireza – Director	✓	✓	✓	✓*	✓*

* Attended by phone

Audit Committee Meetings: Total number of meetings held: 5

	Meeting dates				
Members	20/1/2019	23/1/2019	16/4/2019	15/7/2019	22/10/2019
Khalid Yousif Abdulrahman Abdulrahim – Director and Chairman of Audit Committee	✓	✓	✓	✓	✓
Hala Ali Hussain Yateem – Director	✓	✓	✓	✓	✓
Mohammed Tareq Mohammed Sadeq Mohamed Akbar – Director	✓	✓	✓	✓	✓

Risk Committee: Total number of meetings held: 4

	Meeting dates			
Members	14/4/2019	9/7/2019	14/10/2019	19/11/2019
Khalid Omar Al Romaihi – Director and Chairman of Risk Committee	×	✓	✓	✓
Rishi Kapoor – Director	✓	✓*	✓*	✓
Sabah Al Moayyad, Non-Director – Advisor to the Board	✓	✓	✓	✓
Matthew Deakins, Non-Director – Advisor to the Board	✓	✓	✓	✓

* Attended by phone

Nomination, Remuneration and Governance Committee Meetings: Total number of meetings held: 4

	Meeting dates			
Members	28/1/2019	13/2/2019	16/7/2019	27/11/2019
Farouk Yousuf Khalil Almoayyed – Chairman of the Board and Chairman of the NRG	✓	✓	✓	✓
Dr. Essam Abdulla Fakhro – Deputy Chairman	✓	✓	✓	✓
Sh. Rashid Bin Salman Al Khalifa – Director	✓	✓	✓	✓
Yusuf Abdulla Akbar Ali Reza – Director	✓	✓	✓*	✓*

* Attended by phone

Corporate Governance Report (continued)

Management Structure

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

Within the management structure there are separate committees responsible to meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

Committee Name	Members	Objective
1- Weekly Executive Committee Meeting (WEM)	1- Jean-Christophe Durand – Chief Executive Officer 2- Abdulaziz Al Ahmed – Chief Executive, Strategic Accounts 3- Hussain Al Hussaini – Chief Executive, Treasury Capital Markets and Wealth Management 4- Dana Buheji – Chief Human Resources Officer 5- Yaser AlSharifi – Chief Strategy Officer 6- Hisham Al Kurdi – Chief Executive , Corporate and Institutional Investment Banking 7- Iain Blacklaw – Chief Operating Officer 8- Russell Bennett - Chief Financial Officer 9- Gaby El Hakim – Chief Legal Officer and Corporate Secretary 10- Isa Maseeh – Chief Risk Officer 11- Richard Hicks – Chief Marketing Officer 12- Bruce Wade – Chief Executive, Financial Restructuring 13- Subah Al Zayani - Head of Retail Banking	The Weekly Executive Committee Meeting (WEM) meets on a weekly basis and was created by the Bank to provide a regular forum for the discussion of strategic matters among senior management. While the WEM does not have any decision making powers, it serves as an advisory role and provides a sounding forum for the major decisions or actions that need to be taken by the Chief Executive Officer or the other Chief Executives within their delegation.
2- Management Credit Committee	Permanent Members: 1- Jean-Christophe Durand – Chief Executive Officer (Chairman) 2- Isa Maseeh – Chief Risk Officer 3- Yaser AlSharifi – Chief Strategy Officer 4- Ali Ehsan – Chief Credit Officer Temporary Members: 5- Hisham Al Kurdi – Chief Executive - Corporate and Institutional Investment Banking 6- Hussain Al Hussaini – Chief Executive, Treasury, Capital Markets and Wealth Management 7- Abdulaziz Al Ahmed – Chief Executive, Strategic Accounts	- Overseeing the effective implementation of the credit risk framework of the Bank. - Approving credit proposals and monitoring the credit portfolio in line with the defined risk appetite and policies of the Bank.
3- Operational Risk Management Committee (ORMC)	1- Jean-Christophe Durand – Chief Executive Officer 2- Isa Maseeh – Chief Risk Officer (Chairman) 3- Iain Blacklaw – Chief Operating Officer 4- Jaffar Mohammed - Head of Operational Risk 5- Hisham Al Kurdi – Chief Executive - Corporate and Institutional Investment Banking 6- Dana Buheji – Chief Human Resources Officer 7- Nabeel Mustafa – Head of Network Management, Strategy and Sales 8- Panos Moschonas – Chief Internal Auditor (Observer)	- Review and assess different aspects of risk arising from the Bank's business processes (i.e. operational risks, technology risk, BCP, DR, legal risk, compliance risks and compliance with internal controls) to ensure that material risks are captured, monitored and mitigated. - Serve as a forum for senior management to discuss, evaluate and decide key operational risk issues concerning all division of the bank.

Management Structure (continued)

Committee Name	Members	Objective
4- Asset Liability Committee (ALCO)	1- Jean-Christophe Durand – Chief Executive Officer (Chairman) 2- Yaser AlSharifi – Chief Strategy Officer 3- Hussain Al Hussaini – Chief Executive, Treasury Capital Markets and Wealth Management 4- Hisham Al Kurdi – Chief Executive , Corporate and Institutional Investment Banking 5- Russell Bennett – Chief Financial Officer 6- Isa Maseeh – Chief Risk Officer 7- Jaafar Husain – Head Liquidity and Market Risk 8- Nabeel Kazim – Head of Bank Operations 9- Ali Al Moulani – Head of Treasury and ALM 10- Subah Al Zayani – Head of Retail Banking 11- Maha Al Mahmood – Head of Treasury Sales	- Serve as a forum for senior management discussion and evaluation of key issues concerning the Bank's balance sheet structure and performance, pricing of assets and liabilities, funding and capital planning, contingency planning, market risk, interest rate risk, and liquidity risk. - Ensure that appropriate action consistent with market developments and the Bank's policies are taken to address the above key issues.
5- Retail Steering Committee	1- Jean-Christophe Durand – Chief Executive Officer (Chairman) 2- Yaser AlSharifi – Chief Strategy Officer 3- Iain Blacklaw – Chief Operating Officer 4- Dana Buheji – Chief Human Resources Officer 5- Subah Al Zayani – Head of Retail Banking	Ensure proper execution of the Retail strategy as well as Branch refurbishment, Cards Business strategy and overall Retail performance.
6- Project Steering Committee (PSG)	1- Jean-Christophe Durand – Chief Executive Officer (Chairman) 2- Yaser AlSharifi – Chief Strategy Officer 3- Iain Blacklaw – Chief Operating Officer 4- Isa Maseeh – Chief Risk Officer 5- Russell Bennett – Chief Financial Officer 6- Abdulla Buali – Head of Project Management Office 7- Muneera Mahmood – Project Specialist	- To ensure that the strategic programmes and major pojects as approved by the management are successfully implemented. - To monitor issues raised through the PMO, project sponsors, and other programme committees are resolved and that progress is made according to the approved plans and approved financial budgets.
7- Group Compliance Management Committee	1- Jean-Christophe Durand – Chief Executive Officer 2- Eduardo Rangel – Chief Compliance Officer (Chairman) 3- Dana Buheji – Chief Human Resources Officer 4- Isa Maseeh – Chief Risk Officer 5- Hisham Al Kurdi – Chief Executive, Corporate and Institutional Investment Banking 6- Nabeel Mustafa – Head of Network Management and Strategy 7- Arif Janahi – Head of Commercial and SME 8- Panos Moschonas – Chief Internal Auditor (Observer)	- Review and approve group-wide processes, policies and procedures related to the Bank's financial crime and regulatory compliance framework. - Approve and periodically review the Compliance Maturity Model and the annual Compliance Plan. - Discuss the compliance management dashboards, KRIs, KPIs residual risks, compensating controls and mitigating controls for RCSAs. - Monitor the adherence of the Bank to the Central Bank of Bahrain (CBB) requirements in the relevant rule book volumes and modules. - Review and monitor compliance risk management status on the Bank's branches and overseas operations. - Review and consider for approval the Bank's compliance risk framework at least annually.

Corporate Governance Report (continued)

Management Structure (continued)

Committee Name	Members	Objective
8- Digital Advisory Committee (DAG)	1- Yaser AlSharifi – Chief Strategy Officer (Chairman) 2- Iain Blacklaw – Chief Operating Officer 3- Hisham Al Kurdi – Chief Executive, Corporate and Institutional Investment Banking 4- Richard Hicks – Chief Marketing Officer 5- Subah Al Zayani – Head of Retail Banking 6- Razi Amin – Head of Information Technology	To define the digital direction of the bank, govern the digital initiatives and projects and support business transformation via: - Understand the digital priorities of the bank. - Review the solutions and evaluate these to the bank. - Align IT to the bank's direction and priorities in a planned manner to ensure effective and efficient utilization of technology. - Ensure that staffing, technology and investment are available to ensure reliable and timely services and projects. - Oversee all Digital related Projects and Initiatives.
9- Information Security Steering Committee (ISSC)	1- Isa Maseeh – Chief Risk Officer (Chairman) 2- Eduardo Rangel – Chief Compliance Officer 3- Iain Blacklaw – Chief Operating Officer 4- Panos Moschonas – Chief Internal Auditor (Observer) 5- Razi Amin – Head of Information Technology 6- Ali Al Majed – Head of Information Security 7- Nabeel Mustafa – Head of Network Management, Strategy and Sales 8- Ali AlSaegh - Head of Information Technology Security 9- Husam Saoudi –Manager-Information Security Risk (Secretary)	- Set the direction in establishing an Information Security Management System (ISMS). - Review and recommend security policies to the Board of Directors for approval. - Review the periodical information security reports. - Ensure that processes are created to measure the effectiveness of the security controls specified in this policy. - Approve the Bank's information security projects and monitor their implementation.
10- Business Continuity Management Committee	1- Iain Blacklaw – Chief Operating Officer (Chairman) 2- Isa Maseeh – Chief Risk Officer 3- Razi Amin – Head of IT 4- Haitham Seyadi – Head of Property, Procurement and Administration 5- Nabeel Mustafa – Head of Network Management, Strategy and Sales 6- Nabeel Kazim – Head of Bank Operations 7- Jaffar Mohamed – Head of Operational Risk 8- Rashid Abdul Rahman – IT infrastructure Manager (Secretary)	- Ensure effective continuance of the Bank's operations in the event of a moderate, major or potentially catastrophic incident. - Establish, review and test Bank wide business continuity and disaster recovery plans - Coordinate the planning and delivery of the training on crises and emergency management and disaster recovery

The Chief Compliance Officer reports directly to the Board Risk Committee and administratively to the CEO. The Corporate Secretary has direct access to the Board of Directors in accordance with Corporate Governance requirements.

Performance evaluation of Board and sub-committees

The Board of Directors has conducted a self-evaluation of the performance of the Board and its sub-committees for the year 2019. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination, Remuneration and Governance Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in the first quarter of 2020 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

Related party transactions and conflict of interest

Directors have a duty under the Commercial Companies Law, the CBB's regulations and the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorised by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a Director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions involving the Bank in 2019 are disclosed in Note 28 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest.

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. They are entered into following the satisfaction of the Bank's tender processes and procedures to ensure that the Bank receives optimal services from its counterparties at the best pricing available. Decisions relating to the approval of related party transactions, whether with connected parties of Directors, Controllers or significant shareholders of the Bank, or employees are approved after appropriate disclosures have been made and the related parties and their connected persons refrain from participating in the decision making process. The Bank's shareholders are referred to Note 28 of the financial statements setting out disclosures of related party transactions in compliance with Article 189(C) of the Commercial Companies Law. The Board of Directors is satisfied with the procedures in place for the approval of related party transactions and the outcomes of related party contracts entered into in 2019.

Employment of Relatives

The Bank has a Board approved policy in place on employment of relatives to prevent the potential favouritism and conflict of interest in decision-making due to factors of blood relations amongst employees and Board of Directors including Approved Persons.

Code of Conduct

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

Whistle Blower policy

The Board has adopted a Whistle Blower policy which provides all employees with the opportunity to access in good faith, the Audit Committee or the CEO (who will keep the Chairman of the Audit Committee informed of the facts as received by him) any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking adverse action against employees for doing so. The policy is available on the website of the Bank.

Communication Strategy

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements. These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of five preceding financial years are provided on the Bank's website.

Fines and Penalties

The following penalties were paid by the Bank to the CBB during the year: (a) BHD 20 relating to old and new currency notes sorting (b) BHD 7,200 on delay in submission of the reporting requirement stipulated in paragraph BR-1.1.3 of the CBB's rulebook.

Corporate Governance Report (continued)

Directors and senior management interests

The number of shares held by directors and their related parties and trading during the year is as follows:

Name	Type of shares	31 December 2019[1]	Sales during 2019	Purchases during 2019	31 December 2018
Farouk Yousuf Khalil Almoayyed - Chairman	Ordinary	24,916,022	-	-	22,650,930
Dr. Essam Abdulla Fakhro - Deputy Chairman	Ordinary	10,854,446	-	-	9,867,680
Fawzi Ahmed Kanoo - Deputy Chairman	Ordinary	96,535	-	-	87,760
Khalid Yousif Abdulrahman Abdulrahim - Director	Ordinary	24,795,523	-	519,403	22,021,982
Hussain Sultan Sultan Al Ghanem - Director	Ordinary	-	-	-	-
Khalid Omar Al Rumaihi - Director	Ordinary	-	-	-	-
Sh. Rashid Salman Mohamed Al Khalifa - Director	Ordinary	-	-	-	-
Hala Ali Hussain Yateem - Director	Ordinary	4,668,713	-	-	4,244,285
Rishi Kapoor - Director	Ordinary	-	-	-	-
Mohamed Tareq Mohamed Sadeq Mohamed Akbar- Director	Ordinary	-	-	-	-
Yusuf Abdulla Yusuf Akbar Alireza - Director	Ordinary	-	-	-	-
Total shares		**65,331,239**	**-**	**519,403**	**58,872,637**
As a % of the total number of shares		**4.23%**			**4.20%**

[1] Shares as at 31 December 2019 include bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.

The number of shares held by senior management and their related parties and trading during the year is as follows:

Name	Type of shares	31 December 2019[1]	Sales during 2019	Purchases during 2019[2]	31 December 2018
Jean-Christophe Durand - Chief Executive Officer	Ordinary	156,817	-	156,817	-
Hussain Al Hussaini - Chief Executive, Treasury, Capital Markets and Wealth Management	Ordinary	236,602	-	236,602	-
Abdulaziz Al Ahmed - Chief Executive Strategic Accounts	Ordinary	552,244	-	212,264	309,073
Bruce Wade - Chief Executive, Financial Restructuring	Ordinary	57,638	90,000	97,375	47,512
Dana Buheji - Chief Human Resources Officer	Ordinary	-	42,725	17,509	22,924
Iain Blacklaw - Chief Operating Officer	Ordinary	24,839	-	24,839	-
Yasser AlSharifi - Chief Strategy Officer	Ordinary	-	11,975	-	11,975
Richard Hicks - Chief Marketing Officer	Ordinary	47,587	-	31,598	14,536
Hisham Al Kurdi - Chief Executive - Corporate and Institutional Investment Banking	Ordinary	-	-	-	-
Panos Moschonas - Chief Internal Auditor	Ordinary	55,593	-	35,635	18,144
Russell Bennett - Chief Financial Officer	Ordinary	3,549	-	3,549	-
Gaby El Hakim - Chief Legal Officer and Corporate Secretary	Ordinary	29,185	-	29,185	-
Eduardo Rangel - Chief Compliance Officer	Ordinary	-	-	-	-
Isa Maseeh - Chief Risk Officer	Ordinary	15,968	-	15,968	-
Subah Al Zayani - Head of Retail Banking	Ordinary	-	-	-	-
Total shares		**1,180,022**	**144,700**	**-**	**424,164**

[1] Shares as at 31 December 2019 include bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.
[2] Represents shares transferred during the year as part of the Employee Share Incentive Scheme.

Approved Persons interests:

The total interest in the shares held by approved persons and their related parties is as follows:

	Type of shares	31 December 2019	31 December 2018
Total number of shares held	Ordinary	**66,612,118**	59,494,528
As a % of the total number of shares		**4.32%**	4.24%

Remuneration:

Board of Directors Remuneration Policy:

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Financial Reporting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

Employees Remuneration Policy

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices. In addition to fixed monthly salary and allowances, employees are provided with several other benefits like variable remuneration in the form of bonus, medical, life insurance cover, retirement benefits and employee savings scheme. While doing so, the Bank gives paramount importance to the interests of the shareholders and to this end, the Bank has implemented the Sound Remuneration Practices mandated by the Central Bank of Bahrain. While aligning the compensation of the employees with the risk outcomes and performance levels of the Bank, the revised policies for Variable Remuneration i.e. the Bonus and Share Incentive Scheme also endeavour to align senior management's interest with shareholders' interests. The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 8% to 9% of the net profit before the bonus and the variable remuneration of senior management is reviewed and approved by the Nomination, Remuneration and Governance Committee of the Bank.

Remuneration of Board Members, Senior Management and Fees Paid to External Auditors

The aggregate remuneration paid to Board Members and senior management personnel are disclosed in Note 28 of the Financial Statements.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2019. Details of the audit fee paid to the auditors during the year 2019 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB.

The Bank has provided the following explanations related to the guidance items below:

Guidance

1. HC 1.3.13 states that no director of a bank should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Two of the Bank's directors, Mr. Farouk Almoayyed and Dr. Essam Fakhro hold more than three directorships in public companies in Bahrain. However, the Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the directors provide adequate attention to their responsibilities and there are no conflict of interests between their other directorships and that of the Bank.
2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director taking into account the business transactions that the Bank has with the Almoayyed Group which is controlled by Mr. Farouk Almoayyed. The Board is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arm's length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.
3. HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the Nomination, Remuneration and Governance Committee, which has four members one of whom is independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Nomination, Remuneration and Governance Committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities. As a result of this combination, the Nomination, Remuneration and Governance Committee does not satisfy the requirements of HC-1.8.2, however, it is the Board's determination that the Nomination, Remuneration and Governance Committee is sufficiently independent to meet its requirements and responsibilities, and on this basis the CBB has confirmed that it has no objection to NBB's combination of these committees in this manner.

Remuneration Report

Our philosophy

NBB has adopted a total rewards philosophy which translates its vision, strategy and the values into a framework that guides its decision making when it comes to all elements of its reward. We aim through this adoption to:

1. Attract and retain the best performers.
2. Provide incentive variable pay based on the attainment of specific organisational performance goals as well as the attainment of individual performance goals in a manner which is completely aligned to our organisational values.
3. Develop industry leaders who positively impact the performance of the bank and act as catalyst for growth within the economies in which we operate.

In its elements, our philosophy encompasses the following:

1. Encourage competency building by better linking career development, performance management and rewards.
2. Support a performance-driven work culture that generates organisational growth.
3. Reward (in the form of fixed and variable compensation) performance, skills and competencies, development and growth, and effective visible commitment to the organisation.
4. Generate opportunities for individuals' growth through career development, training, and succession planning and talent development.
5. Support a work environment which is governed by our values, sound leadership, and a culture conducive of success through team-based oriented work relationships and a balanced work life mix.

The translation of this philosophy has been implemented through compliance to a strong corporate governance framework. One which is both in adherence to regulatory requirements and in alignment to industry benchmarks and best practices. In terms of oversight, the Nomination, Remuneration and Governance Committee of the Board (NRG) is responsible for ensuring adherence to policy and regulations.

The Bank's Remuneration Policy ensures that all employees, particularly the approved persons and material risk takers, are remunerated fairly and responsibly. Approved persons are employees who undertake functions that require prior approval from the CBB. These include controlled functions named by the CBB, executive positions directly reporting to the CEO and certain heads of function requiring specialised skill sets. Material Risk Takers are employees who are heads of significant business lines and any individuals within their control who have a material impact of the bank's risk profile.

In order to ensure alignment between what we pay the employees and the Bank's business strategy, we assess individual performance against annual and long-term financial and nonfinancial objectives summarised in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk, compliance measures and above all acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Bank believes the latter contributes to the long-term sustainability of the business.

NRG role and focus

The NRG has oversight of all compensation 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 compensation decisions. The NRG ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

The responsibilities of the NRG with regards to the variable compensation policy of the Bank, 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.
- Approve the remuneration policy and 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, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing 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, human resources, strategy, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board Member remuneration based on their attendance and performance and in compliance with Article 188 of Bahrain's 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.

The Board of Directors has established the Nomination, Remuneration and Governance Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRG Members during the year in the form of sitting fees amounted to BHD 6,000.

External consultants

External consultants have helped the Bank in formulating its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry standards.

Scope of application of the remuneration policy

The remuneration policy has been adopted on a Bank-wide basis and shall apply to its overseas branches and subsidiaries.

Board remuneration

The Bank's Board's remuneration is determined in line with the provisions of Article 188 of Bahrain's Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The Board remuneration is subject to approval of the shareholders in the Annual General Meeting. 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.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to individuals' contributions towards the attainment of NBB goals and targets working within a value-based culture, conducive of a highly efficient, pragmatic and delivery- oriented environment.

The Bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRG aims to balance the distribution of the Bank's profits between shareholders and employees.

The 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 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 the 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. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. Based on the quality of earnings, the bonus base could be adjusted based on the discretion of the NRG.

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced 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 adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 8% to 9% of the net profit before the bonus.

Remuneration of control and support functions

The remuneration level of staff 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 should be weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area 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 compensation for the business units is primarily decided by the 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 as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the Bank are treated differently by the remunerations system.

Risk assessment framework

The purpose of the 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 judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy is designed to reduce employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

Remuneration Report (continued)

the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to the distribution of the annual bonus. The Bank ensures that the total variable remuneration does not limit its ability to strengthen its capital base.

The NRG keeps itself abreast with the Bank's performance against the risk management framework. The NRG will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework includes several adjustments. The NRG carefully examines the results of stress tests and back tests conducted on the variable remuneration policy framework and makes necessary corrections to the staff bonus by reduction of bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

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

- Increase/ decrease the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

The Bank's malus and clawback provisions allows 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 compensation could be 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 behaviour 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 taken by the Bank's Board of Directors.

The Bank's malus and clawback provisions allows 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 willful 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.

Clawback 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 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 a period of 3 years
Upfront 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 shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards 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. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

Employees in the grade of senior manager and above and those earning total annual compensation of BHD 100,000 and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GMs and above	5 highest paid business emp.	SMs and AGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

* The deferral vests on a pro-rata basis over a 3 year period

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

Details of remuneration paid

(A) Board of Directors

BHD 000's	2019	2018
Sitting fees	**30**	32
Remuneration	**460**	460

(B) Employees

2019											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
(BHD '000)	Number of staff*	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons											
- Business Lines	7	1,357	234	-	-	503	10	113	605	-	2,822
- Control and Support	19	2,130	236	-	-	671	123	-	490	-	3,650
Other Material Risk Takers	3	199	39	-	-	49	10	-	39	-	336
Other Staff	681	11,260	2,749	-	-	3,653	79	10	368	-	18,119
Overseas Staff	53	1,516	563	-	-	144	5	1	27	-	2,256
Total	763	16,462	3,820	-	-	5,019	227	124	1,529	-	27,182

* This represents staff as at 31 December 2019. 46 staff who left during the year are not included in the Number of Staff however their respective remuneration has been disclosed in the relevant captions.

Note: Other staff costs amounting to BHD 59 thousand incurred towards recruitment are not included in the above.

2018											
		Fixed remuneration		Sign on bonuses**	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
(BHD '000)	Number of staff*	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons											
- Business Lines	7	1,449	349	22	-	505	8	117	614	-	3,063
- Control and Support	18	1,964	449	-	-	594	112	-	448	-	3,567
Other Material Risk Takers	14	942	157	-	-	254	43	10	220	-	1,626
Other Staff	619	9,189	3,443	-	-	3,644	27	-	108	-	16,411
Overseas Staff	44	649	403	4	-	161	-	-	1	-	1,218
Total	702	14,192	4,802	26	-	5,158	190	126	1,391	-	25,886

* This represents staff as at 31 December 2018. 45 staff who left during the year are not included in the Number of Staff however their respective remuneration has been disclosed in the relevant captions.

** This item is for two sign on awards which were awarded to certain strategic new hires in an overseas branch to meet the requirements of the prevailing market practice in the foreign jurisdiction of that branch, which is on an exceptional basis to the standing general policy of the Bank not to provide sign on awards.

Note: Other staff costs amounting to BHD 127 thousand incurred towards recruitment are not included in the above.

Remuneration Report (continued)

2. Deferred Awards

	2019				
	Cash	Shares		Others	Total
	BHD 000's	Number	BHD 000's *	BHD 000's	BHD 000's
Opening Balance	503	4,597,455	2,685	-	3,188
Awarded During the year	126	2,550,252	1,581	-	1,707
Cash/Stock dividend awarded during the year	179	714,771	443	-	622
Interest on deposits	4	-	-	-	4
Paid out/released during the year	(358)	(3,027,305)	(2,056)	-	(2,414)
Closing balance	**454**	**4,835,173**	**2,654**	**-**	**3,108**

* Based on the original award price for each award period

	2018				
	Cash	Shares		Others	Total
	(BHD'000)	Number	(BHD'000)*	(BHD'000)	(BHD'000)
Opening Balance	573	4,609,222	2,819	-	3,392
Awarded during the year	123	1,791,631	1,155	-	1,278
Cash/Stock dividend awarded during the year	164	655,645	-	-	618
Paid out/released during the year	(357)	(2,459,043)	(1,289)	-	(1,646)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	-	-	-	-	-
Closing Balance	503	4,597,455	2,685	-	3,188

* Based on the original award price for each award period

Environmental, Social and Governance Reporting

Zero
data security breaches

An average of
36 hours
of training per employee

15%
increase in female employment compared to 2018

More than
BHD 3.70M
in community investment

18%
reduction in electricity consumption per employee compared to 2018

More than
double
the amount of paper was recycled

2019 Award

Euromoney award for "Best Bank in Bahrain" at the Euromoney Middle East Awards for Excellence 2019

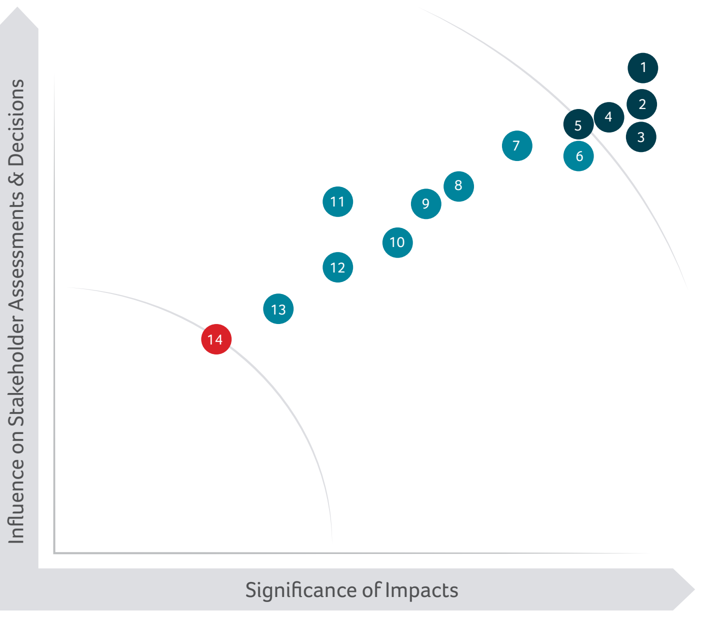
NBB and Sustainability

At NBB, and based on our leadership guidance, we decided to pursue a new **Sustainability Management Approach** that involves integrating sustainability into our business strategy and key business practices. We believe that adopting this new approach is vital to achieving sustainable growth, managing future risks more effectively, enhancing customer satisfaction, reducing our impact on the environment, meeting stakeholder expectations and enriching the lives of generations. Therefore, we strive to integrate sustainability into our daily operations and conduct business in a responsible manner. We ensure that our sustainability approach is aligned with the UN SDGs and Bahrain Vision 2030.

Our **Engagement with Stakeholders** is important for us in our sustainability approach as it helps us in understanding their needs and meeting expectations. Listening to our stakeholders assists us in identifying the most material topics.

We conducted a **Materiality Assessment** to identify the most material sustainability topics that are significant to NBB and our stakeholders. Based on our materiality assessment, 14 material topics were selected for the year of 2019. A materiality matrix was developed to define our understanding of the influence of each topic on stakeholders' decisions and the impacts on NBB's business.

Materiality Matrix
NBB (2019)



Rank	Material Topic
1	Compliance and ethical behaviour
2	Data privacy and security
3	Governance, transparency and accountability
4	Financial and economic performance
5	Responsible customer relationships
6	Talent attraction, engagement and retention
7	Financial inclusion
8	Responsible finance
9	Diversity, inclusion and equal opportunity
10	Digital transformation
11	Direct environmental footprint
12	Workforce wellbeing
13	Community investment
14	Responsible sourcing

- Governance & Ethical Behavior
- Serving our Customers
- Corporate Social Responsibility
- Preserving Natural Resources
- Economic Growth
- Responsible Banking
- Nurturing our Workforce

Based on our approach to integrate sustainability into our core business, we identified key focus areas that need to be addressed for 2019.

NBB's **Sustainability Framework** includes seven pillars: **Governance and Ethical Behaviour, Economic Growth, Serving our Customers, Preserving Natural Resources, Nurturing our Workforce, Responsible Banking, and Corporate Social Responsibility.**

Governance, Ethical Behaviour and Economic Growth

Governance, transparency and accountability – A well-established corporate governance structure has helped NBB adhere to the regulations of the Central Bank of Bahrain (CBB), support responsible business practices and build better relations with our stakeholders. Our Board of Directors is committed to maintaining the best standards of corporate governance and ensuring the highest levels of transparency and disclosures.

The board currently consists of five independent directors and six non-executive directors, with 9% of the seats occupied by female directors. The board meets the generally acceptable corporate governance practice regarding the separation of roles of the Chairman and Chief Executive Officer.

The board of directors conducts an annual self-evaluation of the board's performance and its sub-committees, which is subject to be reviewed by the shareholders annually during the annual general meeting. This assessment is undertaken through the completion of a structured questionnaire regarding the effectiveness and involvement of each member against certain pre-defined criteria in line with the mandate of the board and each board sub-committee. All board members are provided with training and induction sessions when joining NBB's board.

The board's directors are paid an annual remuneration. The amount of the remuneration is linked to the performance targets including financial and social targets set for executives every year to determine the total remuneration.

Compliance and Ethical Behaviour – Financial institutions around the world adhere to many regulations. Complying with such regulations is vital to conduct our operations responsibly, maintain our reputation, and protect our customers.

At NBB, we are committed to ensuring compliance with the applicable regulations and standards of the CBB as well as other legislative authorities in the Kingdom and countries where we operate. In 2019, we were able to reduce the total number of non-compliance incidents by 25% and 62.5% compared to 2018 and 2017 respectively.

Incidents of non-compliance	2017	2018	2019
Total incidents of non-compliance with laws and regulations.	8	4	3
Total number of non-monetary sanctions.	0	0	0

NBB's compliance policies & manuals:

- Compliance manual
- AML manual
- Sanctions policy
- Whistleblowing policy

We always encourage our people to report any suspected financial crime including money laundering, bribery and corruption incidents, as well as breaches of the code of conduct. We have adopted a whistleblowing policy that is communicated to all NBB's employees who are empowered to report unethical practices to the Audit Committee or the CEO.

During 2019, a Group Compliance Management Committee was established to ensure the strengthening of the compliance function by implementing various measures and approaches. Such measures include compliance reverse screening, compliance annual testing and a new customer risk-assessment. Moreover, financial crime and sanctions trainings were provided to the compliance teams in Bahrain, KSA and UAE.

Responsible Sourcing – We value our relationship with all our stakeholders, including our suppliers. Through responsible sourcing, we actively look for opportunities and proactively try to mitigate risks associated with our supply chain, thus, streamlining our performance and sustaining our operations.

At NBB, we aim to source locally whenever possible. This aligns with Bahrain Vision 2030 and further boosts Bahrain's economy. We seek to integrate environmental and social considerations into the procurement process for our key procurement categories and aim to monitor our suppliers on environmental and social performance.

Economic Performance – We are committed to achieving a solid economic performance through sustainable growth and high returns, delivering value to our stakeholders and ensuring long-term success of our bank. In 2019, we succeeded to increase our revenues by around 7% and our net profit by 6% compared to 2018.

Our Customers, Our People, and Our Environment

Responsible Customer Relationships – Delivering an outstanding service to our customers lies at the top of NBB's priorities. We are committed to providing an exceptional customer service, and a wide range of customised products and services that meet the changing needs of our customers. In line with our brand promise 'Closer to you', we strive to build strong relationships and create value for our customers.

To enhance our customers' satisfaction and experience, we have adopted a Consumer Code of Conduct, and a customer complaint policy for concerns received from our customers through various channels including our branches, call centre and email. The complaints policy enables us to improve the complaint resolution process.

In our dealings with customers, we are committed to sharing transparent marketing information, ethical and fair advice. NBB's Consumer Code of Conduct, general banking terms and conditions, and pricing information are all available on our website in both Arabic and English.

2019 Highlights

- Launched an advanced online trading platform "Al Watani Trade" that enables our customers to trade equities listed on Bahrain Bourse through various channels including PC, laptop, tablets, or smart phones.
- Increased our branch working hours to make banking more convenient and accessible to our customers.
- Established a financial restructuring department to support companies who pursue restructuring.
- Expanded our ATM footprint by 30% covering 102 locations across the Kingdom; the largest ATM network in Bahrain.

Data Privacy and Security – At NBB, we ensure protecting customer privacy and securing personal information with the highest care to gain the trust and confidence of our customers. We have implemented numerous security and privacy measures to safeguard our customers and facilitate transactions across different platforms: online, mobile, and ATMs. We adopted a data privacy policy, which is available on our website.

We implemented an electronic solution to inform our customers about the collection and the usage of their data. As part of the information security awareness training, we provide our staff with privacy awareness training. Internal audits on information security are conducted multiple times during the year, while an external audit is performed annually.

In addition, we undertake an external Penetration Testing (PT) twice a year, an internal PT once a year and ASV scans (as required by PCI-DSS) on a quarterly basis. All PT exercises are performed by a third-party consultant. Further, an internal vulnerability test is done every month.

We are considered the first bank in the Bahrain to comply with the new Personal Data Protection Law (PDPL) which is mandated by the CBB. Moreover, we have a comprehensive information security programme that includes administrative controls including policies and procedures, and technical security controls. Our Information Security Committee regularly monitors our information security programme. During 2019, we had zero data security breaches.

Digital Transformation – Digitalisation comprises a profound part in our approach to interacting with customers. We offer a wide range of digital banking solutions including online banking, mobile banking and ATMs to elevate the customer experience and to help us enhance efficiency and collaboration internally.

In 2019, our top priority was to continue our digital transformation journey by improving NBB's digital capabilities and ensuring that our operations are modernised, advanced and equipped. Therefore, we have adopted many processes and procedures to deliver convenience for our customers. Such processes and procedures include upgrading the core banking system, improving our IT infrastructure and systems, and adopting solutions to use and analyse the data more effectively.

In collaboration with a local technology firm; an open banking payment and account information service provider, we became the first bank in the MENA region to introduce Open Banking Solutions. This account aggregation service enables customers to view and manage their finances more efficiently by providing them a consolidated view of their finances with NBB and other local Banks.

2019 Highlights

- Launched a new brand identity that reflects our transformation ambitions.
- Amongst the first bank in MENA region to provide Open Banking Solutions and introduce an aggregation service to enable customers to holistic view of their finances within NBB and other local banks.
- Promoted our digital channels through expanding our meet and greet services at the branches

Nurturing Our Workforce

Workforce overview	2017	2018	2019
Total workforce	670	702	763
Full-time employees	670	702	763
Senior management employees	23	29	31
Middle management employees	137	146	169
Non-management employees (staff)	510	527	563

2019 Highlights

- Our total workforce size consists of 763 employees. This is an 8.7% increase compared to 2018.
- 4% of our employees are senior managers, 23% are middle managers and 73% are non-management employees.
- Women comprised 36% (272) of our total workforce and hold 16% (27) of middle management positions.

Talent Attraction, Engagement and Retention – At NBB, we are dedicated to building a learning environment that leads talent development and builds our people's capabilities to help them thrive and evolve, not only for the purposes of our bank, but ultimately for the benefit of the wider industry. Our Human Resources and Talent Development department plays a key role in promoting such environment within NBB. It is also responsible for implementing various tools and programmes to motivate employees, enhance their competencies and monitor their performance.

In 2019, we launched an annual mentorship training programme "INSPIRE". The programme leverages on the expertise and skills of existing employees to create a pool of in-house 'mentors' who are committed to guide and inspire ambitious individuals from within the bank through knowledge sharing and collaboration.

We also initiated an 'Appreciation Programme' in 2019 with the aim to recognise and appreciate employees for their performance, loyalty and commitment to our growth and transformation. In line with our commitment to our employees, we launched a talent development initiative 'RISE' for employees to enhance their capabilities and cultivate the next generation of industry experts.
In addition to our training programmes, we also participate in career days to cement our position as an employer of choice for fresh graduates and job seekers. In total, our employees were provided with over 25,000 training hours during 2019.

In order to gain insights on the embracement of our values and to better understand how to improve our general engagement with employees, we conducted a culture survey to assess the level of employee alignment with our core values and overall culture.

Training and Development	2017	2018	2019
Total training delivered (hours)	6354	25186	25284
Average training per employee (hours)	11.3	36	36
Percentage of employees who received a performance and career development review	100	100	100
Number of female employees that took parental leave	-	-	19

Hiring and Turnover	2017	2018	2019
Total New employee hires:	139	77	107
Male	76	59	59
Female	63	18	48
Employee turnover (voluntary and involuntary)	54	45	46
Male	38	31	34
Female	16	14	12
Employee turnover (voluntary and involuntary) (%)	8.6%	6.6%	6.3%

2019 Highlights:

- All employees received formal performance appraisals and career reviews in 2019.
- All 19 female employees who took maternal leaves in 2019 resumed back to their work with us after their leave.
- In 2019, we hired 107 employees.
- We had a turnover rate of 6.3%, a 5% decrease compared to 2018.

Diversity, Inclusion and Equal Opportunity – Diversity and inclusion are principles that drive NBB's approach to the development of our workforce. Our Diversity and Inclusion Committee promotes a culture of inclusion and acceptance of differences amongst employees. The objective of this committee is to continue building an environment that is comprehensive, supportive, engaging and respectful. We treat our employees equally regardless of their gender, age, religion, disabilities, ethnicity, experience, or background.

Moreover, we are collaborating with Down Syndrome Society to support diversity and inclusiveness in the workplace and community. We are proudly an official participant and sponsor of this employment onboarding programme, which serves to enrich our workforce with trained and professional employees with Down-Syndrome.

As for female advancement, an exclusive programme was developed to support the accession of current and developing female executives into leadership roles. The 'Director Development Programme for Women' is a learning and networking platform that enables female professionals across the Kingdom to enhance their abilities and facilitate their accession to board representations and leadership roles across all sectors.

Workforce overview	2017	2018	2019
Employees age 18-30	315	300	311
Employees age 31-50	266	319	375
Employees age 51+	89	83	77
Male employees	437	465	491
Female employees	233	237	272
Female employees in middle management	22	24	27
Female employees in senior management	2	1	1

Workforce Wellbeing – Our employees are at the heart of everything we do, so we aim to offer them a safe and encouraging work environment that enables them to reach their full potential. We are committed to improving our workforce's health and wellbeing to ensure that employees can excel at their jobs. We strive to support our people physically, mentally and financially.

Preserving Natural Resources

Direct Environmental Footprint – We are dedicated to managing our environmental impacts, including our energy and water consumption, atmospheric emissions and their effect on climate change, and our waste management and recycling. We want to protect our planet and save it for future generations.

We undertook several paperless initiatives and converted existing paper-based systems into a digital workflow, which resulted in a significant reduction in paper usage. One of these initiatives is the GO green initiative, implemented across our ATM network which replaced printed receipts and instead direct SMS messages are sent to account holders. Each staff member was provided with a personalised stainless-steel insulated bottle to reduce the consumption of plastic bottles. Moreover, we have enforced our recycling practices and we were able to recycle more of paper in 2019 in comparison to the amount of papers recycled in 2018.

We also implemented several initiatives to reduce energy consumption. A capacitor bank was installed at NBB Tower in May 2019. The old chiller plant was replaced with new energy efficient chillers. We also replaced the old halogen lights with LED lights at the main banking hall.

Energy Consumption	2018	2019
Total electricity consumption (kWh)	17,342,000	15,484,480
Electricity Intensity (kWh/employee)	24703.70	20320.84

Water Consumption	2018	2019
Total water consumption (litres)	17,629,000	19,952,000
Water consumption intensity (litres/employee)	25,112.54	26,183.73

2019 Highlights:

- Electricity consumption per employee decreased by 18% compared to 2018.
- Our water consumption per employee increased by 4% compared to 2018.

Responsible Banking

Financial Inclusion – A lot of people around the world find it difficult acquire financial services and products, since they are unfamiliar with the basic banking tools due to poor financial literacy. These difficulties negatively influence financial inclusion and economic growth. At NBB, we are devoted to ensuring our customers – including low income and disadvantaged segments – have appropriate financial products and services through accessing a wide variety of our channels easily based on their needs and preferences. Our digital innovations have a significant role in targeting financial inclusions. We are the only bank in Bahrain to install an exclusive ATM cash withdrawal facility for certain eWallets that are designed for the financial inclusion of blue-collar laborers who need convenient access to their cash. Therefore, in line with our "closer to you" strategy, we invested in our ATM network to facilitate eWallet cash withdrawals.

Some of our retail branches ensure easy access and have ramps for our disabled customers. In addition, our training initiatives towards supporting our special needs customers expanded to providing sign language training to retail representatives to enable serving all customers suitably. We upgraded our contact centre with a new set of services such as sign language and a video service.

Financial Inclusion	2017	2018	2019
Number of branches in low populated and economically disadvantaged areas	1	1	2
Number of ATMs in low populated and economically disadvantaged areas	4	4	4

2019 Highlights

- We maintain branches and ATMs in low populated and economically disadvantaged areas.
- 20 employees from NBB participated in INJAZ Bahrain programme that provided financial literacy and learning to youth.
- Sponsored Iron Man Kids to spread awareness amongst youths "and educate them on health benefits.
- Provided waiver of banking service charges and fees to divorced and widowed women, orphans and students.

Responsible Finance – Responsible finance is becoming more and more important in the financial industry today. We have witnessed a surge in the number of financial institutions and individuals who pursue responsible investing and lending strategies, with frameworks in place assisting in the implementation of such activities. We remain committed to implementing ESG integration into our investment and lending strategies in the future wherever possible.

As one of the key pillars of economic support in the Kingdom of Bahrain, our investment approach contains strong social and governance screening criteria. We are working on incorporating environmental criteria into our investment approach. While we do not have products and services specifically designed to serve social and environmental benefits, we do consider the sectors of economy when providing our financing products. For example, the pharmaceutical sector is a major focus in our books. Another example is the healthcare sector. We provided banking facilities to more than one subcontractor for Awali Cardiac Centre, which will be the largest cardiac centre in Bahrain. Another initiative we have taken is financing waste management and recycling facilities; a sector which serves towards a cleaner environment.

In September 2019, we pledged our full support and willingness to take part in funding customers under Tamkeen's Sustainable Finance Scheme. Given that Tamkeen engages only in Sharia compliant banking products, we continue to our efforts to participate in the scheme through partnerships to support in the funding of solar energy projects.

Corporate Social Responsibility

Community Investment – We, at NBB, want to enrich the lives of the generations. Therefore, our community investment approach is structured, well-defined, and is built around 5 pillars: Education, Healthcare, Social Welfare, Development and Others. Contributions to educational institutions and scholarships fall under the education pillar. Equipping hospitals and medical centres and contributions to registered organisations comprise the efforts we make under the healthcare pillar. Social welfare entails contributions made towards associations, social & philanthropic societies. Organising and participating in professional occasions, specialised symposiums and events aimed towards development are part of our development pillar. All other investments and contributions justified by our CSR committee fall under others.

This year, we supported two societies that focus on children with cancer. In addition to financial support, we extended our support through creating various initiatives in order to raise funds effectively for their cause, and other proactive initiatives including creating awareness, interaction, and response from the public to make a difference to their lives.

We supported the Conserving Bounties Society in Bahrain whereby we raised awareness about food waste in the Kingdom by effectively producing and sharing a video. This encouraged the public to better understand the different ways they can reduce, and make use of, leftover food. Among the notable healthcare initiatives that we supported over the past two years, has been the financing of the new Multiple Sclerosis (MS) hospital in Muharraq. We committed to covering all expenses for the MS hospital construction at an estimated cost of BHD 1.7 million over the next 3 years. We also committed to constructing, refurbishing and equipping the Khalifa City Health Centre in Jaaw. This is a project that will be completed by the second half of 2021, at an approximate cost of BHD 6 million.
Moreover, we donate equipment to leading local hospitals including the Salmaniya Medical Complex, Bahrain Defence Force (BDF) Hospital and the Sh. Mohammed Cardiac Centre as well as to organisations such as the Red Crescent Society and Bahrain Mobility International.

We also participated in the government's Social Housing Finance Scheme "Mazaya Program", which is designed to provide affordable housing for the lower mass market, whereby a unique new product was structured to cater for the beneficiary housing needs with an inclusive credit policy and pricing.

Each year, we commit to transfer 5% of our net profit to the donations reserve. In 2019, our donations and sponsorships reached BHD 3.71 million; a 6% increase compared to 2018. This reflects our strong balance sheet and stable cash flows.

Donations and sponsorships	2017	2018	2019
	BHD 3,050 thousand	BHD 3,500 thousand	BHD 3,710 thousand

Financial Statements

CONTENTS

Independent Auditors' Report to the Shareholders

National Bank of Bahrain BSC
PO Box 106
Manama
Kingdom of Bahrain

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(x), note 7 and disclosures of credit risk in note 3 of the financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of loans and advances representing 38% of total assets • impairment of loans and advances involves: O complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; O use of statistical models and methodologies for determination of expected credit losses; and O complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. • Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. Controls testing We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process. Key aspects of our control testing involved the following: • Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Bank operates;

Independent Auditors' Report to the Shareholders (continued)

Description	How the matter was addressed in our audit
	• Evaluating controls over the modelling process, including governance over model monitoring, validation and approval; • Evaluating controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays; and • Testing key controls relating to selection and implementation of material economic variables. Test of details Key aspects of our testing involved: • Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; • Re-performing key aspects of the Bank's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; • Re-performing key elements of the Bank's model calculations and assessing performance results for accuracy; and • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. Use of specialists For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include: • We involved our Information Risk Management specialists to test controls over the new IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our Financial Risk Management specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling by reference to our own knowledge and external market data and economic conditions. This typically included challenging key assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, recovery rates, use macro-economic variables and probability weighted outcomes. Disclosures We assessed the adequacy of the Bank's disclosure in relation to use of significant estimates and judgement and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 that we have obtained prior to the date of this auditors' 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 financial statements

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

In preparing the financial statements, the board of directors is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Independent Auditors' Report to the Shareholders (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the 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 board of directors 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 board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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 regulatory requirements

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

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

b. the financial information contained in the board of directors report is consistent with the financial statements;

c. we are not aware of any violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

KPMG

KPMG Fakhro
Partner registration number 83
12 February 2020

Statement of Financial Position

As at 31 December

		2019		2018	
	Note	BHD millions	USD millions	BHD millions	USD millions
Assets					
Cash and balances at central banks	4	**110.6**	**294.1**	107.3	285.4
Treasury bills	5	**425.3**	**1,131.1**	387.1	1,029.5
Placements with banks and other financial institutions	6	**228.8**	**608.5**	259.7	690.6
Loans and advances	7	**1,213.7**	**3,227.9**	1,190.1	3,165.2
Investment securities	8	**1,070.7**	**2,847.6**	1,132.2	3,011.2
Investment in associates	9	**53.6**	**142.6**	51.6	137.2
Interest receivable and other assets	10	**60.0**	**159.6**	50.9	135.4
Property and equipment	18	**31.8**	**84.6**	16.6	44.1
Total assets		**3,194.5**	**8,496.0**	3,195.5	8,498.6
Liabilities					
Due to banks and other financial institutions	11	**396.6**	**1,054.8**	381.4	1,014.4
Borrowings under repurchase agreements	12	**108.4**	**288.3**	103.9	276.3
Customer deposits	13	**2,094.0**	**5,569.1**	2,190.6	5,826.1
Interest payable and other liabilities	14	**63.2**	**168.1**	43.8	116.5
Total liabilities		**2,662.2**	**7,080.3**	2,719.7	7,233.3
Equity					
Share capital	19	**154.3**	**410.4**	140.3	373.1
Shares unallocated under share incentive scheme	19	**(1.4)**	**(3.7)**	(1.5)	(4.0)
Share premium	20	**6.3**	**16.7**	5.0	13.2
Statutory reserve	20	**77.1**	**205.0**	70.1	186.4
General reserve	20	**32.4**	**86.2**	32.4	86.2
Other reserves and retained earnings	20	**263.6**	**701.1**	229.5	610.4
Total equity		**532.3**	**1,415.7**	475.8	1,265.3
Total liabilities and equity		**3,194.5**	**8,496.0**	3,195.5	8,498.6

The consolidated financial statements were approved by the board of directors on 12 February 2020 and signed on its behalf by:

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 44 are an integral part of these financial statements.

Statement of Profit or Loss
For the year ended 31 December

	Note	2019 BHD millions	2019 USD millions	2018 BHD millions	2018 USD millions
Interest income	22	144.3	383.8	126.8	337.3
Interest expense	22	(51.0)	(135.6)	(39.6)	(105.4)
Net interest income		93.3	248.2	87.2	231.9
Net fee and commission income	23	13.7	36.4	11.8	31.5
Other income	24	18.8	50.0	18.4	48.8
Total operating income		125.8	334.6	117.4	312.2
Staff expenses	25	27.2	72.3	26.0	69.1
Other operating expenses	26	18.0	47.9	15.8	42.0
Total operating expenses		45.2	120.2	41.8	111.1
Profit before impairment provisions		80.6	214.4	75.6	201.0
Net impairment provisions	15	(6.4)	(17.0)	(5.6)	(14.9)
Profit for the year		74.2	197.4	70.0	186.1
Basic and diluted earnings per share	39	49 fils	13 cents	46 fils	12 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 44 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December

	2019 BHD millions	2019 USD millions	2018 BHD millions	2018 USD millions
Profit for the year	74.2	197.4	70.0	186.1
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss:				
Fair value through other comprehensive income (debt investments)				
Net change in fair value	13.8	36.7	(8.9)	(23.7)
Net amount transferred to profit or loss	(5.6)	(14.9)	-	-
Items that will not be reclassified to profit or loss:				
Net change in fair value of equity FVOCI investments	8.6	22.9	5.5	14.6
Total other comprehensive income / (loss) for the year	16.8	44.7	(3.4)	(9.1)
Total comprehensive income for the year	91.0	242.1	66.6	177.0

The accompanying notes 1 to 44 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings: Fair value reserve	Other reserves and retained earnings: Donation and charity reserve	Other reserves and retained earnings: Retained earnings	Total: BHD millions	Total: USD millions
Balance at 31 December 2018	**140.3**	**(1.5)**	**5.0**	**70.1**	**32.4**	**10.0**	**17.5**	**202.0**	**475.8**	**1,265.3**
2018 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(34.8)	(34.8)	(92.5)
Bonus shares issued at 10%	14.0	(0.2)	-	-	-	-	-	(13.8)	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.5	(3.5)	-	-
Transfer to statutory reserve	-	-	-	7.0	-	-	-	(7.0)	-	-
Balance after 2018 appropriations	**154.3**	**(1.7)**	**5.0**	**77.1**	**32.4**	**10.0**	**21.0**	**142.9**	**441.0**	**1,172.8**
Employee shares allocated	-	0.3	1.3	-	-	-	-	-	1.6	4.3
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	74.2	74.2	197.3
Other comprehensive income	-	-	-	-	-	16.8	-	-	16.8	44.7
Total comprehensive income for the year	-	-	-	-	-	16.8	-	74.2	91.0	242.0
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.3)	-	(1.3)	(3.4)
Balance at 31 December 2019 (notes 19-21)	**154.3**	**(1.4)**	**6.3**	**77.1**	**32.4**	**26.8**	**19.7**	**217.1**	**532.3**	**1,415.7**

The appropriations for the year 2019 will be submitted to the shareholders at the annual general meeting. These appropriations include BHD 38.7 million for cash dividend at 25% (2018: 25%) and BHD 3.7 million for donations and contributions. The Board of Directors has also proposed a one for ten bonus issue through utilisation of BHD 15.5 million from retained earnings and the transfer of BHD 8.0 million from retained earnings to the statutory reserve.

For the year ended 31 December 2018

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings: Fair value reserve	Other reserves and retained earnings: Donation and charity reserve	Other reserves and retained earnings: Retained earnings	Total: BHD millions	Total: USD millions
Balance at 31 December 2017	127.5	(1.7)	4.0	63.8	32.4	26.1	16.0	179.8	447.9	1,191.3
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	-	-	(12.7)	-	9.9	(2.8)	(7.4)
Impact of adopting IFRS 9 by associates	-	-	-	-	-	-	-	(4.1)	(4.1)	(10.9)
Balance at 1 January 2018	127.5	(1.7)	4.0	63.8	32.4	13.4	16.0	185.6	441.0	1,173.0
2017 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(31.5)	(31.5)	(83.8)
Bonus shares issued at 10%	12.8	(0.1)	-	-	(12.8)	-	-	0.1	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.1	(3.1)	-	-
Transfer to general reserve	-	-	-	-	19.1	-	-	(19.1)	-	-
Transfer to statutory reserve	-	-	-	6.3	(6.3)	-	-	-	-	-
Balance after 2017 appropriations	140.3	(1.8)	4.0	70.1	32.4	13.4	19.1	132.0	409.5	1,089.2
Employee shares allocated	-	0.3	1.0	-	-	-	-	-	1.3	3.7
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	70.0	70.0	186.1
Other comprehensive income	-	-	-	-	-	(3.4)	-	-	(3.4)	(9.1)
Total comprehensive income for the year	-	-	-	-	-	(3.4)	-	70.0	66.6	176.9
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.6)	-	(1.6)	(4.5)
Balance at 31 December 2018 (notes 19-21)	140.3	(1.5)	5.0	70.1	32.4	10.0	17.5	202.0	475.8	1,265.3

Unallocated shares are shares that remain unallocated to employees under the employee share incentive scheme.

The accompanying notes 1 to 44 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December

	Note	2019 BHD millions	2019 USD millions	2018 BHD millions	2018 USD millions
Cash flows from operating activities					
Profit for the year		74.2	197.4	70.0	186.1
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation		2.9	7.7	2.0	5.4
Amortisation of right-of-use leased asset		1.7	4.5	-	-
Net impairment provisions	*15*	6.4	17.0	5.6	14.9
Share of profit of associates		(4.1)	(10.9)	(5.4)	(14.4)
Profit for the year after adjustments		81.1	215.7	72.2	192.0
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		(0.1)	(0.2)	7.8	20.7
Treasury bills		17.6	46.8	52.1	138.6
Placements with banks and other financial institutions		(3.2)	(8.5)	2.6	6.8
Loans and advances		(31.4)	(83.5)	27.7	73.7
Investment securities		99.2	263.8	(75.0)	(199.1)
Interest receivable and other assets		(16.6)	(44.1)	(0.7)	(1.8)
Due to banks and other financial institutions		15.2	40.4	(2.6)	(7.0)
Borrowings under repurchase agreements		4.5	12.0	36.1	96.0
Customer deposits		(96.6)	(256.9)	25.4	67.5
Interest payable and other liabilities		7.9	21.0	7.7	20.3
Net cash from operating activities		77.6	206.5	153.3	407.7
Cash flows from investing activities					
Dividend received from associates		1.1	2.9	1.2	3.1
Capital reduction of associates		1.0	2.7	-	-
Purchase of property and equipment, net		(15.6)	(41.5)	(5.7)	(15.2)
Net cash used in investing activities		(13.5)	(35.9)	(4.5)	(12.1)
Cash flows from financing activities					
Dividends paid		(35.1)	(93.3)	(31.5)	(83.9)
Donations and charities paid		(1.3)	(3.4)	(1.6)	(4.3)
Payment of lease liabilities		(3.0)	(8.0)	-	-
Net cash used in financing activities		(39.4)	(104.7)	(33.1)	(88.2)
Net increase in cash and cash equivalents		24.7	65.9	115.7	307.4
Cash and cash equivalents at 1 January	*4*	310.9	826.5	195.2	519.1
Cash and cash equivalents at 31 December	*4*	335.6	892.4	310.9	826.5

The accompanying notes 1 to 44 are an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2019

1. REPORTING ENTITY

The National Bank of Bahrain B.S.C., a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by the Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

The Bank's registered address is National Bank of Bahrain B.S.C., P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (USD) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US Dollar at the rate of BHD 0.376 to USD 1 (2018: BHD 0.376 to USD 1).

The financial statements have been prepared on the historical cost convention except for financial instruments classified as fair value through profit or loss, fair value through other comprehensive income investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

i) New standards, amendments and interpretations effective from 1 January 2019:

A. IFRS 16 'Leases'

The Bank has applied IFRS 16 with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognised in the financial statements as at 31 December 2018.

As permitted by the transitional provisions of IFRS 16, the Bank elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Set out below are the details of the specific IFRS 16 accounting policies applied in the current period and the IFRS 16 transition impact disclosures for the Bank.

i) Changes in accounting policies

At the inception of the contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

Measurement

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Changes in accounting policies (Continued)

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Bank's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) Impact of adopting IFRS 16

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in property and equipment by BHD 5.5 million and an increase in interest payable and other liabilities by BHD 5.5 million:

	Property and equipment	Interest payable and other liabilities
Closing balance under IAS 17 (31 December 2018)	16.6	43.8
Impact on remeasurements:		
Right-of-use asset	5.5	-
Lease liability	-	5.5
	5.5	5.5
Opening balance under IFRS 16 on date of initial application of 1 January 2019	**22.1**	**49.3**

c. Foreign currencies

i) Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in other income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss, except for differences arising on the retranslation of fair value through other comprehensive income equity instruments which are recognised directly in other comperhensive income as part of fair value changes.

ii) Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at the spot exchange rate at the reporting date. The income and expenses of these overseas branches for the year are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of the standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value of the financal insturments.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss.

The Bank has an internal credit rating model that uses 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. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank also uses external credit ratings for certain exposures.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and includes forward-looking information.

In determining whether credit risk has increased significantly since initial recognition the following criteria are considered:

I. Downgrade in risk rating according to the approved ECL policy.
II. Facilities restructured during the previous twelve months.
III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in applicable circumstances.

The Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

   The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

   The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability is unfunded and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

   The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2019 ANNUAL REPORT

NATIONAL BANK OF BAHRAIN B.S.C.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities

i. Recognition and initial measurement

The Bank initially recognised loans and advances and deposits on the date on which they are originated. 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

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost 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 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 (SPPI).

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 (SPPI).

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. 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 Bank 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.

Business model assessment

The Bank 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, maintaining practical interest rate profile, realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- 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 Bank'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.

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. 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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. There reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

The Bank classifies its financial liabilities, other than financial guarantees, as measured at amortised cost.

iii. Reclassifications

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

iv. Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest rate method.

v. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

vi. Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

The Bank designated certain derivatives as hedging instruments to hedge variability in fair values associated with interest rates.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

vii. Repos and reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as borrowings under repurchase agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in placements with banks and other financial institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective interest rate method.

viii. Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

ix. Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities the fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

x. Identification and measurement of impairment

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

- Financial assets including loans and advances, debt instruments and placements;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

x. Identification and measurement of impairment (Continued)

The Bank 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.

xi. Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank 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 Bank has transferred substantially all the risks and rewards of the asset; or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset 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 the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of an existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Other provisions
A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

k. Off-setting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

l. Settlement date accounting
All "regular way" purchases and sales of financial assets except for derivatives and assets classified as fair value through profit or loss are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative and assets classified as fair value through profit or loss transactions are recognised on trade date, representing the date the Bank contracts to purchase or sell.

m. Proposed appropriations
Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy
Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of the Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary bonus scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices regulation of the Central Bank of Bahrain.

o. Segment reporting
An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share
The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability
The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. The Bank's Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. Repossessed property
In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of their carrying amount and their fair value less costs to sell and are reported within other assets.

s. Assets under management
The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

3. FINANCIAL RISK MANAGEMENT
The Bank is exposed to the following types of risks:
- credit risk
- liquidity risk
- market risk
- operational risk

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

3. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework
The overall authority for risk management in the Bank is vested with the Board of Directors. The Board authorises appropriate credit, liquidity, market, and operational risk policies based on the recommendation of the Board Risk Committee and Management of the Bank. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. The Risk Group functions independent of the business units and reports directly to the Board Risk Committee and administratively to the Chief Executive Officer.

The Board Risk Committee is responsible for identifying and monitoring risks within the framework of the risk appetite established by the Board of Directors including reviewing and reporting its conclusions and recommendations to the Board on the Bank's current and future risk appetite, the Bank's risk management framework as well as the Bank's risk culture.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk
Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Credit appraisal is based on the financial position of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties.

The Credit Risk Department of the Bank independently analyses risks and puts forth its recommendations prior to approval by the appropriate authorities for facilities above a specified threshold. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and annual review process supports the identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies as part of the appraisal process while considering exposures to rated entities.

Liquidity risk
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset and liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity.

Market risk
Market risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardised method under Basel III for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

Operational risk
Operational risk is the risk of monetary loss on account of human error, fraud, system failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks. Additionally, new products and services are reviewed and assessed for operational risks prior to their implementation.

Capital management
The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on the return on shareholder's equity is also recognised, and the Bank recognises 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.

2019 ANNUAL REPORT
NATIONAL BANK OF BAHRAIN B.S.C.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

4. CASH AND CASH EQUIVALENTS

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Cash and balances at central banks	**110.6**	**294.1**	107.3	285.4
Less: mandatory cash reserves	**(75.6)**	**(201.1)**	(75.5)	(200.8)
	35.0	**93.0**	31.8	84.6
Treasury bills (less than 3 months)	**75.0**	**199.5**	19.3	51.2
Placements with banks (less than 3 months)	**225.6**	**599.9**	259.8	690.7
	335.6	**892.4**	310.9	826.5

5. TREASURY BILLS

Treasury bills are short-term in nature and include treasury bills, Islamic Sukuks and certificate of deposits issued by the Government of Bahrain, the Government of Saudi Arabia and the Central Bank of UAE.

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Government of Bahrain	**410.2**	**1,090.9**	377.1	1,002.9
Government of Saudi Arabia	**10.0**	**26.6**	10.0	26.6
Central Bank of UAE	**5.1**	**13.6**	-	-
	425.3	**1,131.1**	387.1	1,029.5

6. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Placements with banks	**212.8**	**566.0**	257.8	685.5
Placements with other financial institutions	**16.0**	**42.5**	1.9	5.1
	228.8	**608.5**	259.7	690.6

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Term placements	**194.3**	**516.8**	244.5	650.2
Current and call accounts	**19.0**	**50.5**	15.2	40.4
Reverse repos	**15.5**	**41.2**	-	-
	228.8	**608.5**	259.7	690.6

7. LOANS AND ADVANCES

	2019		2018	
a) As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Loans and advances to non-banks	**1,230.3**	**3,272.0**	1,157.3	3,078.1
Loans and advances to banks	**31.5**	**83.8**	82.2	218.5
Less: provision for impairment	**(48.1)**	**(127.9)**	(49.4)	(131.4)
	1,213.7	**3,227.9**	1,190.1	3,165.2

b) As at 31 December 2019, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BHD 461.9 million (USD 1,228.5 million) [31 December 2018: BHD 466.2 million (USD 1,239.9 million)].

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are immediately defined as non-performing. Any interest accrued is reversed and future interest is only recognised on a cash basis. The ageing schedule of non-performing loans and advances based on the time period since the last repayment of principal or interest by the customer, is as follows:

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Up to 3 months	**44.6**	**118.6**	53.5	142.3
Over 3 months to 1 year	**34.2**	**91.0**	12.5	33.2
1 to 3 years	**7.2**	**19.1**	26.1	69.4
Over 3 years	**9.8**	**26.1**	9.2	24.5
	51.2	**136.2**	47.8	127.1
Total	**95.8**	**254.8**	101.3	269.4
Fair market value of collateral	**94.1**	**250.3**	132.8	353.2
Stage 3 provisions	**(36.3)**	**(96.5)**	(36.5)	(97.1)

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

7. LOANS AND ADVANCES (Continued)

In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-perfoming should remain classified as non-performing for a cooling off period of not less than 1 year from the date of becoming performing.

Loans that are past due below 90 days but not impaired are those for which contractual interest or principal payments are past due but the Bank believes that specific impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2019, loans past due below 90 days but not impaired amounted to BHD 5.6 million (USD 14.9 million) [31 December 2018: BHD 11.3 million (USD 29.9 million)].

d) 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 de-recognised and the renegotiated loan recognised as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. During 2019, credit facilities amounting to BHD 20.2 million (USD 53.7 million) were restructured [2018: BHD 3.7 million (USD 9.8 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Bank's impairment charge or the future earnings. In accordance with the Central Bank of Bahrain guidelines, loans that have been restructured should be reported as stage 2 for not less than 1 year from the date of restructuring.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and /or shares and sovereign / bank guarantees. Some of these collaterals are held through a special purpose vehicle. As at 31 December 2019, loans and advances amounting to BHD 281.7 million (USD 749.2 million) [31 December 2018: BHD 292.1 million (USD 776.8 million)] were fully collateralised and loans and advances amounting to BHD 63.5 million (USD 168.9 million) [31 December 2018: BHD 44.4 million (USD 118.1 million)] were partly collateralised with a collateral value of BHD 12.2 million (USD 32.4 million) [31 December 2018: BHD 19.2 million (USD 51.0 million)].

f) Exposure to credit risk

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
1. Impaired (stage 3)				
Substandard	**85.0**	**226.1**	91.1	242.2
Doubtful	**2.1**	**5.6**	1.9	5.1
Loss	**8.7**	**23.1**	8.3	22.1
Gross amount	**95.8**	**254.8**	101.3	269.4
Stage 3 provisions	**(36.3)**	**(96.5)**	(36.5)	(97.1)
Impaired (stage 3) carrying amount	**59.5**	**158.3**	64.8	172.3
2. Past due below 90 days but not impaired				
Gross amount	**5.6**	**14.9**	11.3	30.1
Stage 1 or 2 provision	**(1.9)**	**(5.1)**	(0.2)	(0.5)
Past due but not impaired carrying amount	**3.7**	**9.8**	11.1	29.6
3. Neither past due nor impaired by internal rating				
Stage 1				
Rating grades 1 to 4	**205.6**	**546.8**	133.7	355.6
Rating grades 5 to 8	**261.7**	**696.0**	371.9	989.1
Rating grades 9 to 13	**190.7**	**507.2**	117.5	312.5
Unrated	**472.1**	**1,255.5**	460.8	1,225.5
Gross amount	**1,130.1**	**3,005.5**	1,083.9	2,882.7
Stage 1 provisions	**(7.5)**	**(19.9)**	(6.6)	(17.6)
Carrying amount of stage 1	**1,122.6**	**2,985.6**	1,077.3	2,865.1
Stage 2				
Rating grades 1 to 4	**3.0**	**8.0**	-	-
Rating grades 5 to 8	**6.6**	**17.5**	4.5	12.0
Rating grades 9 to 13	**15.1**	**40.2**	31.4	83.5
Unrated	**5.6**	**14.9**	7.1	18.9
Gross amount	**30.3**	**80.6**	43.0	114.4
Stage 2 provisions	**(2.4)**	**(6.4)**	(6.1)	(16.2)
Carrying amount of stage 2	**27.9**	**74.2**	36.9	98.2
Neither past due nor impaired carrying amount	**1,150.5**	**3,059.8**	1,114.2	2,963.3
Total carrying amount	**1,213.7**	**3,227.9**	1,190.1	3,165.2

Ratings 1 to 13 represent performing loans. Unrated includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

7. LOANS AND ADVANCES (Continued)

By staging

As at 31 December 2019	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	Total BHD millions	Total USD millions
Loans and advances	1,130.5	35.5	95.8	1,261.8	3,355.8
Less: impairment provision	(7.5)	(4.3)	(36.3)	(48.1)	(127.9)
Net loans and advances	1,123.0	31.2	59.5	1,213.7	3,227.9

As at 31 December 2018	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	Total BHD millions	Total USD millions
Loans and advances	1,085.5	52.7	101.3	1,239.5	3,296.5
Less: impairment provision	(6.6)	(6.3)	(36.5)	(49.4)	(131.4)
Net loans and advances	1,078.9	46.4	64.8	1,190.1	3,165.2

g) Impairment provisions on loans and advances

2019	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2019	6.6	6.3	36.5	49.4	131.4
Net transfer between stages	3.4	(6.1)	2.7	-	-
Write off during the year	-	-	(6.8)	(6.8)	(18.1)
Charge for the year (net)	(2.5)	4.1	3.9	5.5	14.6
Impairment at 31 December 2019	7.5	4.3	36.3	48.1	127.9

2018	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2018	9.4	1.6	31.4	42.4	112.8
Net transfer between stages	(1.2)	(0.4)	1.6	-	-
Write off during the year	-	-	(2.2)	(2.2)	(5.9)
Charge for the year (net)	(1.6)	5.1	5.7	9.2	24.5
Impairment at 31 December 2018	6.6	6.3	36.5	49.4	131.4

8. INVESTMENT SECURITIES

i. Composition
Investment securities comprise the following:

As at 31 December 2019	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	238.8	-	238.8	635.1
Equity instruments	-	52.2	-	52.2	138.8
Total quoted investments	-	291.0	-	291.0	773.9
Unquoted investments:					
Debt instruments	-	-	767.4	767.4	2,041.0
Equity instruments	1.2	11.1	-	12.3	32.7
Total unquoted investments	1.2	11.1	767.4	779.7	2,073.7
Total investment securities	1.2	302.1	767.4	1,070.7	2,847.6

As at 31 December 2018	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	301.6	-	301.6	802.1
Equity instruments	-	43.6	-	43.6	115.9
Total quoted investments	-	345.2	-	345.2	918.0
Unquoted investments:					
Debt instruments	-	-	775.5	775.5	2,062.4
Equity instruments	0.4	11.1	-	11.5	30.8
Total unquoted investments	0.4	11.1	775.5	787.0	2,093.2
Total investment securities	0.4	356.3	775.5	1,132.2	3,011.2

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

8. INVESTMENT SECURITIES (Continued)

ii. Breakdown between repricing nature of debt instruments

	2019		2018	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Fixed rate debt instruments	459.3	1,221.6	484.0	1,287.1
Floating rate debt instruments	546.9	1,454.5	593.1	1,577.4
	1,006.2	2,676.1	1,077.1	2,864.5

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

	2019		2018	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
AAA	-	-	13.8	36.7
AA	8.8	23.4	12.9	34.3
A	10.4	27.7	11.8	31.4
BBB	-	-	3.7	9.8
BB	7.6	20.2	7.0	18.6
B	969.0	2,577.1	1,014.9	2,699.1
Unrated	10.4	27.7	13.0	34.6
	1,006.2	2,676.1	1,077.1	2,864.5

The debt instruments rated B primarily represent instruments issued by sovereigns.

As at 31 December 2019, all debt instruments were classified as stage 1.

iv. Investments designated as fair value through profit or loss

The Bank holds investment in managed funds designated as fair value through profit or loss amounting to BHD 1.2 million (USD 3.2 million) [2018: BHD 0.4 million (USD 1.1 million)]

9. INVESTMENT IN ASSOCIATES

The Bank has a 29.1% shareholding in Bahrain Islamic Bank B.S.C. (BISB). BISB is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities. Further details on the increase in the Bank's shareholding in BISB from 29.1% as reported at 31 December 2019 to 78.8% in January 2020 is included in note 44.

The Bank has a 34.8% interest in The Benefit Company B.S.C. (c) which is incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain cheque truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has a 24.3% interest in the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain rulebook volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investor confidence in the market's listed securities.

The Bank has recognised the above investments as equity accounted associates in accordance with IAS 28 'Investment in associates'.

	2019		2018	
	BHD millions	USD millions	BHD millions	USD millions
Opening balance	51.6	137.2	51.6	137.2
Impact of adopting IFRS 9 by associates	-	-	(4.1)	(10.9)
At 1 January	51.6	137.2	47.5	126.3
Share of profit	4.1	10.9	5.4	14.4
Dividends received	(1.1)	(2.9)	(1.2)	(3.2)
Other movements	(1.0)	(2.6)	(0.1)	(0.3)
At 31 December	53.6	142.6	51.6	137.2

Shares of Bahrain Islamic Bank are listed on the Bahrain Bourse and the quoted price on 31 December 2019 is BHD 0.120 (31 December 2018: BHD 0.130). The estimated fair value of the investment based on this price is BHD 37.1 million (USD 98.7 million) [(31 December 2018: BHD 40.2 million) (USD 106.9 million)], which approximates its carrying value.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

10. INTEREST RECEIVABLE AND OTHER ASSETS

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Interest receivable	**26.4**	**70.2**	28.9	76.9
Accounts receivable and prepayments	**18.3**	**48.7**	6.4	17.0
Positive fair value of derivatives	**8.2**	**21.8**	10.2	27.1
Others	**7.1**	**18.9**	5.4	14.4
	60.0	**159.6**	50.9	135.4

Others include BHD 4.7 million (USD 12.5 million) [31 December 2018: BHD 5.2 million (USD 14.0 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of their carrying value and fair value less cost to sell.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Term deposits	**343.8**	**914.4**	350.9	933.2
Current and call accounts	**52.8**	**140.4**	30.5	81.2
	396.6	**1,054.8**	381.4	1,014.4

As at 31 December 2019 and 31 December 2018 the Bank was a net contributor into the treasury bill and interbank money markets.

12. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amount to BHD 108.4 million (USD 288.3 million) [31 December 2018: BHD 103.9 million (USD 276.3 million)] and the fair value of the investment securities pledged as collateral amounts to BHD 135.3 million (USD 359.8 million) [31 December 2018: BHD 119.4 million (USD 317.6 million)].

13. CUSTOMER DEPOSITS

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Repayable on demand or at short notice	**1,129.2**	**3,003.2**	1,181.5	3,142.4
Term deposits	**964.8**	**2,565.9**	1,009.1	2,683.7
	2,094.0	**5,569.1**	2,190.6	5,826.1

14. INTEREST PAYABLE AND OTHER LIABILITIES

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Interest payable	**24.0**	**63.8**	23.0	61.2
Negative fair value of derivatives	**13.8**	**36.7**	0.7	1.9
Employee benefits	**9.7**	**25.8**	10.3	27.4
Creditors and accounts payable	**5.1**	**13.6**	3.2	8.5
Lease liabilities	**3.8**	**10.1**	-	-
Deferred income	**3.7**	**9.8**	3.1	8.2
Others	**3.1**	**8.3**	3.5	9.3
	63.2	**168.1**	43.8	116.5

Lease liabilities relate to the right-of-use of leased property. The maturity analysis of its contractual undiscounted cash flows are as follows:

	2019	
	BHD millions	**USD millions**
Less than 1 year	**1.2**	**3.2**
1 to 3 years	**2.9**	**7.7**
3 to 5 years	**0.4**	**1.1**
Total undiscounted lease liabilities	**4.5**	**12.0**
Lease liabilities included in the statement of financial position	**3.8**	**10.1**

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

15. NET IMPAIRMENT PROVISIONS

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Loans and advances (note 7g)	**5.5**	**14.6**	9.2	24.5
Loan commitments and guarantees	**0.9**	**2.4**	(2.3)	(6.1)
Investment securities – (debt instruments)	**-**	**-**	(1.3)	(3.5)
	6.4	**17.0**	5.6	14.9

16. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the potential future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counterparties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Contingent liabilities				
Liabilities on confirmed documentary credits	**36.0**	**95.7**	27.9	74.2
Guarantees :				
Counter guaranteed by banks	**34.4**	**91.5**	39.9	106.1
Others	**135.0**	**359.0**	112.0	297.9
	205.4	**546.2**	179.8	478.2
Banking commitments				
Undrawn loan commitments	**200.2**	**532.4**	15.1	40.2
Forward commitments:				
Interbank placing	**-**	**-**	18.8	50.0
	200.2	**532.4**	33.9	90.2
	405.6	**1,078.6**	213.7	568.4

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset / liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract / notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (Continued)

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

In BHD millions	Notional principal amount		Replacement cost		Fair value	
As at 31 December	**2019**	2018	**2019**	2018	**2019**	2018
Interest rate contracts						
Interest rate swaps	**985.9**	630.2	**6.8**	4.2	**6.8**	4.1
Foreign exchange contracts						
Outright spot and forward contracts	**139.0**	201.2	**0.2**	1.0	**0.2**	0.7
Swap agreements	**1,552.2**	1,874.1	**3.1**	5.0	**3.0**	4.7
	1,691.2	2,075.3	**3.3**	6.0	**3.2**	5.4
Total	**2,677.1**	2,705.5	**10.1**	10.2	**10.0**	9.5
Total in USD millions	**7,119.9**	7,195.5	**26.9**	27.1	**26.6**	25.3

Replacement costs by industry and geographical region are presented in note 32.

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

In BHD millions	2019			2018		
As at 31 December	**Up to 1 year**	**Over 1 year**	**Total**	Up to 1 year	Over 1 year	Total
Interest rate contracts						
Interest rate swaps	**155.4**	**830.5**	**985.9**	-	630.2	630.2
Foreign exchange contracts						
Outright spot and forward contracts	**129.0**	**10.0**	**139.0**	191.1	10.0	201.2
Swap agreements	**1,542.7**	**9.5**	**1,552.2**	1,874.1	-	1,874.1
	1,671.7	**19.5**	**1,691.2**	2,065.2	10.0	2,075.3
Total	**1,827.1**	**850.0**	**2,677.1**	2,065.2	640.2	2,705.5
Total in USD millions	**4,859.3**	**2,260.6**	**7,119.9**	5,492.7	1,702.7	7,195.4

18. PROPERTY AND EQUIPMENT

	Leased property right-of-use BHD millions	Land BHD millions	Buildings BHD millions	Furniture and equipment BHD millions	Total BHD millions	USD millions
Cost	**5.5**	**0.8**	**22.3**	**30.9**	**59.5**	**158.3**
Accumulated depreciation / amortisation	**(1.7)**	**-**	**(15.5)**	**(10.5)**	**(27.7)**	**(73.7)**
Net book value at 31 December 2019	**3.8**	**0.8**	**6.8**	**20.4**	**31.8**	**84.6**
Net book value at 31 December 2018	-	1.0	7.4	8.2	16.6	44.1

The depreciation charge for 2019 amounted to BHD 2.9 million (USD 7.7 million) [2018: BHD 2.0 million (USD 5.4 million)]. The above includes capital work in progress at cost, amounting to BHD 9.5 million (USD 25.3 million) [2018: BHD 1.4 million (USD 3.7 million)]

At 31 December 2019 commitments for capital expenditure amounted to BHD 5.3 million (USD 14.1 million) [31 December 2018: BHD 1.4 million (USD 3.7million)].

Right-of-use of leased property relates to IFRS 16 which has been adopted from 1 January 2019.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

19. SHARE CAPITAL

	2019		2018	
	BHD millions	**USD millions**	BHD millions	USD millions
Authorised share capital				
2,500,000,000 (2018: 1,500,000,000) ordinary shares of 100 fils each	**250.0**	**664.9**	150.0	398.9
Issued and fully paid share capital				
At 1 January 1,402,993,257 ordinary shares of 100 fils each (at 1 January 2018: 1,275,448,416 shares of 100 fils each)	**140.3**	**373.1**	127.5	339.2
Bonus issue (one for ten shares held)	**14.0**	**37.3**	12.4	33.9
At 31 December 2019 1,543,292,583 ordinary shares of 100 fils each (at 31 December 2018: 1,402,993,257 shares of 100 fils each)	**154.3**	**410.4**	140.3	373.1

The shareholders annual general ordinary and extra ordinary meetings for the year 2018 held on 6 March 2019 approved the increase of the authorised share capital from 1,500 million ordinary shares to 2,500 million ordinary shares of 100 fils each, and approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held and amounted to BHD 14.0 million.

The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BHD 170.3 million by the issue of bonus shares at the rate of one additional share for every ten shares held, including the additional issuance of 4.5 million shares in 2020 as a result of the acquisition of BISB. These shares will rank pari passu with all other shares for dividends and distribution subsequent to the acquisition date of BISB. The bonus issue amounting to BHD 15.5 million is proposed to be made through utilisation from retained earnings. Refer to note 44 for more details on the additional issuance of shares as a result of the acquisiton of BISB.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories, is shown below:

	31 December 2019			31 December 2018		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**449,986,886**	**1,260**	**29.1%**	408,928,108	1,202	29.1%
1% up to less than 5%	**243,477,771**	**9**	**15.8%**	221,494,305	9	15.8%
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**167,932,840**	**1**	**10.9%**	152,666,220	1	10.9%
20% up to less than 50%	**681,895,086**	**1**	**44.2%**	619,904,624	1	44.2%
	1,543,292,583	**1,271**	**100.0%**	1,402,993,257	1,213	100.0%

The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

	31 December 2019			31 December 2018		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**1,479,831,190**	**1,188**	**95.9%**	1,346,956,717	1,126	96.0%
Other GCC countries	**63,242,081**	**73**	**4.1%**	55,734,765	73	4.0%
Others	**219,312**	**10**	**-**	301,775	14	-
	1,543,292,583	**1,271**	**100.0%**	1,402,993,257	1,213	100.0%

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, which is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of, and entities incorporated in, the Kingdom of Bahrain.

Employee share incentive scheme

The employee share incentive scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices regulation. As a result, 19,104,000 ordinary shares amounting to BHD 1.9 million were issued in 2015 to an independent party to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the scheme are entitled to cash and stock dividend and subject to malus and clawback provisions of the scheme. As at 31 December 2019 there are 13,731,251 (2018: 15,033,197) shares unallocated. These unallocated shares under the scheme are deducted from equity.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

20. RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BHD 8.0 million from retained earning to the statutory reserve to achieve the 50 percent threshold.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of fair value through other comprehensive income. The fair value reserve also includes the Bank's share of other comprehensive income of associates.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval, an amount is transferred from the profit for the year to this donation and charity reserve. The reserve represents the amount of donations pending utilisation.

e) Share premium

Under the employee share incentive scheme, the Bank has allocated 7,862,478 ordinary shares with a nominal value of BHD 0.79 million to the employees, which has resulted in share premium of BHD 6.3 million.

21. APPROPRIATIONS

The appropriations relating to the year 2018 were approved at the annual general meeting held on 6 March 2019.

22. INTEREST INCOME / INTEREST EXPENSE

a) Interest Income

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Loans and advances to non banks	56.6	150.5	50.7	134.9
Loans and advances to banks	3.5	9.3	5.6	14.9
Treasury bills	17.3	46.0	15.5	41.2
Placements with banks and other financial institutions	4.4	11.7	1.4	3.7
Investment securities	56.8	151.1	51.7	137.5
Derivative assets held for risk management	5.7	15.2	1.9	5.1
	144.3	383.8	126.8	337.3

b) Interest expense

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Customer deposits	33.7	89.6	28.0	74.5
Due to banks and other financial institutions	9.9	26.3	8.3	22.1
Borrowings under repurchase agreements	2.8	7.5	1.7	4.5
Derivative liabilities held for risk management	4.6	12.2	1.6	4.3
	51.0	135.6	39.6	105.4

23. NET FEE AND COMMISSION INCOME

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Fees and commission on loans and advances	6.8	18.1	9.1	24.3
Commission on sale of managed funds	0.2	0.5	0.2	0.5
Other fees and commission	12.0	31.9	8.4	22.4
Less: fees and commission expenses	(5.3)	(14.1)	(5.9)	(15.7)
	13.7	36.4	11.8	31.5

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

24. OTHER INCOME

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Profit on trading securities, foreign exchange and derivatives	5.0	13.3	7.5	19.9
Profit on sale of FVOCI investments	4.3	11.4	-	-
Share of profit of associates	4.1	10.9	5.4	14.4
Dividend income	3.2	8.5	3.4	9.0
Gain on fair value through profit or loss investments	0.2	0.6	0.8	2.1
Other income	2.0	5.3	1.3	3.4
	18.8	50.0	18.4	48.8

25. STAFF EXPENSES

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Salaries, allowances and bonuses	21.4	56.9	20.4	54.1
Social security and gratuity	1.8	4.8	2.0	5.3
Housing and other benefits	3.5	9.3	3.0	8.0
Others	0.5	1.3	0.6	1.7
	27.2	72.3	26.0	69.1

26. OTHER OPERATING EXPENSES

	2019		2018	
For the year ended 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Premises expenses	3.3	8.8	2.7	7.2
Depreciation	2.9	7.7	2.0	5.4
Professional fees	2.1	5.6	2.3	6.1
Equipment expenses	2.0	5.3	1.5	4.0
Communication expenses	1.6	4.3	1.2	3.2
Deposit protection scheme expenses	1.4	3.7	1.4	3.7
Advertising and public relations expenses	1.4	3.7	1.4	3.7
Other expenses	3.3	8.8	3.3	8.8
	18.0	47.9	15.8	42.0

27. NET OPEN FOREIGN CURRENCY POSITIONS

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
US Dollar (long position) - unhedged	67.1	178.5	145.4	386.7
Saudi Riyal (long position) - unhedged	25.9	68.9	23.7	62.9
UAE Dirhams (long position) - unhedged	11.9	31.6	19.0	50.5

All of the above currencies have a fixed rate of exchange against the US Dollar.The Bank did not have any significant net open positions as at 31 December 2019 or 31 December 2018.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

28. RELATED PARTIES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to this position. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties are as below:

The Bank qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholders is government owned. In addition to the government exposures reported below, in its normal course of business, the bank provides commercial lending, liquidity management and other banking services to, and also avails services from, various semi governmental organisations and government owned companies in the Kingdom of Bahrain.

	Major shareholder and related entities		Directors and key management personnel		Associates	
As at 31 December	**2019 BHD millions**	2018 BHD millions	**2019 BHD millions**	2018 BHD millions	**2019 BHD millions**	2018 BHD millions
Loans and advances	**264.2**	162.9	**5.8**	7.1	**-**	-
Treasury bills and investment securities	**1,385.4**	1,397.0	**-**	-	**53.6**	51.6
Customer deposits	**122.3**	186.4	**18.4**	43.7	**6.5**	9.3
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**194.1**	48.6	**13.7**	12.2	**-**	-
For the year ended 31 December						
Loans advanced	**265.5**	98.9	**2.2**	1.9	**-**	-
Loans repaid	**353.2**	81.5	**1.9**	4.2	**-**	38.8
Net increase / (decrease) in overdrafts	**189.0**	(105.7)	**1.3**	5.2	**-**	-
Treasury bills, bonds and equities purchased	**1,114.2**	916.0	**-**	-	**-**	-
Treasury bills, bonds and equities matured/sold	**1,125.8**	872.8	**-**	-	**-**	-
Capital expenditures	**3.8**		**-**		**-**	
Interest income	**70.5**	74.6	**0.8**	0.6	**-**	0.5
Interest expense	**2.0**	1.7	**0.1**	0.6	**-**	-
Share of profit of associates	**-**	-	**-**	-	**4.1**	5.4
Dividend Income	**-**	0.4	**-**	-	**-**	-
Directors remuneration and sitting fees	**0.2**	0.2	**0.3**	0.3	**-**	-
Short term employee benefits	**-**	-	**4.4**	3.2	**-**	-
Post employment retirement benefits	**-**	-	**0.3**	0.3	**-**	-
Other operating expenses	**1.9**		**0.5**		**0.8**	

During the year, net provision reversal of BHD 4.6 million (USD 12.2 million) [2018: BHD 4.4 million provision charge (USD 11.7 million)] have been recorded against outstanding balances with related parties.

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2019 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions.

29. ASSETS UNDER MANAGEMENT

Assets managed on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2019, assets under management amounted to BHD 131.5 million (USD 349.7 million) [31 December 2018: BHD 138.1 million (USD 367.3 million)].

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

30. GEOGRAPHICAL DISTRIBUTION

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	**2019**	2018	**2019**	2018	**2019**	2018
GCC	**3,082.8**	3,020.5	**2,530.2**	2,536.8	**2,191.0**	2,128.9
USA	**94.5**	98.2	**12.8**	24.8	**198.5**	225.0
Europe	**16.8**	54.9	**83.1**	90.7	**692.8**	558.1
Rest of the World	**0.4**	21.9	**36.1**	67.4	**0.4**	7.2
	3,194.5	3,195.5	**2,662.2**	2,719.7	**3,082.7**	2,919.2

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

31. DISTRIBUTION BY SECTOR

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	**2019**	2018	**2019**	2018	**2019**	2018
Government / sovereign	**1,461.6**	1,550.2	**231.6**	388.3	**31.1**	34.8
Manufacturing / trading	**234.2**	147.6	**123.2**	186.5	**141.5**	107.6
Banks / financial institutions	**527.2**	593.2	**544.2**	523.0	**2,804.6**	2,716.3
Construction	**113.3**	85.2	**95.2**	99.3	**73.3**	38.4
Personal	**491.1**	467.7	**1,376.7**	1,288.1	**2.8**	2.3
Others	**367.1**	351.6	**291.3**	234.5	**29.4**	19.8
	3,194.5	3,195.5	**2,662.2**	2,719.7	**3,082.7**	2,919.2

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

32. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By industry

In BHD millions	Government / sovereign							
As at 31 December 2019	**Bahrain**	**Other countries**	**Manufacturing/ trading**	**Banks/ financial institutions**	**Construction**	**Personal**	**Others**	**Total**
Assets								
Balances at central banks	-	-	-	80.2	-	-	-	80.2
Treasury bills	410.1	15.2	-	-	-	-	-	425.3
Placements with banks and other financial institutions	-	9.1	-	219.7	-	-	-	228.8
Loans and advances	50.1	-	226.7	62.1	112.4	490.1	272.3	1,213.7
Investment securities - debt instruments	953.3	7.6	-	38.7	-	-	6.6	1,006.2
Interest receivable and other assets	16.1	0.1	1.5	5.5	0.1	1.0	34.7	59.0
Total assets	1,429.6	32.0	228.2	406.2	112.5	491.1	313.6	3,013.2
Contingent liabilities and banking commitments	31.1	-	121.9	147.2	73.2	2.8	29.4	405.6
Derivatives (replacement cost)	2.4	-	-	7.7	-	-	-	10.1

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

32. CONCENTRATION OF CREDIT RISK (Continued)

In BHD millions As at 31 December 2018	Government / sovereign Bahrain	 Other countries	Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	80.3	-	-	-	80.3
Treasury bills	387.1	-	-	-	-	-	-	387.1
Placements with banks and other financial institutions	3.8	-	-	255.9	-	-	-	259.7
Loans and advances	114.7	-	138.0	103.3	84.2	466.8	283.1	1,190.1
Investment securities - debt instruments	1,005.8	20.8	-	39.3	-	-	11.2	1,077.1
Interest receivable and other assets	17.9	0.1	1.1	5.7	0.1	0.9	23.4	49.2
Total assets	1,529.3	20.9	139.1	484.5	84.3	467.7	317.7	3,043.5
Contingent liabilities and banking commitments	34.8	-	65.4	53.8	38.4	1.5	19.8	213.7
Derivatives (replacement cost)	2.0	-	-	7.9	-	0.3	-	10.2

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counterparties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2019:

Counterparty	Counterparty type	Total exposure
Counterparty A	Sovereign	1,404.9
Counterparty B	Central Bank	214.4
Counterparty C	Corporate	86.6

(b) By geographical regions

In BHD millions

As at 31 December 2019	**GCC**	**USA**	**Europe**	**Rest of the world**	**Total**
Assets					
Balances at central banks	80.2	-	-	-	80.2
Treasury bills	425.3	-	-	-	425.3
Placements with banks and other financial institutions	212.8	10.2	5.4	0.4	228.8
Loans and advances	1,131.2	74.7	7.7	0.1	1,213.7
Investment securities	998.5	7.7	-	-	1,006.2
Interest receivable and other assets	53.6	2.0	3.4	-	59.0
Total assets	2,901.6	94.6	16.5	0.5	3,013.2
Contingent liabilities and banking commitments	405.6	-	-	-	405.6
Derivatives (replacement cost)	3.1	-	7.0	-	10.1

In BHD millions

As at 31 December 2018	GCC	USA	Europe	Rest of the world	Total
Assets					
Balances at central banks	80.3	-	-	-	80.3
Treasury bills	387.1	-	-	-	387.1
Placements with banks and other financial institutions	205.1	2.5	51.5	0.6	259.7
Loans and advances	1,099.0	83.7	-	7.4	1,190.1
Investment securities	1,053.9	9.4	-	13.8	1,077.1
Interest receivable and other assets	43.3	2.6	3.2	0.1	49.2
Total assets	2,868.7	98.2	54.7	21.9	3,043.5
Contingent liabilities and banking commitments	192.4	0.1	16.2	5.0	213.7
Derivatives (replacement cost)	5.4	0.9	3.9	-	10.2

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

33. INTEREST RATE RISK

Interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivative positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customer deposits for which no specific contractual maturity or repricing date exists are placed in ladders based on the Bank's judgement concerning their most likely repricing behaviour.

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

In BHD millions **As at 31 December 2019**	***Effective interest rate %***	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Rate insensitive**	**Total**
Assets								
Cash and balances at central banks	-	-	-	-	-	-	110.6	110.6
Treasury bills	*3.2%*	154.7	93.1	177.5	-	-	-	425.3
Placements with banks and other financial institutions	*2.4%*	206.6	-	-	3.3	-	18.9	228.8
Loans and advances	*5.1%*	372.7	106.3	61.1	535.2	138.4	-	1,213.7
Investment securities	*5.0%*	35.3	178.2	55.7	638.6	98.4	64.5	1,070.7
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	113.6	113.6
Property and equipment	-	-	-	-	-	-	31.8	31.8
Total assets		769.3	377.6	294.3	1,177.1	236.8	339.4	3,194.5
Liabilities and equity								
Due to banks and other financial institutions	*2.6%*	291.3	48.6	3.8	-	-	52.9	396.6
Borrowings under repurchase agreements	*2.3%*	108.4	-	-	-	-	-	108.4
Customer deposits	*1.6%*	731.5	115.7	67.0	187.1	-	992.7	2,094.0
Interest payable and other liabilities	-	-	-	-	-	-	63.2	63.2
Equity	-	-	-	-	-	-	532.3	532.3
Total liabilities and equity		1,131.2	164.3	70.8	187.1	-	1,641.1	3,194.5
On-balance sheet interest rate sensitivity gap		(361.9)	213.3	223.5	990.0	236.8	(1,301.7)	-
Off-balance sheet interest rate gap		830.5	-	-	(679.0)	(151.5)	-	-
Cumulative interest rate sensitivity gap		468.6	681.9	905.4	1,216.4	1,301.7	-	-

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

33. INTEREST RATE RISK (Continued)

In BHD millions As at 31 December 2018	*Effective interest rate %*	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	107.3	107.3
Treasury bills	*3.6%*	172.0	103.4	111.7	-	-	-	387.1
Placements with banks and other financial institutions	*2.5%*	244.5	-	-	-	-	15.2	259.7
Loans and advances	*4.4%*	364.9	61.4	130.6	510.4	122.8	-	1,190.1
Investment securities	*4.8%*	1.9	4.3	194.5	625.9	250.5	55.1	1,132.2
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	102.5	102.5
Property and equipment	-	-	-	-	-	-	16.6	16.6
Total assets		783.3	169.1	436.8	1,136.3	373.3	296.7	3,195.5
Liabilities and equity								
Due to banks and other financial institutions	*2.2%*	350.1	-	0.8	-	-	30.5	381.4
Borrowings under repurchase agreements	*2.4%*	103.9	-	-	-	-	-	103.9
Customer deposits	*1.3%*	786.0	165.0	263.8	47.9	-	927.9	2,190.6
Interest payable and other liabilities	-	-	-	-	-	-	43.8	43.8
Equity	-	-	-	-	-	-	475.8	475.8
Total liabilities and equity		1,240.0	165.0	264.6	47.9	-	1,478.0	3,195.5
On-balance sheet interest rate sensitivity gap		(456.7)	4.1	172.2	1,088.4	373.3	(1,181.3)	-
Off-balance sheet interest rate gap		630.2	-	(6.3)	(408.1)	(215.8)	-	-
Cumulative interest rate sensitivity gap		173.5	177.6	343.5	1,023.8	1,181.3	-	-

34. MARKET RISK

a) The Bank uses the standardised method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk type In BHD millions	**2019**	2018
Interest rate risk	**2.3**	4.0
Foreign exchange risk	**-**	-
Total minimum capital required for market risk	**2.3**	4.0
Multiplier	**12.5**	12.5
Market risk weighted exposure under the standardised method	**29.2**	50.2

b) The principal risk to which the Bank portfolio is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in the market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates on the Bank's balance sheet (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2019		2018	
In BHD millions	**200 bps parallel increase**	**200 bps parallel decrease**	200 bps parallel increase	200 bps parallel decrease
At 31 December	**(1.3)**	**1.3**	5.6	(5.6)
Average for the year	**(1.4)**	**1.4**	6.2	(6.2)
Minimum for the year	**(0.7)**	**0.7**	3.6	(3.6)
Maximum for the year	**(7.0)**	**7.0**	10.4	(10.4)

c) The Bank holds investments in quoted equities as part of investment securities. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

35. SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Retail Commercial and SMEs, Corporate Institutional and Investment Banking, Overseas Branches and Treasury Capital Markets and Wealth Management. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Retail Commercial and SMEs caters to individuals and commercial enterprises, Corporate Institutional and Investment Banking caters to governments and corporates.

The Treasury, Capital Markets, and Wealth Management SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and the Overseas Branches SBU provide various banking products and services to the Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

In BHD millions	**Retail, Commercial, and SMEs**		**Corporate, Institutional, and Investment Banking**		**Overseas Branches**		**Treasury, Capital Markets, and Wealth Management**		**Total**	
For the year ended 31 December	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Interest income	**30.9**	28.3	**27.3**	26.1	**2.7**	2.4	**83.4**	70.0	**144.3**	126.8
Interest expense	**(23.2)**	(14.8)	**(10.1)**	(12.9)	**(0.4)**	(0.2)	**(17.3)**	(11.7)	**(51.0)**	(39.6)
Inter-segment interest income / (expense)	**30.6**	25.7	**6.6**	4.7	**0.3**	0.2	**(37.5)**	(30.6)	**-**	-
Net interest income	**38.3**	39.2	**23.8**	17.9	**2.6**	2.4	**28.6**	27.7	**93.3**	87.2
Net fee and commission and other income	**7.6**	8.3	**8.5**	2.8	**1.7**	1.2	**14.7**	17.9	**32.5**	30.2
Operating income	**45.9**	47.5	**32.3**	20.7	**4.3**	3.6	**43.3**	45.6	**125.8**	117.4
Result	**22.1**	24.8	**23.8**	7.6	**0.2**	0.2	**36.3**	41.0	**82.4**	73.6
Unallocated corporate expenses									**(8.2)**	(3.6)
Profit for the year									**74.2**	70.0
Other information										
As at 31 December										
Segment assets	**675.1**	615.5	**639.4**	649.1	**89.1**	67.0	**1,790.9**	1,863.9	**3,194.5**	3,195.5
Segment liabilities and Equity	**1,909.5**	1,386.3	**590.0**	831.3	**79.7**	38.1	**615.3**	939.8	**3,194.5**	3,195.5
For the year ended 31 December										
Depreciation for the year	**1.5**	1.4	**0.4**	0.3	**0.3**	0.3	**0.7**	-	**2.9**	2.0
Provision for impaired assets	**5.0**	1.4	**1.1**	5.1	**0.3**	(0.8)	**-**	(0.2)	**6.4**	5.6

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed across the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are transferred by all the other business segments to Treasury, Capital Markets & Wealth Management. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

36. MATURITY PROFILE AND LIQUIDITY RISK

a) Maturity profile

The table below shows the maturity profile of total assets and liabilities based on contractual terms.

In BHD millions As at 31 December 2019	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**10 to 20 years**	**Over 20 years**	**Total**
Assets									
Cash and balances at central banks	110.6	-	-	-	-	-	-	-	110.6
Treasury bills	154.7	93.1	177.5	-	-	-	-	-	425.3
Placements with banks and other financial institutions	225.6	-	-	3.2	-	-	-	-	228.8
Loans and advances	266.5	105.2	69.7	329.9	271.9	147.2	21.2	2.1	1,213.7
Investment securities	35.2	178.2	55.7	436.2	202.5	98.4	-	64.5	1,070.7
Investment in associates, Interest receivable, other assets and property & equipment	4.8	2.2	1.0	13.4	2.9	1.9	-	119.2	145.4
Total assets	**797.4**	**378.7**	**303.9**	**782.7**	**477.3**	**247.5**	**21.2**	**185.8**	**3,194.5**
Liabilities and equity									
Due to banks and other financial institutions	344.2	48.7	3.7	-	-	-	-	-	396.6
Borrowings under repurchase agreements	108.4	-	-	-	-	-	-	-	108.4
Customer deposits	1,723.3	115.9	67.5	187.3	-	-	-	-	2,094.0
Interest payable & other liabilities	49.1	1.7	0.6	11.8	-	-	-	-	63.2
Equity	-	-	-	-	-	-	-	532.3	532.3
Total liabilities and equity	**2,225.0**	**166.3**	**71.8**	**199.1**	**-**	**-**	**-**	**532.3**	**3,194.5**

In BHD millions As at 31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	107.3	-	-	-	-	-	-	-	107.3
Treasury bills	172.0	103.4	111.7	-	-	-	-	-	387.1
Placements with banks and other financial institutions	259.7	-	-	-	-	-	-	-	259.7
Loans and advances	267.8	57.9	152.3	284.7	272.1	129.2	23.7	2.4	1,190.1
Investment securities	1.8	4.3	194.4	493.4	206.9	176.3	-	55.1	1,132.2
Investment in associates, Interest receivable, other assets and property & equipment	5.7	0.2	2.3	12.9	4.6	3.5	-	89.9	119.1
Total assets	814.3	165.8	460.7	791.0	483.6	309.0	23.7	147.4	3,195.5
Liabilities and equity									
Due to banks and other financial institutions	380.6	-	0.8	-	-	-	-	-	381.4
Borrowings under repurchase agreements	103.9	-	-	-	-	-	-	-	103.9
Customer deposits	1,713.0	165.3	263.9	48.4	-	-	-	-	2,190.6
Interest payable & other liabilities	25.1	2.3	1.3	15.1	-	-	-	-	43.8
Equity	-	-	-	-	-	-	-	475.8	475.8
Total liabilities and equity	2,222.6	167.6	266.0	63.5	-	-	-	475.8	3,195.5

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

36. MATURITY PROFILE AND LIQUIDITY RISK (Continued)

b) Liquidity risk

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

In BHD millions **As 31 December 2019**	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Non derivative liabilities							
Due to banks and other financial institutions	396.6	399.8	308.1	39.8	46.0	5.9	-
Borrowings under repurchase agreements	108.4	109.0	109.0	-	-	-	-
Customer deposits	2,094.0	2,110.8	1,750.8	100.3	66.8	192.9	-
Total non derivative liabilities	**2,599.0**	**2,619.6**	**2,167.9**	**140.1**	**112.8**	**198.8**	**-**
Derivative liabilities							
Trading: outflow	-	1,691.2	688.1	387.1	596.5	19.5	-
Trading: inflow	3.2	1,681.0	680.1	386.4	595.2	19.3	-
Total derivative liabilities	**3.2**	**3,372.2**	**1,368.2**	**773.5**	**1,191.7**	**38.8**	**-**
Banking commitments	**-**	**-**	**(200.2)**		**-**	**-**	**200.2**
Financial guarantees		**(20.8)**	**(1.6)**	**(0.3)**	**(0.2)**	**(18.7)**	**-**

The Bank's Net Stable Funding Ratio (NSFR) as of 31 December 2019 is 152%. The minimum NSFR required by the Central Bank of Bahrain is 100%.

In BHD millions As 31 December 2018	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	381.4	382.0	380.9	-	1.1	-	-
Borrowings under repurchase agreements	103.9	104.1	-	-	-	-	-
Customer deposits	2,190.6	2,213.5	1,717.3	168.9	273.8	53.5	-
Total non derivative liabilities	2,675.9	2,699.6	2,098.2	168.9	274.9	53.5	-
Derivative liabilities							
Trading: outflow	-	2,075.5	878.4	483.0	704.3	9.9	-
Trading: inflow	5.4	2,080.4	879.7	485.0	705.7	10.0	-
Total derivative liabilities	5.4	4,155.9	1,758.1	968.0	1,410.0	19.9	-
Banking commitments	-	-	(18.1)		-	-	18.1
Financial guarantees	-	(32.0)	(7.9)	(0.2)	(0.3)	(23.6)	-

37. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognised as an expense in the statement of profit or loss. The Bank's contribution for 2019 amounted to BHD 1.3 million (USD 3.5 million) [2018: BHD 1.1 million (USD 2.9 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year was as follows:

Provision for leaving indemnities

Movements during the year	**2019**		2018	
	BHD millions	**USD millions**	BHD millions	USD millions
At 1 January	**2.6**	**6.8**	2.3	6.0
Charge for the year	**0.6**	**1.6**	0.9	2.4
Paid during the year	**(0.9)**	**(2.4)**	(0.6)	(1.6)
At 31 December	**2.3**	**6.0**	2.6	6.8

The Bank has a voluntary staff savings scheme for eligible employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2019 amounted to BHD 1.1 million (USD 2.9 million) [2018: BHD 1.0 million (USD 2.7 million)]. As at 31 December 2019, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BHD 11.6 million (USD 30.9 million) [31 December 2018: BHD 10.3 million (USD 27.4 million)].

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

38. LEGAL CLAIMS

As at 31 December 2019, legal claims pending against the Bank aggregated to BHD 1.5 million (USD 4.0 million) [31 December 2018: BHD 1.4 million (USD 3.7 million)]. Based on the opinion of the Bank's legal advisors about final judgement on these claims, adequate provision as assessed by management is maintained.

39. EARNINGS AND DIVIDEND PER SHARE

	2019		2018	
	BHD millions	USD millions	BHD millions	USD millions
Profit for the year	74.2	197.4	70.0	186.1
Dividend proposed at 25% (2018: 25%)	38.7	102.9	35.1	93.4
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2019	1,403.0	1,403.0	1,403.0	1,403.0
Effect of bonus shares issued during 2019 for 2018	140.3	140.3	140.3	140.3
Less unallocated employee shares	(13.7)	(13.7)	(15.0)	(15.0)
Weighted average number of ordinary shares (millions) as at 31 December	1,529.6	1,529.6	1,528.3	1,528.3
Earnings per share	49 fils	13 cents	46 fils	12 cents
Dividend per share	25 fils	7 cents	25 fils	7 cents
Bonus / stock dividend per share	10 fils	3 cents	10 fils	3 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

From January 2020, the BISB holding will be transitioned from an investment in an associate to an investment in a subsidiary. The consideration settled on 22 January 2020 included issuance of 4.5 million additional NBB shares. Refer to note 44 for more details.

40. ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

In BHD millions **As at 31 December 2019**	Fair value through profit or loss	Amostised cost	Fair value through other comprehensive income	Total carrying amount
Cash and balances at central banks	-	110.6	-	110.6
Treasury bills	-	425.3	-	425.3
Placements with banks and other financial institutions	-	228.8	-	228.8
Loans and advances	-	1,213.7	-	1,213.7
Investment securities	1.2	767.4	302.1	1,070.7
Interest receivable & other assets	-	145.4	-	145.4
Total assets	1.2	2,891.2	302.1	3,194.5
Due to banks and other financial institutions	-	396.6	-	396.6
Borrowings under repurchase agreements	-	108.4	-	108.4
Customer deposits	-	2,094.0	-	2,094.0
Interest payable & other liabilities	-	63.2	-	63.2
Total liabilities	-	2,662.2	-	2,662.2

In BHD millions As at 31 December 2018				
Cash and balances at central banks	-	107.3	-	107.3
Treasury bills	-	387.1	-	387.1
Placements with banks and other financial institutions	-	259.7	-	259.7
Loans and advances	-	1,190.1	-	1,190.1
Investment securities	0.4	775.5	356.3	1,132.2
Interest receivable & other assets	-	119.1	-	119.1
Total assets	0.4	2,838.8	356.3	3,195.5
Due to banks and other financial institutions	-	381.4	-	381.4
Borrowings under repurchase agreements	-	103.9	-	103.9
Customer deposits	-	2,190.6	-	2,190.6
Interest payable & other liabilities	-	43.8	-	43.8
Total liabilities	-	2,719.7	-	2,719.7

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

40. ACCOUNTING CLASSIFICATION (Continued)

b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in the table below are classified as level 2.

(i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.

(ii) Customer deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

In BHD millions	2019				2018			
At 31 December	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:								
Equity instruments/Managed funds	-	1.2	-	1.2	-	0.4	-	0.4
Fair value through other comprehensive income:								
Debt instruments	238.8	-	-	238.8	301.6	-	-	301.6
Equity instruments	52.2	-	11.1	63.3	43.6	-	11.1	54.7
Derivative financial assets	-	10.1	-	10.1	-	10.2	-	10.2
Total	291.0	11.3	11.1	313.4	345.2	10.6	11.1	366.9
Derivative financial liabilities	-	0.1	-	0.1	-	0.7	-	0.7

The following table analyses the movement in level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

	Investment securities	
In BHD millions	2019	2018
At 1 January	11.1	10.9
Total gains in other comprehensive income	-	0.2
At 31 December	11.1	11.1

Total gain for the year included in the statement of profit or loss for assets / liabilities classified as level 3 at 31 December 2019 is nil (2018: nil).

Level 3 comprises unquoted equity investments classified as fair value through other comprehensive income which are measured at their estimated fair value based on the latest financial information by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

41. AVERAGE BALANCES

The following are average daily balances for the year :

	2019		2018	
	BHD millions	USD millions	BHD millions	USD millions
Total assets	3,186.8	8,475.5	3,037.8	8,079.3
Total liabilities	2,692.3	7,160.4	2,575.2	6,848.9
Total equity	494.5	1,315.2	462.6	1,230.4
Contingent liabilities and undrawn loan commitments	245.0	651.6	211.5	562.4

Notes to the Financial Statements (continued)
For the year ended 31 December 2019

42. CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the standardised approach for computing credit risk. Operational risk is computed using the basic indicator approach. Market risk is computed using the standardised method.

The details of the Bank's capital adequacy calculations are shown below:

	2019		2018	
As at 31 December	**BHD millions**	**USD millions**	BHD millions	USD millions
Common equity (CET1)	514.4	1,368.1	461.3	1,226.9
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	514.4	1,368.1	461.3	1,226.9
Tier 2	13.4	35.6	13.6	36.2
Total capital base	527.8	1,403.7	474.9	1,263.0
Risk weighted exposure:				
Credit risk	1,176.8	3,129.8	1,163.8	3,095.3
Market risk	29.2	77.7	50.2	133.5
Operational risk	209.9	558.2	192.5	512.0
Total risk weighted exposure	1,415.9	3,765.7	1,406.5	3,740.8
CET 1 ratio	36.3%		32.8%	
Total capital adequacy ratio	37.3%		33.8%	

Conventional banks are required to maintain a minimum total capital adequacy ratio of 12.5%.

43. DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting deposits and unrestricted investment accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

44. SUBSEQUENT EVENT

Increase in stake in an associate

Subsequent to 31 December 2019, the Bank concluded a voluntary offer to acquire additional issued and paid up ordinary shares of Bahrain Islamic Bank B.S.C. (BISB). BISB is a licensed Islamic retail bank regulated by the Central Bank of Bahrain and has played a pivotal role in developing the Islamic banking sector in the country. BISB was the first Islamic bank registered in Bahrain and the fourth Islamic bank incorporated in the GCC region. BISB shares are listed on the Bahrain Bourse.

The acquisition offer included a cash or share exchange option at the preference of each shareholder of BISB. The offer closed successfully in January 2020 and, as such, the Bank's shareholding in BISB increased from 29.1% as reported at 31 December 2019 to 78.8% upon settlement on 22 January 2020.

The acquisition will enable the enlarged NBB Group to position itself at the forefront of the regional Shariah-compliant banking sector in addition to its current leading conventional banking role. The two brands will continue to operate independently but asset, revenue, cost and other operational synergies will provide customers and shareholders with enhanced services and returns.

From January 2020, the existing BISB holding as an investment in an associate will be derecognised and an investment in a subsidiary will be accounted for by the Bank. Subsequent financial reporting will consolidate BISB as part of the NBB Group. The consideration settled on 22 January 2020 included a cash element of BHD 58.8 million and the issuance of 4.5 million additional NBB shares at a value of BHD 3.1 million.

The total purchase consideration on the date of acquisition was BHD 99.0 million inclusive of the fair value of the existing holding of 29.1% of BISB. The assets acquired were reported by BISB at 31 December 2019 as totalling BHD 1,223.6 million and liabilities assumed amounted to BHD 1,102.6 million. The Bank's share of BHD 121.0 million of BISB's net assets is approximately BHD 95.4 million. The determination of the fair values of assets acquired and liabilities assumed and the related accounting for the acquisition of BISB will be determined and reflected in the interim financial statements of 31 March 2020, being the first published results post acquisition. As allowed by accounting standards, the Bank will be able to adjust these amounts within one year of the date of acquisition if new information becomes available about facts and circumstances that existed at the date of acquisition. NBB expects that a valuation for the intangible assets acquired and the quantification of goodwill will be derived through the fair value assessment process during the year ending 31 December 2020.

.

Risk and Capital Management Disclosures
For the year ended 31 December 2019

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

INTRODUCTION
This document presents the Pillar 3 disclosures on a consolidated basis as at 31 December 2019. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the Bank's capital, risk exposures and risk assessment process. The Bank is regulated by the Central Bank of Bahrain (CBB) and follows the Pillar 3 disclosure requirements as stated under the CBB guidelines.

The Bank views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants. The Pillar 3 disclosures are to be read in conjunction with the audited financial statements as of 31 December 2019.

REGULATORY FRAMEWORK
The Bank assesses its capital adequacy based on the rules published by the CBB. The framework is structured around the following three Pillars:

– Pillar 1 on minimum capital requirements for credit, market and operational risk.

– Pillar 2 on the supervisory review process and the Internal capital adequacy assessment process (ICAAP).

– Pillar 3 on market discipline including terms for disclosure of risk management and capital adequacy.

Pillar 1 – Minimum Capital Requirements
Pillar 1 defines the total minimum capital requirements for credit, market and operational risk. NBB currently employs the standardised approach for the assessment of credit and market risk weighted assets (RWAs), whilst using the basic indicator approach for assessment of operational RWAs.

The CBB capital adequacy rules provide guidance on the risk measurements for the calculation of capital adequacy requirements (CAR). Conventional bank licensees are required to meet the following minimum CAR requirements:

		Components of consolidated CARs		
	Limit	Minimum ratio required	Capital conservation buffer (CCB)	CAR including CCB
Common equity tier 1 (CET1)		6.5 %	2.5 % comprising of CET1	9.0 %
Additional tier 1 (AT1)	1.5 %			
Tier 1		8.0 %		10.5 %
Tier 2	2.0 %			
Total capital		10.0 %		12.5 %

The regulatory adjustments (i.e. deductions), including amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage service rights, and deferred tax assets from temporary differences, are fully deducted from CET1 effective 1 January 2019. This regulatory adjustment was at 20% of the required adjustments to CET 1 on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reached 100% on 1 January 2019. During the transition period, the remainder not deducted from CET1 continued to be risk weighted as per the rulebook.

Banks are required to maintain a capital conservation buffer (CCB) of 2.5%, comprising of CET1 above the regulatory minimum total capital ratio of 10.0%. Capital distribution constraints will be imposed when the CCB falls below 2.5%. The constraints imposed only relate to distribution, and not the operations of the licensed banks.

As at 31 December 2019, the Bank's total risk weighted assets amounted to BHD 1,415.9 million; common equity tier 1 (CET1) and total regulatory capital amounted to BHD 514.4 million and BHD 527.8 million respectively. Accordingly, the CET1 capital adequacy ratio and the total capital adequacy ratio were 36.3 percent and 37.3 percent respectively. These ratios exceed the minimum capital requirements under the CBB's Basel III framework.

RISK AND CAPITAL MANAGEMENT
The Bank is exposed to the following types of risks:

– credit risk
– liquidity risk
– market risk
– operational risk

Risk management framework
The overall authority for risk management in the Bank is vested in the board of directors. The board authorises appropriate credit, liquidity, market, and operational risk policies that form part of its risk management framework, based on the recommendation of management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The risk group of the Bank provides the necessary support to senior management and the business units in all areas of risk management. The risk group functions independent of the business units and reports directly to the board risk committee and administratively to the Chief Executive Officer. The risk group comprises of a credit risk department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), credit administration department (responsible for post approval implementation and follow up), liquidity and market risk management department, operational risk management department, and information security risk department.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

RISK AND CAPITAL MANAGEMENT (continued)

Risk management framework (continued)

The board risk committee is responsible for identifying, optimising and ensuring appropriate mitigation of risks within the framework of the risk appetite established by the Bank's board of directors. This includes reviewing and reporting its conclusions and recommendations to the board on:

– The Bank's current and future risk appetite (i.e. in relation to the extent and categories of risk which the board regards as acceptable for the Bank to bear);

– The Bank's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures and people); and

– The Bank's risk culture to ensure that it supports the Bank's risk appetite. In this regard, the committee will take a forward-looking perspective, seeking to anticipate changes in business conditions.

Credit risk
Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Bank evaluates risk in terms of the impact on income and asset values, and the evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Bank has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

The Bank monitors and manages concentration risk by setting limits on exposures to countries, sectors and counterparty groups. Stringent criteria are used by the credit risk department in setting such limits and these have ensured that the impact of any adverse developments on the Bank's income generation and capital strength is limited. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Bank has well laid out procedures, to not only appraise, but also regularly monitor credit risk. Credit appraisal is based on the financial information of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, and tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty, but day-to-day monitoring of financial developments across the globe by the business units and the credit risk department ensures timely identification of any events affecting the risk profile.

The business units of the Bank are responsible for business generation and initial vetting of proposals in accordance with the stipulated policy requirements. Credit facilities in excess of certain levels or falling outside pre-approved product criteria are independently reviewed by the credit risk department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the credit administration department. An internal grading system and review process ensures identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk ratings assigned to each borrower are reviewed on at least an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities, which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc. are excluded from this rating system.

The Bank also uses the ratings by established rating agencies as part of the appraisal process while considering exposures to rated entities.

For purposes of comparison, the Bank's internal ratings are mapped to Fitch, Moody's and Standard & Poor's (S&P) ratings as under:

Internal ratings scale	Fitch rating	S&P rating	Moody's rating
1	AAA	AAA	Aaa
2	AA+	AA+	Aa1
3	AA	AA	Aa2
4	AA-	AA-	Aa3
5	A+	A+	A1
6	A	A	A2
7	A-	A-	A3
8	BBB+	BBB+	Baa1
9	BBB	BBB	Baa2
10	BBB-	BBB-	Baa3
11	BB+	BB+	Ba1
12	BB to BB-	BB to BB-	Ba2 to Ba3
13	B+ to B-	B+ to B-	B1 to B3
14-16	CCC+ to D	CCC+ to D	Caa1 to C

However, the above mapping is not intended to reflect a direct relationship between the Bank's internal ratings and the corresponding rating of the external agencies, since the basis and methodology differ.

2019 ANNUAL REPORT
NATIONAL BANK OF BAHRAIN B.S.C.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk
Liquidity risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset / liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Bank's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity.

Market risk
Market risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio, and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually, and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardised method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

Operational risk
Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk arises from day-to-day operations or external events and is relevant to every aspect of our business.

Operational risk is:

– Measured using the risk and control assessment process which assesses the level of risk and the effectiveness of controls, and measured for capital management using risk event losses;

– Monitored using key risk indicators and other internal control activities; and

– Managed primarily by business and functional managers who identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls using the operational risk management framework.

The objective of the operational risk management framework (ORMF) is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control in Bahrain and at our overseas branches. The ORMF has been codified in a high-level operational risk management policy, supplemented with the detailed procedure, which describes our approach to identifying, assessing, monitoring and controlling operational risk and gives guidance on mitigating action to be taken when weaknesses are identified.

A dedicated operational risk management department (ORMD) has been established within the Risk Group Division. It is responsible for leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defence. It supports the Chief Risk Officer and the Operational Risk Management Committee (ORMC), which meets on a monthly basis to discuss key risk issues and review the implementation of the ORMF.

Heads of departments and functions throughout the Bank are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfill these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational risk and control self-assessments, along with issue and action plans are facilitated, guided and monitored by ORMD and maintained by business units. To help ensure that operational risk losses are consistently reported and monitored, all business units are required to report individual losses or near-misses to ORMD.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

RISK AND CAPITAL MANAGEMENT (continued)

Operational risk (continued)

During 2019, ongoing work to strengthen controls that manage the most material risks has continued. Among other measures, the bank is:

– Further developing controls to help ensure that it knows its customers, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter fraud risk;

– Improving controls and security to protect customers when using digital channels;

– Increasing monitoring and enhancing detective controls to manage fraud risks which arise from new technologies and new ways of banking.

Risk monitoring and reporting
Systems and processes are in place to regularly monitor and report risk exposures to the board of directors and senior management to effectively monitor and manage the risk profile of the Bank.

The board of directors are provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks. Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken twice a year or more frequently in times of need and communicated to the board of directors and senior management for appropriate decisions.

Capital management
The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholders' equity is also considered and the Bank recognises 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 Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The Bank has a comprehensive internal capital adequacy assessment process (ICAAP) that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book and other miscellaneous risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine the capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile.

The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

Prior approval of the Central Bank of Bahrain is obtained by the Bank before submitting any proposal for distribution of profits for shareholders' approval.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Capital structure, minimum capital and capital adequacy
The Bank's paid up capital consists only of ordinary shares, which have proportionate voting rights. The Bank does not have any other type of capital instruments.

All amounts are presented at 31 December 2019 unless specified otherwise.

In BHD millions	
Common equity tier 1 (CET1)	
Share capital	154.3
Shares unallocated under share incentive scheme	(1.4)
Share premium	6.3
Statutory reserve	77.1
General reserves	32.4
Other reserves and retained earnings	263.6
Total equity	**532.3**
Addition unrealised loss in cash flow hedge reserve not eligible for regulatory capital	-
Total regulatory capital	**532.3**
Deduction from CET 1 (significant investments in common stock of financial entities)	(17.9)
Total common equity tier 1 (CET1)	**514.4**
Additional tier 1	-
Total tier 1	**514.4**
Tier 2 capital	
Expected credit loss subject to 1.25% of credit risk weighted assets	13.4
Total tier 2	**13.4**
Total capital base (tier 1 + tier 2)	**527.8**

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

CREDIT RISK

The Bank has a diversified on and off-balance sheet credit portfolio, which is divided into counterparty exposure classes in accordance with the CBB's Basel III capital adequacy framework. A high-level description of the counterparty exposure classes and the risk weights used to derive the risk weighted assets are as follows:

Sovereign portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 percent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. 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 sovereign portfolio and treated as exposures with a 0 percent risk weighting.

Public sector entities (PSEs) portfolio

PSEs are risk weighted according to their external ratings except for Bahrain PSEs and domestic currency claims on other PSEs that are assigned a 0 percent risk weight by their respective country regulator, which are risk weighted at 0 percent.

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 to foreign banks licensed in Bahrain. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is applied on exposures in Bahraini Dinar and US Dollar in the case of Bahraini incorporated banks.

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 0 percent risk weight.

Regulatory retail portfolio

Claims on individuals or to a small business with an annual turnover below BHD 2.0 million and where the maximum aggregated retail exposure to one counterpart is below BHD 250 thousand are risk weighted at 75 percent.

Residential mortgages

Lending fully secured by first mortgages on residential property that is, or will be, occupied by the borrower or that is leased are risk weighted at 75 percent.

Equities / funds portfolio

The equities portfolio comprises equity investments in the banking book, i.e. categorised as fair value through other comprehensive income. The credit (specific) risk for equities in the trading book is included in market risk for regulatory capital adequacy calculation purposes.

A 100 percent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 percent. Investments in rated funds are risk weighted according to the external credit rating. Significant investments in listed and unlisted equities of financial entities are aggregated and the excess above the 10 percent of CET1 is deducted from equity; the amount not deducted is risk weighted at 250 percent.

Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are risk weighted at 200 percent.

In addition to the above portfolios, other exposures are risk weighted as under:

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100 percent or 150 percent is applied depending on the level of specific provision maintained against the exposure.

Other assets

Other assets are risk weighted at 100 percent. A credit valuation adjustment (CVA) is applied to applicable derivative exposures and included under other assets.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

CREDIT RISK (continued)

External credit assessment institutions (ECAI)

The Bank uses ratings issued by external rating agencies to derive the risk weightings under the CBB's Basel III capital adequacy framework. As required by the CBB, where there are two assessments by eligible ECAIs which map into different risk weights, the higher risk weight is applied. If there are three or more assessments by eligible ECAIs which map into different risk weights, the assessments corresponding to the two lowest risk weights must be referred to and the higher of those two risk weights must be applied.

In BHD millions	Credit exposure before CRM	Eligible CRM	Credit exposure after CRM	Average risk weight percentage	Risk weighted exposure	Capital requirement at 12.5%
Sovereign portfolio	1,633.8	-	1,633.8	0%	-	-
PSEs portfolio	0.2	-	0.2	0%	-	-
Banks portfolio	134.0	-	134.0	48%	64.7	8.1
Corporates portfolio	854.7	35.8	818.9	50%	411.6	51.4
Regulatory retail portfolio	437.8	0.5	437.3	75%	328.0	41.0
Residential mortgages portfolio	32.8	-	32.8	75%	24.6	3.1
Equities / funds portfolio	99.5	-	99.5	187%	186.1	23.3
Past due exposures portfolio	59.5	-	59.5	109%	64.9	8.1
Others assets	121.3	-	121.3	80%	96.9	12.1
Total credit risk exposure	**3,373.6**	**36.3**	**3,337.3**		**1,176.8**	**147.1**
Market risk					**29.2**	**3.7**
Operational risk					**209.9**	**26.2**
Total risk weighted assets					**1,415.9**	**177.0**
CET1 capital adequacy ratio					**36.3%**	
Capital adequacy ratio					**37.3%**	

CRM is credit risk mitigants such as lien over deposits, mortgage over properties and/or shares and financial instruments.

According to Central Bank of Bahrain rulebook, banks designated as domestic systemically important banks (DSIBs) must hold designated HLA (high loss absorbency) expressed as common equity tier 1 capital at 1.5 percent of the total risk weighted assets, as calculated for the purposes of capital adequacy. As at 31 December 2019, the Bank's common equity tier 1 capital ratio was 36.3% exceeding the minimum common capital tier 1 ratio and DSIB buffer requirement of 9.0% and 1.5% respectively.

Credit risk exposures

The following are gross credit exposures, presented before the application of any credit risk mitigation techniques:

In BHD millions	As at 31 December 2019	2019 Daily average
Balances at central banks	80.2	81.5
Treasury bills	425.3	429.0
Placements with banks and other financial institutions	228.8	266.5
Loans and advances	1,213.7	1,172.7
Investment securities	1,006.2	1,011.5
Interest receivable and other assets	59.0	42.2
Total assets	**3,013.2**	**3,003.4**
Non-derivative banking commitments and contingent liabilities	405.6	395.3
Derivatives (replacement cost)	10.1	6.9
	3,428.9	**3,405.6**

Industry or sector exposure

	Government / sovereigns							
In BHD millions	Bahrain	Other countries	Manufacturing / trading	Banks / financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	80.2	-	-	-	80.2
Treasury bills	410.1	15.2	-	-	-	-	-	425.3
Placements with banks and other financial institutions	-	9.1	-	219.7	-	-	-	228.8
Loans and advances	50.1	-	226.7	62.1	112.4	490.1	272.3	1,213.7
Investment securities - debt instruments	953.3	7.6	-	38.7	-	-	6.6	1,006.2
Interest receivable and other assets	16.1	0.1	1.5	5.5	0.1	1.0	34.7	59.0
Total assets	**1,429.6**	**32.0**	**228.2**	**406.2**	**112.5**	**491.1**	**313.6**	**3,013.2**
Contingent liabilities and banking commitments	**31.1**	**-**	**121.9**	**147.2**	**73.2**	**2.8**	**29.4**	**405.6**
Derivatives (replacement cost)	**2.4**	**-**	**-**	**7.7**	**-**	**-**	**-**	**10.1**
	1,463.1	**32.0**	**350.1**	**561.1**	**185.7**	**493.9**	**343.0**	**3,428.9**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2019

CREDIT RISK (continued)

Credit risk exposures (continued)

The previous table includes certain exposures to customers / counter-parties, which are in excess of 15 percent of the Bank's capital base. These exposures have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty type	Total exposure (In BHD millions)
Counterparty A	Sovereign	1,404.9
Counterparty B	Central bank	214.4
Counterparty C	Corporate	86.6

Geographic distribution of exposure

In BHD millions	GCC	USA	Europe	Rest of the world	Total
Assets					
Balances at central banks	80.2	-	-	-	80.2
Treasury bills	425.3	-	-	-	425.3
Placements with banks and other financial institutions	212.8	10.2	5.4	0.4	228.8
Loans and advances	1,131.2	74.7	7.7	0.1	1,213.7
Investment securities	998.5	7.7	-	-	1,006.2
Interest receivable and other assets	53.6	2.0	3.4	-	59.0
Total assets	**2,901.6**	**94.6**	**16.5**	**0.5**	**3,013.2**
Contingent liabilities and banking commitments	**405.6**	**-**	**-**	**-**	**405.6**
Derivatives (replacement cost)	**3.1**	**-**	**7.0**	**-**	**10.1**
	3,310.3	**94.6**	**23.5**	**0.5**	**3,428.9**

Residual contractual maturity

In BHD millions	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Balances at central banks	80.2	-	-	-	-	-	-	-	80.2
Treasury bills	154.7	93.1	177.5	-	-	-	-	-	425.3
Placements with banks and other financial institutions	225.6	-	-	3.2	-	-	-	-	228.8
Loans and advances	266.5	105.2	69.7	329.9	271.9	147.2	21.2	2.1	1,213.7
Investment securities	35.2	178.2	55.7	436.2	202.5	98.4	-	-	1,006.2
Interest receivable and other assets	4.8	2.2	1.0	13.4	2.9	1.9	-	32.8	59.0
Total assets	**767.0**	**378.7**	**303.9**	**782.7**	**477.3**	**247.5**	**21.2**	**34.9**	**3,013.2**
Contingent liabilities and banking commitments	**76.3**	**18.7**	**30.3**	**269.9**	**9.6**	**0.7**	**0.1**	**-**	**405.6**
Derivatives (replacement cost)	**1.1**	**0.6**	**1.6**	**1.0**	**3.2**	**2.6**	**-**	**-**	**10.1**
	844.4	**398.0**	**335.8**	**1,053.6**	**490.1**	**250.8**	**21.3**	**34.9**	**3,428.9**

Shari'a compliant credit facilities

As at 31 December 2019, the Bank held Shari'a compliant credit facilities amounting to BHD 290.1 million.

Past due exposures

In accordance with the Bank's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are over 90 days past due, are defined as non-performing.

Days past due represent the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank has systems and procedures in place to identify past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. The level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. and adequate provisions are carried to guard against inherent risks in the portfolio.

All non-performing loans and advances are assessed for impairment as stage 3. Under stage 3, lifetime ECL is recognised using discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Impairment charges on the wider portfolio of financial assets which are not individually identified as impaired is now a forward-looking calculation and is established based on various factors. These factors include internal risk ratings, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given an event of default, and rating migrations.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2019

CREDIT RISK (continued)

Credit risk exposures (continued)

Impaired and past due loans and advances

Ageing analysis of impaired and past due loans and advances

In BHD millions	Total
Up to 3 months	**44.6**
Over 3 months to 1 year	34.2
1 to 3 years	7.2
Over 3 years	9.8
	51.2
	95.8
Fair market value of collateral	**94.1**
Stage 3 impairment provision	**(36.3)**

Ageing of impaired and past due loans by industry

In BHD millions	Government / sovereigns	Manufacturing / trading	Banks / financial institutions	Construction	Personal	Others	Total
Up to 3 months	-	-	-	44.2	0.4	-	44.6
Over 3 months to 1 year	-	25.3	-	3.2	5.0	0.7	34.2
1 to 3 years	-	2.6	-	-	4.6	-	7.2
Over 3 years	-	-	-	-	2.2	7.6	9.8
	-	**27.9**	**-**	**47.4**	**12.2**	**8.3**	**95.8**

Geographical location of impaired and past due loans and advances

In BHD millions	Loan amount	Stage 3 provisions	Collateral market value	ECL stage 1 and stage 2
Bahrain	94.1	35.6	94.1	11.1
Other GCC countries	1.7	0.7	-	0.7
	95.8	**36.3**	**94.1**	**11.8**

Industry breakdown of impaired and past due loans and advances

In BHD millions	Impaired loans	Stage 3 provisions	Collateral market value	ECL stage 1 and stage 2
Manufacturing / trading	28.1	10.1	62.7	1.7
Construction	47.6	15.3	0.4	0.5
Personal	11.9	10.4	0.5	7.2
Others	8.2	0.5	30.5	2.4
	95.8	**36.3**	**94.1**	**11.8**

Movement in impairment provision for loans and advances

In BHD millions	Stage 1	Stage 2	Stage 3	Total
Impairment at 1 January 2019	6.6	6.3	36.5	49.4
Net transfer between stages	3.4	(6.1)	2.7	-
Write off during the year	-	-	(6.8)	(6.8)
Charge for the year (net)	(2.5)	4.1	3.9	5.5
Impairment at 31 December 2019	**7.5**	**4.3**	**36.3**	**48.1**

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

CREDIT RISK (continued)

Restructuring
During 2019, credit facilities amounting to BHD 20.2 million were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Bank's impairment charge or the future earnings. In accordance with the Central Bank of Bahrain guidelines, loans that have been restructured should be reported as stage 2 for not less than 1 year from the date of restructuring.

CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

– Adjusted exposure amount: the Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognised stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches).

– Substitution of counterparty: the substitution method is used for eligible guarantees (sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

COLLATERAL AND VALUATION PRINCIPLES

Collaterals taken for risk mitigation on credit exposures include: deposits held by customers, pledge of quoted shares, residential/commercial property mortgages, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters, etc. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel III is taken into consideration.

The Bank's credit policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a policy of independent valuation of collateral. In the case of real estate, valuation is done by independent valuers annually at the time of reviews as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral as required in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral presented by portfolio is as follows:

In BHD millions	Gross credit exposure	Financial collateral	Credit exposure after risk mitigation
Sovereign portfolio	1,633.8	-	1,633.8
PSEs portfolio	0.2	-	0.2
Banks portfolio	134.0	-	134.0
Corporates portfolio	854.7	35.8	818.9
Regulatory retail portfolio	437.8	0.5	437.3
Residential mortgages portfolio	32.8	-	32.8
Equities/funds portfolio	99.5	-	99.5
Past due exposures portfolio	59.5	-	59.5
Others assets	121.3	-	121.3
	3,373.6	**36.3**	**3,337.3**

On and off-balance sheet netting
The bank enters into netting agreements during the normal course of business, the agreements provide the bank with the legal rights to set off balances from specific counterparties, for both on and off-balance sheet exposure.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BHD 79.8 million at 31 December 2019.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

MARKET RISK

The Bank applies the standardised method for allocating market risk capital. The Bank has clearly documented policies and procedures for the management and valuation of the trading portfolio. The treasury operations department, which is independent of the treasury front office, is responsible for valuation. Valuation is performed on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models, as appropriate.

In BHD millions		Capital Charge		
Risk type	**Amount**	**Maximum**	**Minimum**	**Average**
Interest rate risk	2.3	7.1	1.9	4.0
Foreign exchange risk	-	-	-	-
Total minimum capital required for market risk	**2.3**			
Multiplier	12.5			
Market risk weighted exposure under the standardised method	**29.2**			

OPERATIONAL RISK

Whilst the Bank recognises that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Bank applies the basic indicator approach for assessing the capital requirement for operational risk. The capital requirement of BHD 209.9 million is based on the gross operating income (excluding profit / loss on debt instruments classified as fair value through other comprehensive income (FVOCI), amortised cost categories and any exceptional items of income) for the last 3 years multiplied by 12.5 to arrive at the operational risk-weighted exposure.

EQUITY POSITION IN THE BANKING BOOK

The Bank holds certain investments in equity securities as part of its strategic holdings (including investment in associates) and others are held with the objective of capital appreciation and realising gains on sale thereof. The accounting policies for FVOCI and investment in associates are described in detail in the financial statements under the significant accounting policies note.

Details of equity investments

In BHD millions	Amount	Amount subject to risk weight	Minimum capital requirement at 12.5%
Non-significant investment in the common shares			
Listed equities	32.8	32.8	4.1
Unlisted equities	2.8	2.8	0.4
Significant investment in the common shares of financial entities >10%	53.2	53.2	6.6
	88.8	**88.8**	**11.1**
Unrealised gains from equities fair value	23.3		
Deduction from CET 1 (significant investments in common stock of financial entities)	17.9		

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk positions are managed by the treasury department. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Modified duration of the Bank's unhedged fixed income portfolio was 1.04 percent on 31 December 2019 implying that a 1 percent parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BHD 4.7 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Bank usually levies a pre-payment charge for any loan or deposit, which is repaid/withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Bank faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

INTEREST RATE RISK IN THE BANKING BOOK (continued)

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

In BHD million **As at 31 December 2019**	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets							
Cash and balances at central banks	-	-	-	-	-	110.6	110.6
Treasury bills	154.7	93.1	177.5	-	-	-	425.3
Placements with banks and other financial institutions	206.6	-	-	3.3	-	18.9	228.8
Loans and advances	372.7	106.3	61.1	535.2	138.4	-	1,213.7
Investment securities	35.3	178.2	55.7	638.6	98.4	64.5	1,070.7
Investment in associates, interest receivable and other assets	-	-	-	-	-	113.6	113.6
Property and equipment	-	-	-	-	-	31.8	31.8
Total assets	**769.3**	**377.6**	**294.3**	**1,177.1**	**236.8**	**339.4**	**3,194.5**
Liabilities and equity							
Due to banks and other financial institutions	291.3	48.6	3.8	-	-	52.9	396.6
Borrowings under repurchase agreements	108.4	-	-	-	-	-	108.4
Customer deposits	731.5	115.7	67.0	187.1	-	992.7	2,094.0
Interest payable and other liabilities	-	-	-	-	-	63.2	63.2
Equity	-	-	-	-	-	532.3	532.3
Total liabilities and equity	**1,131.2**	**164.3**	**70.8**	**187.1**	**-**	**1,641.1**	**3,194.5**
On-balance sheet interest rate sensitivity gap	(361.9)	213.3	223.5	990.0	236.8	(1,301.7)	-
Off-balance sheet interest rate gap	830.5	-	-	(679.0)	(151.5)	-	-
Cumulative interest rate sensitivity gap	**468.6**	**681.9**	**905.4**	**1,216.4**	**1,301.7**	**-**	**-**

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200 bps increase / decrease on the balance sheet. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

In BHD millions	200 bps parallel increase	200 bps parallel decrease
As at 31 December 2019	(1.3)	1.3
Average for the year	(1.4)	1.4
Minimum for the year	(0.7)	0.7
Maximum for the year	(7.0)	7.0

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2019

RELATED PARTIES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to this position. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties are as below:

The Bank qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholders is government owned. In addition to the government exposures reported below, in its normal course of business, the Bank provides commercial lending, liquidity management and other banking services to, and also avails services from, various semi-governmental organisations and government owned companies in the Kingdom of Bahrain.

In BHD millions	Major shareholder and related entities	Directors and key management personnel	Associates
As at 31 December 2019			
Loans and advances	264.2	5.8	-
Treasury bills, bonds and equities	1,385.4	-	53.6
Customers' deposits	122.3	18.4	6.5
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	194.1	13.7	-
For the period ended 31 December 2019			
Loans advanced	265.5	2.2	-
Loans repaid	353.2	1.9	-
Net increase / (decrease) in overdrafts	189.0	1.3	-
Treasury bills, bonds and equities purchased	1,114.2	-	-
Treasury bills, bonds and equities matured / sold	1,125.8	-	-
Capital expenditures	3.8	-	-
Interest income	70.5	0.8	-
Interest expense	2.0	0.1	-
Share of profit of associates	-	-	4.1
Dividend income	-	-	-
Directors remuneration and sitting fees	0.2	0.3	-
Short term employee benefits	-	4.4	-
Post employment retirement benefits	-	0.3	-
Other operating expenses	1.9	0.5	0.8

During the year, net provision reversal of BHD 4.6 million have been recorded against outstanding balances with related parties.

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2019 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions.

SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

In BHD millions	
US Dollar (long position) - unhedged	67.1
Saudi Riyal (long position) - unhedged	25.9
UAE Dirhams (long position) - unhedged	11.9

All of the above currencies have a fixed rate of exchange against the US Dollar. The Bank did not have any significant net open positions as at 31 December 2019.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2019

DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The following table summarises the aggregate notional amounts, replacement cost and fair value of each type of derivative and foreign exchange financial instrument.

In BHD millions	Contract/ Nominal Amount	Replacement cost	Fair value
Interest rate contracts			
Interest rate swaps	985.9	6.8	6.8
	985.9	**6.8**	**6.8**
Foreign exchange contracts			
Outright spot and forward contracts	139.0	0.2	0.2
Swap agreements	1,552.2	3.1	3.0
	1,691.2	**3.3**	**3.2**
	2,677.1	**10.1**	**10.0**

The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

In BHD millions	Up to 1 year	More than one year	Total
Interest rate contracts			
Interest rate swaps	155.4	830.5	985.9
	155.4	**830.5**	**985.9**
Foreign exchange contracts			
Outright spot and forward contracts	129.0	10.0	139.0
Swap agreements	1,542.7	9.5	1,552.2
	1,671.7	**19.5**	**1,691.2**
	1,827.1	**850.0**	**2,677.1**

LEGAL CLAIMS

As at 31 December 2019, legal suits pending against the Bank aggregated to BHD 1.5 million. Based on the opinion of the Bank's legal advisors and pending final judgment on these suits, adequate provision as assessed by management is maintained.