National Bank of Bahrain

NBB

Closer to you
Closer to our future

Annual Financial and Sustainability Report 2021

#TeamBahrain

INVESTORS IN PEOPLE®
We invest in people Gold

About this report

Welcome to the National Bank of Bahrain's Annual Financial and Sustainability Report covering the year 2021. Since 2019, we have reported important non-financial information about our operations, promoting transparency and providing comprehensive coverage of significant sustainability topics. We are aware of the desire from many of our valuable stakeholders for coherent and consolidated performance information which links sustainability concerns with traditional core business activities. We are continuing our sustainability journey and upgrading our sustainability approach in accordance with international standards and best practice.

Scan the QR code to view 2021 Annual Financial and Sustainability Report

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 scan the QR code.

Licensed by CBB as a conventional retail bank

Report scope and boundaries

This Annual Financial and Sustainability Report provides financial information covering NBB Group's financial year from 1 January to 31 December 2021 (unless otherwise stated). Other aspects of the report cover NBB parent activities for the same period.

The report highlights our goal to embed sustainability in the core of our business and operations. We provide an overview of our performance, structured around our sustainability framework and the most relevant material issues for our stakeholders. These topics have been determined through a formal materiality assessment to shape the content of this report.

As part of our commitment to transparency and international best reporting practices, this report is developed in accordance with the Global Reporting Initiative (GRI) Standards: Core option. It also is aligned with all of the GRI reporting principles. Our GRI Standards Content Index can be found in Appendix 1.

Feedback

We always value feedback and strive to improve our reporting. Hence, we welcome your comments and suggestions on this report as well as our performance. Please feel free to contact us through any of the following channels:

- Email: ir@nbbonline.com
- Phone: +973 1722 8800
- LinkedIn: https://www.linkedin.com/company/nationalbankofbahrain/
- Instagram, Twitter, Facebook, @NBBonline
- YouTube: https://www.Youtube.com/use/nationalbankofbahrain

The individuals posing on the cover page of this report are NBB's employees Muneera Mahmood from Strategy and Mohamed Adel from Information Technology.

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Designed and Produced by The Bridge Partnership

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“

At the forefront of our next action priorities is the rapid recovery of our national economy in cooperation with the private sector by adopting solutions and initiatives consistent with the requirements of the circumstance and for the return of positive rates of national development in line with the aspirations of the Bahrain Economic Vision 2030.”

His Majesty King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

“We will pursue an open and free economy that consolidates the rule of law to stimulate economic output while protecting and preserving the fundamental rights and security of our people. Treating our economy as if it needed protecting from competition and market forces would be a far cry from unleashing its full potential, built on competition, innovation, adaptation and growth.”

His Royal Highness Prince Salman bin Hamad Al Khalifa
The Crown Prince and Prime Minister of the Kingdom of Bahrain

Closer to you
Closer to our future

*NBB employees (from left): **Ebrahim Alalawi** from Finance, **Nouf Alsaati** from Legal and **Ahmed Alsayed** from Property, Procurement & Administration*

Corporate Profile

NBB has been supporting the Kingdom's economy for more than 64 years, spearheading financial presence across the country. Today, we operate a network of branches across three countries – Bahrain, Saudi Arabia and the United Arab Emirates – delivering on our brand promise of being 'Closer to you.'

Deeply rooted within the local community, we believe the National Bank of Bahrain is a positive contributor to society. Our customer-centric approach is a driver of innovation, strengthening the Kingdom's position as a financial technology hub. The range of corporate and retail customer services we provide fulfils customer demands for efficient, seamless banking.

With our commitment to sustainability, we champion Environmental, Social and Corporate Governance (ESG) practices, embedding them into our core business and operations to fulfil our stated purpose: to enrich the lives of generations. Responsible for initiatives that promote community investment, responsible banking and economic growth, the Bank is established as a leader in the industry, supporting diverse organisations across the Kingdom.

Established in 1957 as the first locally owned bank, the National Bank of Bahrain B.S.C (NBB)'s licensed by the Central Bank of Bahrain (CBB) as a conventional retail bank.

Our strategy allows us to achieve a competitive level of shareholder returns, as the largest local bank in the Kingdom.

Our Vision

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

Respect
Connect with respect

Teamwork
Collaborate for success

Responsibility
Own it and embrace it

Ethics
Always do the right thing

Transparency
Be fearlessly transparent

Key facts and figures

Established in
1957

First locally owned bank

Location of Head Quarters
Bahrain

Overseas branches:
Abu Dhabi (United Arab Emirates), Riyadh (Kingdom of Saudi Arabia)

Our Banking Services:
Retail Banking, Digital Banking, Strategic Accounts Management, Commercial and SME Banking, Corporate and Institutional Investment Banking, Treasury, Capital Markets and Wealth Management, and Financial Restructuring

78.81%
share capital in Bahrain Islamic Bank (BisB)

Investors in People Gold accreditation

Average training hours per employee at NBB Group 50

1,110 NBB Group Employees of whom 401 are women
=36%

95%
of our NBB Group employees are Bahrainis

NBB Employee Commitment index
83%

Key facts and figures continued

Total revenue

BHD 150.9m

Net profit

BHD 55m

Return on Equity

10.5%

BHD 52 m

has been allocated to the Donations & Contributions Fund since its inception in 1980, in support of social welfare, healthcare and educational endeavours.

BHD 4.1m

of community investment in 2021

Ranked first

for the second year in a row in Bahrain's banking sector by ESG Invest

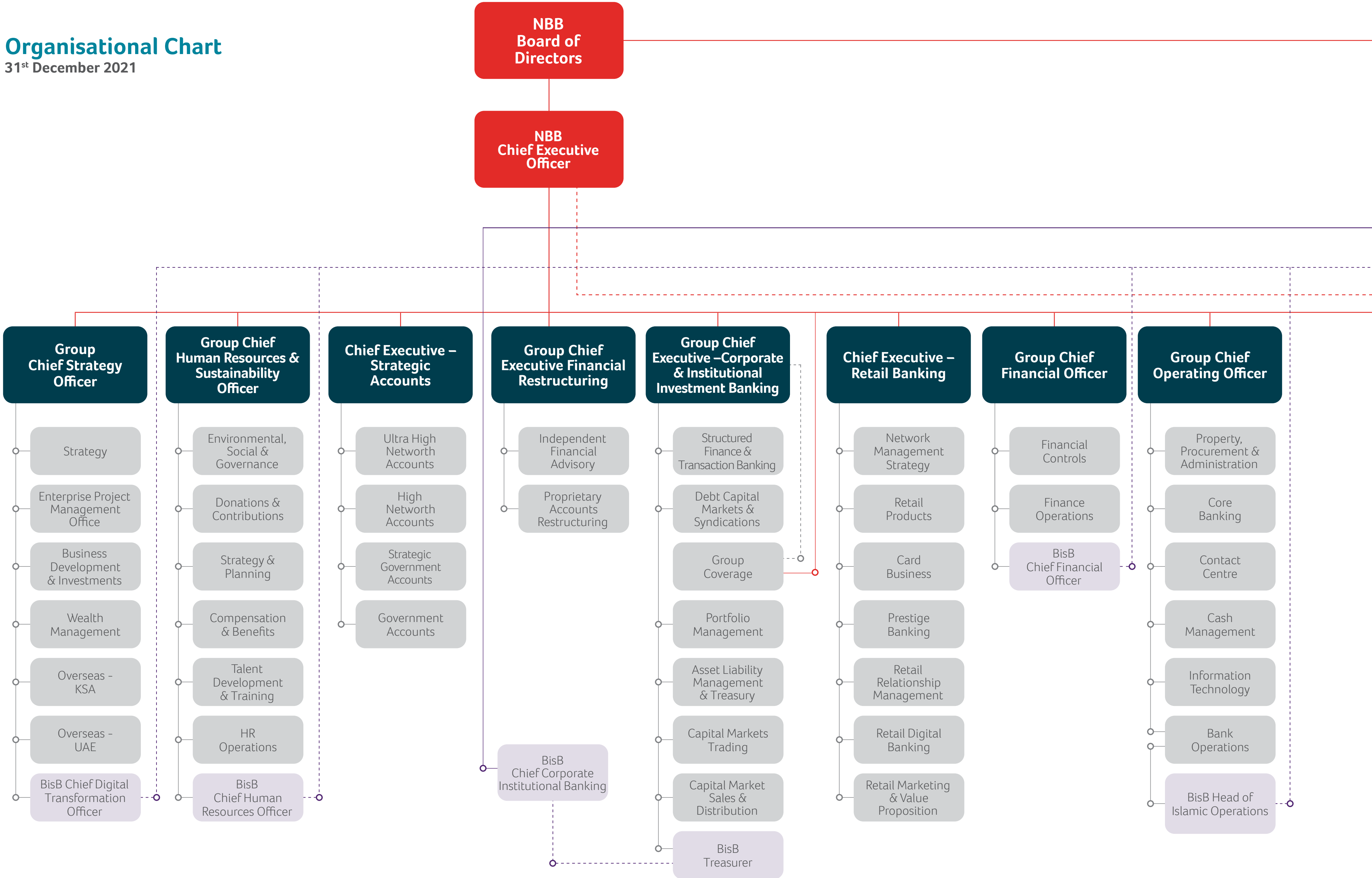
72%

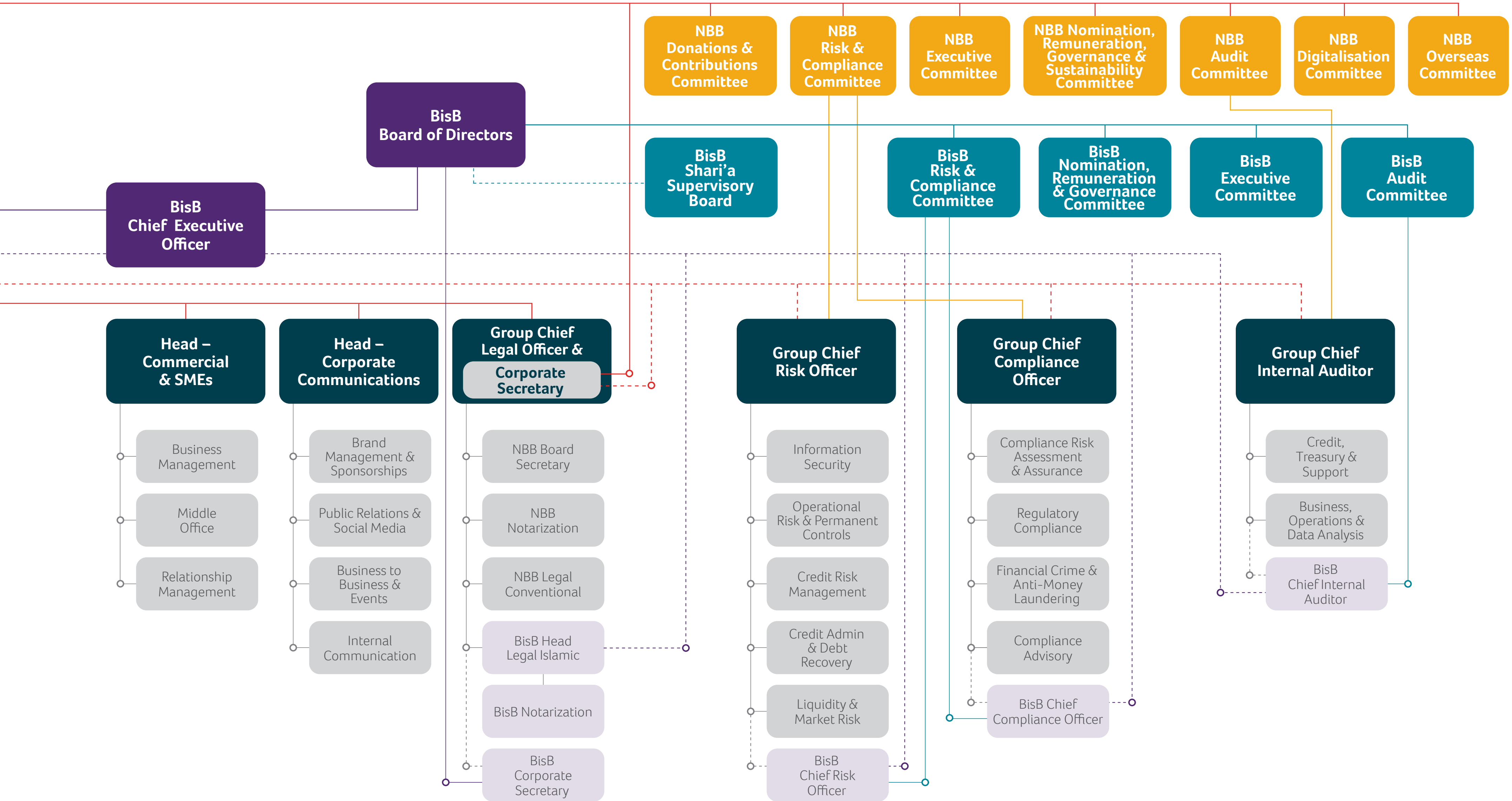
of total procurement spending is with local suppliers.

ISO certified Environmental Management System (EMS)

Organisational Chart

31st December 2021




NBB Donations & Contributions Committee
NBB Risk & Compliance Committee
NBB Executive Committee
NBB Nomination, Remuneration, Governance & Sustainability Committee
NBB Audit Committee
NBB Digitalisation Committee
NBB Overseas Committee
BisB Board of Directors
BisB Shari'a Supervisory Board
BisB Risk & Compliance Committee
BisB Nomination, Remuneration & Governance Committee
BisB Executive Committee
BisB Audit Committee
BisB Chief Executive Officer
Head – Commercial & SMEs
Business Management
Middle Office
Relationship Management
Head – Corporate Communications
Brand Management & Sponsorships
Public Relations & Social Media
Business to Business & Events
Internal Communication
Group Chief Legal Officer &
Corporate Secretary
NBB Board Secretary
NBB Notarization
NBB Legal Conventional
BisB Head Legal Islamic
BisB Notarization
BisB Corporate Secretary
Group Chief Risk Officer
Information Security
Operational Risk & Permanent Controls
Credit Risk Management
Credit Admin & Debt Recovery
Liquidity & Market Risk
BisB Chief Risk Officer
Group Chief Compliance Officer
Compliance Risk Assessment & Assurance
Regulatory Compliance
Financial Crime & Anti-Money Laundering
Compliance Advisory
BisB Chief Compliance Officer
Group Chief Internal Auditor
Credit, Treasury & Support
Business, Operations & Data Analysis
BisB Chief Internal Auditor

First bank in the Middle East to be accredited by Investors in People - Gold

What is Investors in People?

Investors in People is a standard for people management, offering accreditation to Organisations that adhere to the Investors in People Standard. There are four levels of accreditation: Accredited, Silver, Gold and Platinum. The purpose of the accreditation is to make work better, ensuring high performance is attainable through focused and continuous improvement. The accreditation programmes aim to gather and collate feedback from people, both in data terms and in narrative via discussions.

NBB's strengths were characterised by:

- A vivid transformation agenda.
- Efforts in building capability and continues being embedded as part of the learning culture.
- Progression as a big part of people's journey.
- A focus on ESG beyond conventional.
- Building an infrastructure that looks after people and stakeholders, especially during the pandemic.
- Advancing strategic partnerships and taking the lead as supporter of the community.

What does it mean to NBB?

We are in the top 17 % of Organisations globally when it comes to Investing in People.

Our leadership approach demonstrates trust, empowerment and delegated authority.

We are the first bank in the Middle East to be accredited by Investors in People - Gold.

Our people are inspired to be on their "A" game and work at their best.

We demonstrated the effectiveness of our practice in place, active engagement and a clear demonstration of our tangible positive outcomes.

We demonstrate a true meaning of being a "great place to work".

INVESTORS® IN PEOPLE

At National Bank of Bahrain

NBB

We invest in people Gold

A part of our community since 2021

Awards and Achievements

We are proud to be recognised by regional and international bodies for the work we do, which is reflected in a number of awards and achievements in 2021.

Euromoney Awards for Excellence 2021
Middle East's Best Bank for Corporate Responsibility

International Business Magazine Awards 2021
Best Transformation Bank in Bahrain

Business Continuity Institute Middle East Awards 2021
Continuity and Resilience Collaboration

Awards and Achievements continued

Global Brand Awards 2021
Best Retail Banking Brand, Bahrain
& Best Corporate Banking Brand, Bahrain

Global Finance Sustainable Finance Awards 2021
Outstanding Leadership in Sustainability Transparency Award

Business Tabloid Awards 2021
Best Mobile Banking Application

Stakeholders' Impact

We focus here on the outcomes of the actions we have taken during the reporting year – instances where we have had a clear and beneficial impact on our stakeholders.

We continued to have an impact in the market, delivering products and services that improve customers' lives. Our new Digital Banking App secured 10,383 new digitally opened accounts compared to 38 from the previous year. More than 107,200 customers registered digitally, an increase of around 40% compared to last year.

Through supporting in administering the Liquidity Support Fund, initiated by the Ministry of Finance & National Economy, we provided local entities (of above BHD 3 million revenue) with term loans of up to BHD 1 million to relief their immediate liquidity crunch. Our ongoing efforts resulted in support being given to more than 40 clients in the past 2 years.

The support we have delivered through the Mazaya finance initiative, including payment of the Government Property Registration fee on behalf of beneficiaries, waving processing fees, providing free fire insurance, and offering moving-in gifts, has supported more than 400 families in obtaining Mazaya mortgages.

The financial restructuring services we have provided to several companies in distress has enabled these organisations to survive in extremely challenging market conditions, partly brought about by the coronavirus pandemic. Our advice and support have secured their ongoing viability and protected jobs and livelihoods.

The recommended allocation to the Donations & Contributions Fund from NBB's net annual profit of the year 2021 was also 5%, which was equivalent to BHD 2.7million. This is in line with our belief that the community should benefit from our success.

Stakeholders' Impact continued

We continue to make a positive impact with youth, providing internship opportunities, which have turned into full time jobs and helping youth develop their skills. In supporting youth, we have for example, facilitated a research and development project covering Solar Energy for students from the University of Bahrain, who won the first-place prize at Dubai Expo 2020 in the Solar Decathlon Middle East contest.

As part of the digital transformation and recognising the need to harness the talents of young people in digital innovation, we launched the NBB Digital Banking Challenge in partnership with Bahrain Fintech Bay. Seven shortlisted teams embark on a six-week mentoring programme with workshops coupled with individual sessions from NBB volunteers to impart vocational insights and sectoral knowledge. The challenge concluded with teams pitching their ideas for NBB's Digital Banking App at the opening of Bahrain National week at Dubai Expo 2020.

NBB DIGITAL BANKING CHALLENGE

We are supporting the construction of a major hospital in Bahrain, which, with the installation of solar panels, will be the first private hospital in the Kingdom to have a renewable energy source.

We are financing a hydroponic farm project in the Kingdom, which aims to reduce water consumption for plants, minimising the country's carbon footprint and eliminating soil- borne pests.

ISO 14001:2015

We have successfully introduced an ISO certified Environmental Management System (EMS) in 2021, which established a robust framework for the systematic management of our environmental impacts.

*NBB employees (from left): **Salem Mesifer** from Information Technology, **Maryam Alzeera** from Retail Banking and **Ahmed Kooheji** from Core Banking System*

Our Strategy and Outlook

Like 2020, this has been a challenging year, with the continuation of a global public health emergency, which continues to have a major impact on economies worldwide.

Businesses of all kinds have faced complex challenges to their operations. For our part, we have remained resilient and able to respond to the difficult market conditions. Despite the constraints of the pandemic, we have worked towards aligning the business with the needs of the community and the country's social, economic and environmental vision.

Core parts of our strategy remain our commitment to the economy, alignment with the 2030 vision, and continued leadership in Team Bahrain. With solid financials and our leading market position, our position is to become the national champion, aiming to capitalise on our scale and strong ties with key strategic national institutions.

This ambition to be the national champion is based on several pillars, one of which is to be digital-first and data driven, enabling us to enhance our customer experience through developing market-leading digital propositions and streamlined processes.

Digitalisation is at the core of our transformation strategy, allowing us to make our clients' interaction with the bank simpler and more efficient, giving us a leading edge in competitive offerings and digital innovation, through significant infrastructure upgrade and by improving accessibility and enhancing branch capability through state-of-the-art technologies. We have invested in technology to accelerate our digital transformation and support our growth and efficiency. We aim to foster innovation and lead digital propositions with new solutions and streamlined processes that will simplify and enhance our customers experience at retail and corporate banking levels. With an open, innovation-first operating model, our ways of working and our digital solutions are designed with customers at the core, through a data driven strategy.

For 2022, we are reinforcing NBB's presence in the GCC and building our regional portfolio to ensure our sustained growth, by analysing the market and exploiting growth opportunities in line with our growth and diversification efforts. We aim to develop initiatives and products that will allow us to respond to the increasingly complex and fast-changing market environment. Our overseas presence in large, yet highly competitive markets creates an opportunity to leverage on our network and strong ties with key Bahrain and regional institutions to become their partner of choice supporting their regional business.

The successful integration of the National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB) – two of the country's prominent banks – into a robust banking Group, is an important achievement that has strengthened the Kingdom's position as a regional financing hub. We will continue to seek opportunities for consolidation and synergy where appropriate. We continue our journey to unlock efficiency gains and synergies from BisB integration and drive operational excellence. The integration has placed NBB at an advanced stage and have put in place a scalable model to pursue further inorganic growth opportunities.

Our ambitions include a social dimension. Our goal is to be the leading regional player in the field of community investment and social welfare, having positive impact across society. Our approach is based on alignment with the government's priorities to ensure that actions we take address the key challenges facing the Kingdom, and our region. We will deepen our engagement with our customers' non-financial activities, including more comprehensive customer screening and rating based on Environmental, Social and Governance (ESG) principles.

Financial Highlights

	2021	2020	2019	2018	2017
Earnings (BHD millions)					
Net interest income	**120.5**	116.0	93.3	87.2	73.1
Other income	**30.4**	31.9	28.4	24.8	27.6
Total operating income	**150.9**	147.9	121.7	112.0	100.7
Operating expenses	**74.5**	70.2	45.2	41.8	33.0
Operating profit	**76.4**	77.7	76.5	70.2	67.7
Profit attributable to the shareholders of the Bank	**53.9**	53.3	74.2	70.0	61.0
Consolidated net profit	**55.0**	50.7	74.2	70.0	61.0
Cash dividend	**37.5**	33.8	38.4	34.8	31.5
Stock dividend	**18.7**	17.0	15.5	14.0	12.8
Financial Position (BHD millions)					
Total assets	**4,535.6**	4,361.4	3,194.5	3,195.5	3,101.5
Loans and advances	**2,395.8**	2,173.1	1,213.7	1,190.1	1,226.9
Investment securities	**1,258.6**	1,231.4	1,070.7	1,132.2	1,067.3
Earning assets	**4,201.7**	4,013.3	2,992.1	3,020.7	2,939.7
Total deposits	**3,923.8**	3,741.7	2,599.0	2,675.9	2,617.1
Customer deposits	**3,184.2**	3,084.3	2,094.0	2,190.6	2,165.2
Shareholders' equity	**535.3**	526.3	532.3	475.8	447.9
Ratios (%)					
Earnings					
Return on average equity	**10.5**	10.1	14.7	15.2	14.1
Return on average assets	**1.2**	1.2	2.3	2.2	2.0
Earnings per share (fils)	**29**	29	40	38	33
Cost-to-income ratio	**49.0**	47.1	35.9	35.6	31.6
Capital					
Shareholders' equity as % of total assets	**11.8**	12.1	16.7	14.9	14.4
Total liabilities to shareholders' equity (times)	**7.5**	7.3	5.0	5.7	5.9
Capital adequacy ratio	**22.1**	22.3	37.3	33.8	36.3

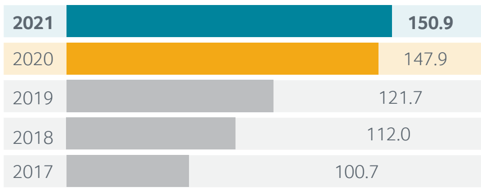
The National Bank of Bahrain delivered sustained growth in revenue and net profit

Profit attributable to the shareholders of the Bank
(BHD millions)

BHD53.9m

Total operating income
(BHD millions)

BHD150.9m



Financial Highlights continued

Earning assets
(BHD millions)

BHD4,201.7m

2021	**4,201.7**
2020	4,013.3
2019	2,992.1
2018	3,020.7
2017	2,939.7

Customer deposits
(BHD millions)

BHD3,184.2m

2021	**3,184.2**
2020	3,084.3
2019	2,094.0
2018	2,190.6
2017	2,165.2

Loans & advances
(BHD millions)

BHD2,395.8m

2021	**2,395.8**
2020	2,173.1
2019	1,213.7
2018	1,190.1
2017	1,226.9

Capital adequacy
(%)

22.1%

2021	**22.1**
2020	22.3
2019	37.3
2018	33.8
2017	36.3

Equity
(BHD millions)

BHD535.3m

2021	**535.3**
2020	526.3
2019	532.3
2018	475.8
2017	447.9

Earnings per share
(Bahraini fils)

29
Bahraini Fils

2021	**29**
2020	29
2019	40
2018	38
2017	33

Board of Directors

1. Farouk Yousuf Khalil Almoayyed - Chairman

2. Dr. Esam Abdulla Yousif Fakhro - Deputy Chairman

3. Fawzi Ahmed Ali Kanoo - Deputy Chairman

4. Sh. Rashed Bin Salman Mohamed Al Khalifa - Director

5. Hala Ali Hussain Yateem - Director

On behalf of the National Bank of Bahrain's Shareholders, the Board of Directors express their gratitude to **Khalid Yusuf Abdulrahman** and **Hussain Sultan Al Ghanem** whom have retired from the Bank's Board of Directors after serving 20 and 17 years respectively, during which they have been an integral part of the Board and have contributed to the progress and development of NBB in particular and the banking sector in general.

6. Rishi Kapoor - Director

7. Yusuf Abdulla Yusuf Akbar Alireza - Director

8. Mohamed Tareq Mohamed Sadeq Akbar - Director

9. Amin Ahmed Alarrayed - Director

10. Vincent Van Den Boogert - Director (Joined in October 2021)

11. Zaid Khalid Abdulrahman - Director (Joined in October 2021)

Board of Directors Profiles

1. Farouk Yousuf Khalil Almoayyed
Chairman

Non-executive
A Director since 1997

Committee membership: Chairman of Nomination, Remuneration, Governance and Sustainability Committee; and Donations and Contributions Committee.

- **Career summary:** Mr. Al Moayyed has more than 45 years of experience in business management, banking, Investments and retail industries.
- Relevant skills and experience: Mr. Almoayyed has been a Board member for NBB for over 25 years and brings a variety of leadership experiences from his expansive career, which includes banking, business management, retail, hospitality and academic industries. Mr. Almoayyed holds a BSc in Engineering from the United Kingdom.
- External engagements: Mr. Almoayyed is the Chairman of Yousif Khalil Al Moayyed and Sons Co. B.S.C.(c), Al Moayyed International Group B.S.C.(c), Ashraf Holding W.L.L, Bahrain Duty Free Shop Complex W.L.L., Gulf Hotels Group B.S.C., Arab Academy for Research & Studies (Ahlia University) B.S.C.(c), and Bahrain National Holding Company B.S.C. He is also a Director on the Economic Development Board (EDB) and the honorary Chairman of Bahrain Development for Small & Medium Enterprises.

2. Dr. Esam Abdulla Yousif Fakhro
Deputy Chairman

Non-executive
A Director since 2008

Committee membership: Chairman of the Executive Committee; Member of Nomination, Remuneration, Governance and Sustainability Committee and Donations and Contributions Committee.

- Career summary: Dr. Fakhro has more than 45 years of experience in business management, banking and investments. He was previously the Chairman of Aluminum Bahrain Company (ALBA), Chairman of Bahrain Chamber of Commerce & Industry and Chairman of Federation of GCC Chambers of Commerce. He also served as a Board member at Bahrain Economic Development Board, Bahrain Mumtalakat Holding Company B.S.C. (c), Supreme Council for Education Development and AMA International University.
- Relevant skills and experience: Dr. Fakhro has been a Board member of NBB for over 14 years and has held leadership positions in a variety of industries including the financial services, transport, electronics as well as foods industries. Dr. Fakhro holds a Ph.D. degree in Mechanical Engineering from the University of London.
- External engagements: Dr. Fakhro is the Chairman of Bahrain Islamic Bank B.S.C., Bahrain Cinema Company B.S.C., Abdulla Yousif Fakhro & Sons B.S.C. (c) and Vox Cineco Cinema. He assumes the post of the Deputy Chairman of the Qatar Bahrain Cinema Company. He is also a member of the Board of Directors of Trafco Group B.S.C. and Bahrain Livestock Company.

3. Fawzi Ahmed Ali Kanoo
Deputy Chairman

Non-executive
A Director since 2010

Committee membership: Executive Committee; Donations and Contributions Committee and Overseas Committee.

- Career summary: Mr. Kanoo has more than 45 years of experience in business management, shipping, travel, energy, banking and Investment.
- Relevant skills and experience: Mr. Kanoo has been a Board member for NBB for over 12 years and has held leadership positions in a variety of industries, including ship building, container port operations, hospitality and trading. Mr. Kanoo has a Bachelor's degree in Business Administration from South West Texas State University in the USA.
- External engagements: Mr. Kanoo is the Chairman of Abdulrahman Jassim Kanoo Co. W.L.L., Bahrain Ship Repairing and Engineering Co. B.S.C. and Bahrain Philanthropic Society (Bait Al Khair). He is the Deputy Chairman of Yusuf Bin Ahmed Kanoo (Holdings) Co. W.L.L., APM Terminals B.S.C. and Gulf Hotels Group B.S.C.

4. Sh. Rashed Bin Salman Mohamed Al Khalifa
Director

Non-executive
A Director since 2014

Committee membership: Executive Committee; Nomination, Remuneration and Governance Committee and Overseas Committee.

- Career summary: Shaikh Al Khalifa is a retired banker and an independent consultant for investment and banking services. He is a former Board member at Bank ABC Jordan, Bank ABC Tunisia, ABC Islamic Bank, Capinnova Islamic Bank and CrediMax. Shaikh Al Khalifa has held various senior credit and marketing positions at Gulf International Bank, Arab Banking Corporation and Bank of Bahrain and Kuwait.
- Relevant skills and experience: Shaikh Al Khalifa has over 35 years of local and regional banking experience and maintains an extensive knowledge of the Gulf's financial markets. He holds a Bachelor's degree in chemical engineer from United Kingdom, with experience in oil exploration, and also holds an MBA with an emphasis in International Finance from Arizona State University at Tempe, Arizona in the U.S.A.

5. Hala Ali Hussain Yateem
Director

Independent
A Director since 2018

Committee membership: Chairwoman of Audit Committee; Member of Donations and Contributions Committee; and Digitalisation Committee.

- Career summary: Ms. Yateem has more than 20 years of experience in business management, banking and investment and has held different position in a number of companies in the Kingdom of Bahrain. She was a Board member at Bahrain Family Business Association, Yateem Oxygen and Bahrain Tourism Company. She was also a Member of the Board of Trustees of the Supreme Council for Women and the Royal Lifesaving Bahrain.
- Relevant skills and experience: Ms. Yateem has extensive experience in business management, banking, real estate, entrepreneurship and Investments. She holds a Bachelor's Degree in Entrepreneurship and Investments from Babson College, in Wellesley, Massachusetts, USA. She also has a Certificate in Blockchain for Business from Columbia Business School.
- External engagements: Ms. Yateem is a Director at A.M. Yateem Brothers, Bahrain Real Estate Investment Company (Edamah), Ali Hussain Yateem Holding Co. W.L.L., The Hope Fund W.L.L. and is a Non- Executive Director at Yateem Real Estate company. She is also a member of the Board of Trustees of the American University of Bahrain and the Vice Chairman of Al Rahma Society.

6. Rishi Kapoor
Director

Independent
A Director since 2018

Committee membership: Chairman of Risk and Compliance Committee; Member of Nomination, Remuneration, Governance and Sustainability Committee.

- Career summary: Mr. Kapoor has more than 34 years of experience in banking, finance, investments and financial services industry. He has held leadership roles in Investcorp and was the Chief Financial Officer for 12 years. Mr. Kapoor is currently Investcorp's Co-Chief Executive Officer and a member of its Executive Committee.
- Relevant skills and experience: Mr. Kapoor has extensive experience working in the financial services industry and was Recognised as one of the top 10 Indian executives making an impact in the Middle East (Forbes Middle East, 2019), as well as one of the top CEOs in the GCC Financial Services and Investment Sector (Top CEO Middle East, 2019). He holds a Bachelor's Degree in Electrical and Computer Engineering from the Indian Institute of Technology (IIT), as well as an MBA from Duke University's Fuqua School of Business, U.S.A.
- External engagements: Mr. Kapoor is a Board Director at Gulf Air Group Holding Company W.L.L., Bahrain Airport Company and Gulf Aviation Academy. He is also an Executive Director at Investcorp S.A. and a member of Duke University's Middle East regional advisory board.

7. Yusuf Abdulla Yusuf Akbar Alireza
Director

Independent
A Director since 2018

Committee membership: Executive Committee Nomination, Remuneration, Governance and Sustainability Committee, Digitalisation Committee and Overseas Committee.

Board of Directors Profiles continued

- Career summary: Mr. Alireza is the 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. Mr. Alireza worked for Goldman Sachs Group Inc. from 1992 to 2012 where his last role was Co-President of Asia and a member of the Global Management Committee.
- Relevant skills and experience: Mr. Alireza has extensive experience working in the financial services industry around the main financial centres of the world and has held a variety of leadership positions. He holds a Joint master's degree (in Arab Studies and International relations and affairs) and bachelor's degree (in International Economics and Econometrics) from Georgetown University in the U.S.A.
- External engagements: Mr. Alireza is a Director at the Bahrain Economic Development Board (EDB), Bahrain Ship Repairing and Engineering Company B.S.C., the Global Board of Room to Read (Charity) and the Centre for Contemporary Arab Studies Georgetown University.

8. Mohammed Tareq Mohammed Sadeq Mohamed Akbar
Director

Non-executive
A Director since 2018

Committee membership: Audit Committee; and Risk and Compliance Committee.

- Career summary: Mr. Sadeq has over 34 years of experience with Ernst & Young Middle East and North Africa; a significant portion of which was in various leadership roles in the fields of accounting, business development, advisory and financial services.
- Relevant skills and experience: Mr. Sadeq has numerous years of experience working in the Financial Services industry, both regionally and internationally, and is a Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). He has also successfully completed an exclusive Programme designed on Corporate Governance for Directors by INSEAD Business School. Mr Sadeq is a Member of the GCC Board Directors Institute.
- External engagements: Mr. Sadeq is a director and the chairman of the Audit and Compliance Committee at Ahli United Bank Kuwait K.S.C.P. He is also a Director and the Chairman of Board Audit Committee and Board Compliance Committee at Al Baraka Bank Pakistan Limited. Additionally, he is a member of the Board of Directors of Al Zayani Investments B.S.C., First Motors W.L.L., Bahrain International Golf Course Company B.S.C. (c), A.M. Yateem Bros W.L.L. and Yateem Air Conditioning Company W.L.L. He is the Managing Director at Keystone Consulting Inc. W.L.L.

9. Amin Ahmed Alarrayed
Director

Non-executive
A Director since 2020

Committee membership: Executive Committee; and Nomination, Remuneration, Governance and Sustainability Committee.

- Career summary: Mr. Alarrayed had previously held the position of Chief Executive Officer of First Bahrain Real Estate Development Co. for 11 years and was the Head of Retail and Placement at Reef Real Estate Finance Company. He has also held senior roles in the retail banking division at Bank of Bahrain & Kuwait B.S.C. Mr. Alarrayed is currently the Chief Executive Officer of Bahrain Real Estate Investment Company (Edamah).
- Relevant skills and experience: Mr. Alarrayed has held multiple leadership positions over a number of years in a variety of companies, particularly in the real estate development industry. He received an MBA from Kellstadt Graduate School of Business in Chicago, U.S.A. and an undergraduate degree of Art in Economics and International Relations from the University of Redlands, California, U.S.A.
- External engagements: Mr. Alarrayed is the Chairman of Bahrain Car Parks Company B.S.C., Edamah Property Management Company S.P.C., Edamah Hawar Real Estate Development S.P.C. He is a Director at Bilaj Al Jazayer Real Estate Development S.P.C., Sa'ada Real Estate Development S.P.C., South City W.L.L., Durrat Khaleej Al Bahrain B.S.C. and Al Sahel Resort B.S.C.

10. Vincent Van Den Boogert
Director

Non-executive
A Director since October 2021

Committee membership: Chairman of Digitalisation Committee; Member of Risk and Compliance Committee.

- Career summary: Mr. Van den Boogert has more than 25 years of experience in financial services industry and digital transformation. He has held international leadership roles at one of Europe's largest financial institutions, ING. His last role was Chief Executive Officer and Chairman of the Board of ING Netherlands from 2017 to 2020.
- Relevant skills and experience: Mr. Van den Boogert has extensive knowledge in the financial services industry, with broad banking, retail, digital transformation and risk management experience. He holds an MSc degree in Econometrics from Erasmus University in the Netherlands and an MBA from Rotterdam School of Management. He also received a degree in Advanced Corporate Governance from Erasmus University.
- External engagements: Mr. Van den Boogert is a member of the Supervisory Board of Dutch Alzheimer Association. He is the Chairman of Supervisory Board Currence and is a Senior Advisor to Boston Consulting Group.

11. Zaid Khalid Abdulrahman
Director

Independent
A Director since October 2021

Committee membership: Audit Committee.

- Career summary: Mr. Abdulrahman has more than 18 years of experience in engineering, business management, financial investments specializing in the industrial, transport, logistics and manufacturing industries. Mr. Abdulrahman was the Manager of Operations at the National Transport Company and was the Manager of Maintenance and Sales at the National Establishment of Technical and Trade Services.
- Relevant skills and experience: Mr. Abdulrahman currently manages a diverse portfolio of financial investments, transport and logistics operations, real estate and food manufacturing. He maintains extensive knowledge of hardware manufacturing processes and sustainable energy projects. Mr. Abdulrahman holds a Bachelor's Degree in Mechanical Engineering from the University of Leicester in the UK.
- External engagements: Mr. Abdulrahman is an Executive Director at the Food Supply Company and is a Board Member at the Bahrain Ship Repairing and Engineering Company. He is currently the Director of Operations and Investment at Yousif Abdulrahman Engineer Holding Co.

Retired in October 2021:

- Khalid Yousif Abdulrahman
Director

Independent
A Director since 2001

Committee membership: Chairman of Audit Committee.

- Career summary: Mr. Abdulrahman has more than 45 years of experience in engineering, business management, financial investments with focus on the industrial, transport, logistics and manufacturing industries. Mr. Abdulrahman held directorships in several companies in different industries.
- Relevant skills and experience: Mr. Abdulrahman is currently the Vice Chairman of Yousuf Abdulrahman Engineer Co. (YARE), National Establishment of Technical and Trade Services Co., National Transport Company and Awal Dairy Company WLL. Mr. Abdulrahman holds a Bachelor's Degree in Mechanical Engineering from the Plymouth Polytechnic, UK.
- External engagements: Mr. Abdulrahman is a Chairman of Food Supply Company, Vice chairman in Bahrain Islamic Bank B.S.C and was a director in Bahrain Ship Repairing & Engineering Company B.S.C..

- Hussain Sultan Sultan Al Ghanem
Director

Non-Executive
A Director since2004.

Committee membership: Executive Committee.

- Career summary: Mr. Al Ghanem has extensive experience in government, finance, human resources, public relations and social work. He was the Undersecretary for Human and Financial Resources at the Court of H.R.H. the Prim Minister. He is also a Former Director of Training and Manpower Development Department in Gulf Air.
- Relevant skills and experience: Mr. Al Ghanem has extensive knowledge and experience in government work, public relations, finance, human resources and training.
- External engagements: Mr. Al Ghanem was a former Vice President of the Higher Committee for Training at the Arab Airlines Companies and a Board Member in Muharraq Social Welfare Centre affiliated to the Ministry of Labor and Social development.

The Chairman's Perspective

"We have continued to integrate environmental, social, and governance considerations into our own processes and in our lending decisions. We are increasingly mindful of the impact which our activities have on the natural environment and society at large."

Farouk Yousuf Khalil Almoayyed
Chairman

CONSOLIDATED NET PROFIT

BHD 55.0m

The challenges posed by the coronavirus pandemic continued in 2021, creating a difficult operating environment and constraining the broad-based economic recovery that we all seek. We continued to play an important role in Bahrain, supporting companies and individuals in challenging economic circumstances, providing the investment and finance that drives economic activity, and continuing to support the community and others in need during these difficult times.

Our commitment to responsible operations and to the sustainability of our processes, products, and services remain undimmed. We have continued to integrate environmental, social, and governance considerations into our own processes and in our lending decisions. We are increasingly mindful of the impact which our activities have on the natural environment and society at large. This report, which consolidates our financial performance, will be enhanced with the issue of a sustainability-centric annual report that seeks to capture and explain the beneficial impact that our work and our efforts have had across the Kingdom.

Resilient financial performance

Despite the challenging operating environment, the Group's financial performance remained strong. The Group's total assets increased by 4.0% to BHD 4,535.6 million (USD 12,030.8 million) compared to BHD 4,361.4 million (USD 11,568.7 million) recorded on 31 December 2020. The increase was attributable to the continued strong demand for NBB loan products.

NBB's consolidated net profit increased by 8.5% from BHD 50.7 million (USD 134.5 million) in 2020 to BHD 55.0 million (USD 145.9 million) in 2021. The increase was recorded despite the drop in the Group's non-core other income and the precautionary contingent provisions taken in 2021, highlighting the resilience of NBB's core activities in the form of net interest income and fees and commissions.

The Chairman's Perspective continued

Recommended appropriations

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

	BHD million
Cash dividend (20%)	37.5
Bonus shares (10%)	18.7
Donations and contributions	2.7
Transfer to statutory reserve	9.4

A robust foundation of good corporate governance and ESG

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 policies.

Good governance demands proactive understanding of environmental, social and governance (ESG) risks and opportunities that can materially impact the Group's performance. The Board is committed to ensuring that oversight of ESG and sustainability is embedded in the Group's governance model. We have, this year, expanded the remit of the Board Nomination, Remuneration, Governance and Sustainability committee to take on sustainability matters, and to challenge the Group on its performance. We have continued to develop the Board's expertise through a wide-range of continuous professional development programmes.

Our robust financial performance has been built on maintaining close relationships with our customers, in line with our brand promise of 'Closer to you'. We have developed and launched new products for our retail customers, supported companies in need of low-cost liquidity during the pandemic, and have helped companies in financial distress to recover and prosper. We have done so while protecting shareholder value by retaining a close eye on costs, and continuing to drive operational efficiencies by streamlining our internal practices, including the digitalisation of numerous processes and procedures.

Strong corporate governance and responsible banking also provide a firm foundation for addressing broader business and societal needs. We have progressed actions that stem from the pillars of our sustainability framework, which aligns our non-financial priorities with the long-term goals of Bahrain, as well as wider international frameworks such as the UN Sustainable Development Goals. We continue to systematise our approach to managing our own environmental impacts, and we continue to allocate 5% of our annual net profits to donations and charitable causes, which we have done since the early 1980s.

Board of Directors and executive management remuneration

As part of NBB's obligations and ongoing efforts for increased transparency, the following tables provide remuneration disclosures in relation to the Directors and selective executive management for the year ended 31 December 2021.

Board of Directors remuneration (reported in Bahraini Dinars)

	Fixed remunerations					Variable remunerations							
Name	Remunerations of chairman and BOD[1]	Total allowance for attending Board and committee meetings	Salaries	Others[6]	Total	Remunerations of chairman and BOD	Bonus	Incentive plans	Others[7]	Total	**End-of-service award**	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
First: Independent Directors:													
1- Mr. Khalid Yousif Abdulrahman[2]	31,667	2,500	-	-	34,167	-	-	-	-	-	-	34,167	-
2- Mr. Rishi Kapoor	40,000	4,500	-	-	44,500	-	-	-	-	-	-	44,500	-
3- Mr. Yusuf Abdulla Yusuf Akbar Alireza	40,000	7,000	-	-	47,000	-	-	-	-	-	-	47,000	-
4- Ms. Hala Ali Hussain Yateem	40,000	4,500	-	-	44,500	-	-	-	-	-	-	44,500	-
5- Mr. Zaid Khalid Abdulrahman[3]	8,333	500	-	-	8,833	-	-	-	-	-	-	8,833	-
Second: Non-Executive Directors:													
1- Mr. Farouk Yousuf Khalil Almoayyed	60,000	4,000	-	-	64,000	-	-	-	-	-	-	64,000	-
2- Dr. Esam Abdulla Yousif Fakhro[4]	40,000	7,500	-	-	47,500	-	-	-	-	-	-	47,500	-
3- Mr. Fawzi Ahmed Ali Kanoo	40,000	3,500	-	-	43,500	-	-	-	-	-	-	43,500	-
4- Mr. Hussain Sultan Sultan Al Ghanem[2 4]	31,667	2,000	-	-	33,667	-	-	-	-	-	-	33,667	-

The Chairman's Perspective continued

Board of Directors remuneration (continued)

Name	Fixed remunerations					Variable remunerations							
	Remunerations of the chairman and BOD[1]	Total allowance for attending Board and committee meetings	Salaries	Others[6]	Total	Remunerations of chairman and BOD	Bonus	Incentive plans	Others[7]	Total	**End-of-service award**	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
5- Sh. Rashid Bin Salman Mohamed Al Khalifa[5]	40,000	7,000	-	-	47,000	-	-	-	-	-	-	47,000	-
6- Mr. Mohamed Tareq Mohamed Sadeq Akbar[4]	40,000	6,000	-	-	46,000	-	-	-	-	-	-	46,000	-
7- Mr. Amin Ahmed Alarrayed[4]	40,000	5,000	-	-	45,000	-	-	-	-	-	-	45,000	-
8- Mr. Vincent Van Den Boogert[3 4]	8,333	2,000	-	-	10,333	-	-	-	-	-	-	10,333	-
Third: Executive Directors:													
- Not applicable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	460,000	56,000	-	-	516,000	-	-	-	-	-	-	516,000	-

Note: All amounts are stated in Bahraini Dinars
[1] Subject to AGM and regulatory approval [2] Board directorship ended on 13 October 2021 [3] Board directorship commenced on 13 October 2021
[4] Remuneration is paid to Bahrain Mumtalakat Holding Company B.S.C. (c), represented by the above-mentioned Board members
[5] Remuneration is paid to Social Insurance Organisation, represented by the above-mentioned Board member
Other remunerations:
[6] Includes in-kind benefits - remuneration for technical, administrative and advisory works (if any)
[7] Includes the board member's share of the profits - granted shares (if any)

Executive management remuneration

Executive management	**Total paid salaries and allowances**	**Total paid remuneration (Bonus)**	**Any other cash/ in kind remuneration for 2021**	**Aggregate amount**
Top 6 remunerations for executives, including the Chief Executive Officer[1] and Chief Financial Officer[2]	1,724,643	817,500	-	2,542,143

Note: All amounts are stated in Bahraini Dinars
[1] The highest authority in the executive management of the Bank
[2] The Bank's highest financial officer

Acknowledgements

On behalf of the shareholders, the Board of Directors extend their gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister of Bahrain.

We acknowledge the excellent and ongoing support and guidance extended to NBB by the Ministry of Finance and National Economy, and by the Central Bank of Bahrain. The Directors also thank our loyal customers and business partners and our shareholders for their ongoing trust and faith in NBB.

Finally, I am extremely grateful to all the staff and executive management at NBB Group for the dedication and hard work they have shown throughout this year. The integration of our colleagues from Bahrain Islamic Bank continues apace, through shared services, combined processes and procedures, and most importantly through shared learning and experience, and by working together as one team. Our organisations, together, represent a formidable team and the continued synergies that will be delivered from ever-closer integration give me great hope for our continued and growing success.

Farouk Yousuf Khalil Almoayyed
Chairman

22 February 2022

Executive Management

1. **Jean-Christophe Durand**
   Chief Executive Officer
2. **Abdul Aziz Al Ahmed**
   Chief Executive – Strategic Accounts
3. **Yaser Alsharifi**
   Group Chief Strategy Officer
4. **Hisham Al Kurdi**
   Group Chief Executive - Corporate & Institutional Investment Banking
5. **Bruce Wade**
   Group Chief Executive - Financial Restructuring
6. **Dana Buheji**
   Group Chief Human Resources & Sustainability Officer
7. **Hisham Abu Alfateh**
   Head of Corporate Communications

8. Fadhel Abbas Ahmed
Group Chief Internal Auditor

9. Subah Al Zayani
Chief Executive- Retail Banking

10. Gaby El Hakim
Group Chief Legal Officer and Corporate Secretary

11. Rana Qambar
Group Chief Compliance Officer

12. Iain Blacklaw
Group Chief Operating Officer

13. Russell Bennett
Group Chief Financial Officer

14. Isa Maseeh
Group Chief Risk Officer

Executive Management Profiles

1. Jean-Christophe Durand
Chief Executive Officer

- Date joining the NBB team: 2016.

Key responsibilities: Under the supervision of NBB's Board of Directors, Mr. Durand oversees NBB's overall operations, provides strategic leadership, ensures effective financial management and is focused on reinforcing and expanding the bank's role as a driver for economic growth and development.

Career summary: Mr. Durand has over 39 years of experience, both regionally and internationally, working for leading global banking institutions and has spent over 32 years working throughout the GCC. Before joining NBB, he was the regional CEO of BNP Paribas for Middle East and Africa. He graduated from the École Supérieure des Sciences Economiques et Commerciales Business School in Paris. Mr. Durand was awarded the 'Legion d' Honneur' by the Government of France in 2016.

Other engagements: Mr. Durand holds several Board positions locally and regionally, including sitting on the boards of Gulf Air, Bahrain Telecommunications Company (Batelco) and Bahrain Islamic Bank. He is the Chairman of Umniah Telecommunication Company in Jordan. He serves as the Chairman of Batelco's Audit Committee, Chairman of BisB's Executive Committee and is a member of the Human Resources Committee at Gulf Air.

Community investment(s): Mr. Durand is the Chairman of the French Chamber of Commerce and Industry in Bahrain (FCCIB) and is a Director for the Bahrain Institute of Banking and Finance.

2. Abdul Aziz Al Ahmed
Chief Executive – Strategic Accounts

- Date joining the NBB team: 1974.

Key responsibilities: Mr. Al Ahmed oversees the management of NBB's strategic accounts and relationships with a client base that includes key personalities among the Kingdom's ultimate decision makers, top businessmen, ultra-high net worth individuals and strategic Government entities. His mandate encompasses nurturing these key relationships to ensure that they continue to receive bespoke relationship management and world-class service delivery and continue to patronise the bank's services. As a seasoned banker with rich experience of over four decades across several functional areas of the bank, Mr. Al Ahmed brings to the role his vast experience and adds tremendously to the depth of the bank's management, as a key member of the bank's management team.

Career summary: He has over 45 years of experience working with NBB. Prior to his current position, he held senior leadership roles across NBB including Chief Executive of Retail, Commercial and SMEs and Corporate Businesses and General Manager of Retail Banking, Commercial Banking and Corporate Banking segments. He holds an Executive Diploma from University of Virginia, USA.

Other engagements: Mr. Al Ahmed is a member of the Board of Directors for Bahrain Commercial Facilities Co. (BCFC), Chairman of the Remunerations Committee and Member of the Executive Committee at BCFC. He is the Vice Chairman for National Motor Company (NMC), Tas'heelat Automotive Co S.P.C., Tas'heelat Car Leasing Co W.L.L. Mr. Al Ahmed is also a Member of the Board of Directors of Infonas W.L.L.

Community investment(s): Mr. Al Ahmed is a Board Member of the Trustees of Primary Healthcare of Supreme Council of Health

3. Yaser Alsharifi
Group Chief Strategy Officer

- Date joining the NBB team: 2017

Key responsibilities: Mr. Alsharifi leads NBB's strategy, transformation and innovation efforts by heading the project management office and business development arm, as well as the Bank's operations in Saudi Arabia and the United Arab Emirates.

Career summary: He has over 25 years of experience in investment management and corporate finance across the G.C.C., Europe and the U.S. Prior to joining NBB, he held senior roles in Al Rajhi Holdings W.L.L. and was prior to that a Partner at Ernst & Young. He holds a Bachelors degree in Business Administration from the University of Massachusetts at Amherst, USA.

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

Community investment(s): Mr. Alsharifi is a member of (YPO).

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

- Date joining the NBB team: 2018.

Key responsibilities: Mr. Al Kurdi oversees NBB's Corporate and Institutional Investment Banking activities, as well as managing Treasury and Capital Market activities. He is also involved in defining and implementing business strategies to ensure revenue and profitability targets are met.

Career summary: He has over 22 years of local and international experience working in global markets and institutional coverage. Prior to joining NBB, he was the Head of Global Markets for the MEA region at BNP Paribas, a Member of the CIB Regional Board and Executive Committee and worked at the Bank of Bahrain and Kuwait. He holds a Bachelor's degree in Engineering in Systems Control from the University of Huddersfield, in the UK.

Other engagements: Mr. Al Kurdi serves as a Deputy Chairman of Sico's Board of Directors.

Community investment(s): Mr. Al Kurdi is also a Board member in The Conventional and Islamic Banks Fund Board and a BAB Treasurer Committee Member.

5. Bruce Wade
Group Chief Executive – Financial Restructuring

- Date joining the NBB team: 2014.

Key responsibilities: Mr. Wade established the Financial Restructuring division in NBB in 2019 to support local and regional markets by acting as an independent advisor to companies facing challenges. His role includes serving as Chair on coordinating credit committees as well as providing advisory services to organisations in need of financial restructuring.

Career summary: Mr. Wade brings over 36 years of banking experience with regional and international banks such as Saudi Hollandi Bank, Riyad Bank, Citibank and Bank of Tokyo Group. He holds an MBA and a Bachelor of Applied Science from Queensland University of Technology, Australia, holds a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. He is also a Senior Certified Treasury Professional.

Other engagements: He is a Director of RE Property WLL. representing NBB.

Community investment(s): Mr. Wade is a Fellow at the Australian Institute of Company Directors and the Financial Services Institute of Australasia, respectively. He is also a Member of the Finance and Treasury Association Limited, a skill-based association of treasury and financial risk management professionals.

6. Dana Buheji
Group Chief Human Resources Officer and Sustainability Officer

- Date joining the NBB team: 2017

Key responsibilities: Ms. Buheji oversees the integration and provision of human resources and talent management services to both NBB and BisB. Responsibilities include Professionalising NBB's people services, empowering NBB employees to reach their full potential, creating practices that support the transformation of the Group, and representing NBB at the Board level for the Bahrain Islamic Bank. In addition, Ms. Buheji Chairs NBB's Sustainability Committee, leading on NBB's efforts towards incorporating sustainability considerations across the organisation.

Career summary: Prior to joining NBB, she held roles with the Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, the Ministry of Finance and National Economy and Ahli United Bank. She holds a B.A. in Commerce from Concordia University, Canada and a professional certification in human resources (CPP) from London, UK.

Other engagements: She is representing NBB at the Board level for the Bahrain Islamic Bank.

Community investment(s): Ms. Buheji serves as a Board Member for Injaz Bahrain and is the Chair of the Human Resources and Remuneration Committee and a member of the Sustainability Committee of the Bahrain Association of Banks (BAB).

7. Hisham Abu Alfateh
Head of Corporate Communications

- Date joining the NBB team: 2017.

Key responsibilities: Mr. Abu Alfateh overseas the development and execution of innovative communications campaigns, shaping strong positioning for NBB, and fostering strong relationships among key stakeholders. Responsibilities include corporate communications (external and internal communications), brand guardianship and social media content development and management, and management of media relations, sponsorships and events.

Executive Management Profiles continued

Career summary: Prior to joining NBB, he held roles with Peacock Concierge Group – Bahrain, Kuwait & KSA, Bahrain Institute of Banking & Finance (BIBF), ZAIN Bahrain, Venture Capital Bank, Gulf Air – Bahrain and London, Promoseven Group, Bank of Bahrain & Kuwait and Ahli United Bank. He holds a Masters in Business Administration (MBA) from University of Sunderland, United Kingdom and a Diploma in Airline Studies from International Air & Travel Association (IATA), Singapore.

Other engagements: He is also a professional Presenter and Moderator on Bahrain Television & Radio Corporation.

Community investment(s): Mr. Abu Alfateh serves as Chairman of the Public Relations Committee at the Bahrain Association of Banks (BAB).

8. Fadhel Abbas Ahmed
Group Chief Internal Auditor

- Date Joining the NBB team: 2000.

Key responsibilities: Mr. Abbas is responsible for establishing the Internal Audit vision and plan that support the accomplishment of the Group's strategic objectives and helps to ensure that established financial, operational and compliance practices, and the related controls, are designed and operating effectively. He oversees the Group's compliance with applicable regulations and that all audit work conforms to the "Standards for the Professional Practice of Internal Auditing." To maintain Internal Audit function independency from the Group's management, Mr. Abbas reports functionally to the Board Audit Committee and Administratively to the Group CEO.

Career summary: Mr. Abbas has more than two decades of auditing and banking experience in NBB. Prior to joining NBB, he held roles with Ernst and Young (EY) - Bahrain, a leading multinational firm. During his time with EY, Mr. Abbas was responsible for the audit of a number of clients from different sectors.

Mr. Abbas holds an MBA from DePaul University, USA. He is a Chartered Certified Accountant (ACCA-UK) and a Certified Internal Auditor (CIA).

Other engagements: Mr. Abbas serves as NBB's Audit Committee Secretary and attends as an observer in BisB's Audit Committee meetings.

9. Subah Al Zayani
Chief Executive- Retail Banking

- Date joining the NBB team: 2019.

Key responsibilities: Mr. Al Zayani leads NBB's efforts to innovate its retail and digital propositions with the aim to increase the Bank's market share via enhanced financial products and services, which work to further elevate the customer journey across NBB's digital platforms, branches and ATM network. He has joined NBB first as the Head of Retail Banking.

Career summary: He has over 14 years of experience in the banking industry. Prior to joining NBB, he was the Deputy Head of Retail Banking at Kuwait Finance House – Bahrain and has held senior positions at some of Bahrain's largest local and regional banks. He holds a B.S. in Business Administration from the Citadel, USA, an M.S. in Computer Information Systems from the American University in Washington D.C., USA, and an Executive Fintech accreditation from Georgetown University, USA.

Community investment(s): Mr. Al Zayani is a member of the Bahrain Fintech Bay Advisory Board and a member of BAB Retail & Investment Committee.

10. Gaby El Hakim
Group Chief Legal Officer and Corporate Secretary

- Date joining the NBB team: 2017.

Key responsibilities: Mr. El Hakim oversees all NBB legal matters and advises NBB's Board and management with respect to all legal aspects of the business. He was appointed the Group Chief Legal Officer and Corporate Secretary in 2020.

Career summary: He has over 20 years of experience in practicing law across a range of areas relevant to NBB such as investment banking and Islamic finance. Before joining NBB, Mr. El Hakim worked with GFH Financial Group and BNP Paribas. 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.

Other engagements: He serves as a Board Member of Esterad Investment Company B.S.C.

Community investment(s): Mr. El Hakim serves as a Board Member of ICC Bahrain. He is a member of the Lawyer's Committee of ICC Bahrain, Chamber of Industry and Commerce and the ICC Paris Commission on Arbitration and ADR. He is a regular contributor to articles in newspapers and law journals. His achievements include receiving the 'MEA General Counsel Power List 2016' award from the Legal 500.

11 Rana Qambar
Group Chief Compliance Officer

- Date joining the NBB team: 2021.

Key responsibilities: Ms. Qambar oversees all compliance activities and ensures NBB Group effectively and efficiently complies with all applicable laws, regulatory requirements, policies and procedures.

Career summary: She has over 19 years of experience in the banking and regulatory industry, which includes banking supervision and licensing. Prior to joining NBB, she was the Director of Licensing and Head of Retail Banking Supervision at the Central Bank of Bahrain (CBB). She holds a Master's Degree in Accounting and a Bachelor in Accounting from University of Bahrain.

12. Iain Blacklaw
Group Chief Operating Officer

- Date joining the NBB team: 2017.

Key responsibilities: Mr. Blacklaw aims to strengthen NBB's competitive advantage by identifying greater efficiencies by deploying optimised and modernised solutions and adopting leading-edge technologies. He was appointed as Group Chief Operating Officer in 2020.

Career summary: Mr. Blacklaw has more than 30 years' experience as an international Banking and Finance Executive. He has built and run large-scale operations across various sectors, including banking, and holds a track record of implementing a range of major change initiatives. He holds an Honours Degree in Economics from Aberdeen University, in Scotland, and is a qualified Institute of Costs Management Accountant. He has also participated in prestigious executive management programmes.

13 Russell Bennett
Group Chief Financial Officer

- Date joining the NBB team: 2018.

Key responsibilities: Mr. Bennett joined NBB as the Chief Financial Officer and was appointed as the Group Chief in 2020, where he oversees all strategies, planning and management of NBB's financial-related activities. His responsibilities include introducing enhanced data analytics and ensuring the adoption of the latest technologies to provide business insight.

Career summary: He has over 20 years of varied banking and finance experience. Prior to joining NBB, he held senior roles in Gulf International Bank, the National Bank of Kuwait and Ernst & Young. He is a UK qualified Chartered Accountant and holds a BSc (Hons) in Mathematics and Economics from the University of Essex, in the UK.

Community investment(s): Mr. Bennett is a founding member of the Bahrain Chapter of the Middle East Investor Relations Association and a former vice chairman of the Bahrain Association of Banks' International Standards Committee. He is a member of the ICAEW data analytics community and has authored and published business intelligence and data analytics software, which is currently operational in various banks in UK, USA, Saudi Arabia, United Arab Emirates and Bahrain.

14. Isa Maseeh
Group Chief Risk Officer

- Date joining the NBB team: 2017.

Key responsibilities: Mr. Maseeh is responsible for leading the development and execution of the risk management framework in support of NBB's business strategy. This role extends across the organisational activities encompassing credit, market, liquidity, operational as well as information security risks.

Career summary: He has over 23 years of commercial and investment banking experience in the Kingdom of Bahrain covering Islamic and conventional institutions. Prior to joining NBB, Mr. Maseeh was the Group Chief Risk Officer of Al Salam Bank Bahrain. He 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).

Other engagements: Mr. Maseeh is a Board Member of Bahrain Islamic Bank and RE Property WLL. representing NBB.

The Chief Executive's Perspective

"We take great pride in understanding what our customers want, and staying as connected to them as we can."

Jean-Christophe Durand
Chief Executive Officer

The Chief Executive's Perspective continued

TOTAL OPERATING INCOME

BHD 150.9 million

Highlights the resilience of NBB's core activities.

The challenges of the operating environment have not stopped us from taking further strides towards the development of an integrated and responsible business Group, which delivers value for shareholders and for society at large.

We now have even greater capacity to invest, innovate, and to target our products and services across diverse markets. This year, we successfully developed and launched a new state-of-the-art mobile banking app for our retail customers and continued on our quest to make their banking transactions as simple, efficient, and user-friendly as possible. For our corporate customers, we continued to support important sectors of the Bahrain economy, have facilitated and financed significant projects and transactions, and have partnered with government bodies and officials in alignment with national priorities. We have continued to expand our horizons making progress on our plans to open new branches overseas. At the same time, we have demonstrated our support for the local Bahrain economy by continuing to work with local suppliers wherever possible, and to provide financial support to local companies in need, and to develop an entrepreneurial culture in the Kingdom through the support we give to small and medium-sized companies and start-up ventures.

Across all our processes, and as a common thread in our products and services, digital solutions play a vital role. We have been engaged in what we have called a 'digital transformation' for several years already, and we recognise that we need to be in a state of perpetual evolution.

The Chief Executive's Perspective continued

The efforts we have made this year and the successes we have enjoyed put us in a very good position to thrive in the year ahead and in the longer term.

The pace of technological change is rapid and customer preferences are ever-changing. A truly agile organisation is one that is able to adapt and develop its approaches quickly and efficiently, and in a way that delivers value for customers. We take great pride in understanding what our customers want, and staying as close to them as we can.

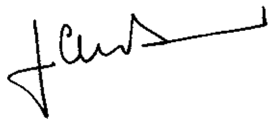
We have always recognised the importance of our own people, not only through the contribution they make to our performance, but also in shaping our culture, goals and aspirations. We are particularly proud to achieve Gold level accreditation from 'Investors in People' in 2021, becoming the first organisation in the region to do so.

We also know that many of our employees care deeply about environmental and social matters. Their commitment to these aspirations reflects our organisational commitment. We are increasing our focus on environmental protection, systematising the management of our own impacts, and creating organisational structures including a Sustainability Board Committee and strong leadership, to drive change that is equal to the challenge. We continue to embed environmental social and governance criteria in our lending and investment activities and are increasingly engaging directly with our corporate clients on their sustainability challenges.

We have worked hard to bring the teams from NBB and BisB together, on a journey of integration. We have successfully integrated several functions and are increasingly working in mixed teams, sharing different experiences and learning from the diversity this brings. Some leadership positions in the new organisation have been assumed by our colleagues from BisB. And while these organisational synergies are very important, they form just one part of creating a truly integrated organisation, in which people work together and are driven by a consistent set of values, behaviours, and aspirations. I want to thank everybody for the efforts they have made to unite their working practices, and to develop a new team spirit for our organisation.

The challenges posed by environmental and other issues, mean that we need to train and develop our people to give them the skills they need to understand and respond. Although the pandemic has continued to make it difficult for teams and individuals to share experiences face-to-face, or to undertake training together, we have continued to provide a wide range of online development courses that enable people to grow their skills, and advance their careers. We have taken on board interns, created a culture in which people feel they can readily progress within our organisation, and have supported the recruitment and retention of Bahraini nationals. And of course, we continued to care for everyone's physical and mental well-being during the challenging times of the pandemic by enabling flexible working hours, working from home options, providing webinars that supported physical and mental health, and implementing a range of precautionary measures to protect our workforce.

The year 2021 has been more challenging than many of us expected. However, we have learned from our experience and it has put us in an even stronger position to thrive as the economy recovers and as personal and professional lives assume a more familiar character in the times to come. The efforts we have made this year and the successes we have enjoyed put us in a very good position to resume a strong growth path and to thrive in the year ahead and in the longer term.



Jean-Christophe Durand
Chief Executive Officer

*NBB employees (from left): **Ameera Alrahma** from Retail Banking, **Saud Qanati** from Corporate, Institutional & Investment Banking and **Dana Alqasim** from Compliance*

External outlook

We have shown resilience while being prepared for medium and long-term challenges

We continue to operate, as we have throughout 2021, in very challenging economic conditions. The continuation of the COVID pandemic has had a major impact on economies worldwide. Businesses and banks have been facing many operational challenges over and above the need to ensure the health and well-being of their employees and customers. We have remained resilient and have responded well to the challenging market conditions.

We see these challenges continuing in the short term. While economies around the world are beginning to rebound from the pandemic, it is likely that economic recovery from COVID will be uneven and gradual, with regional disparities, the risk of rising inflation, and continuing supply chain challenges. This means we need to display continued vigilance for the health and well-being of our people and our customers and we need to be capable of flexibility in our response – through actions such as restructuring payment modules, introducing new services, providing additional advisory support, deferring loans and taking other measures that support our customers.

These immediate challenges are already having a bearing on the medium to long-term issues that we face. For example, the need for social distancing created by the pandemic has accelerated existing trends such as remote working and digitalisation. The transition to digital ways of working, in our own banking operations and in the development and delivery of services for our clients, is continuing at an ever-increasing pace. Digital ways of working offer significant scope for operational efficiencies and cost savings, through the automation of processes, the reduction of transaction documentation, and the delivery of innovative ways to provide services and products for our customers. The digital revolution is here to stay and will be a constant in the years ahead.

Digitalisation is just one way in which we can minimise the environmental impact of our activities, as well as those of our customers. The need to tackle climate change is both a long-term challenge and an immediate and pressing concern where action is needed now. The pressure on all players across society – individuals, companies, investors, governments, and civil society – to work together to minimise carbon emissions has never been so strong.

For NBB, this means continuing our efforts to systematise our environmental management and deliver improvements in our resource efficiency through reduced consumption, more efficient operations, and using technology where we can to minimise our footprint. In our relationships with clients, it is clear that supporting them, and challenging them, in their own ambitions for a net zero carbon future, will be a fundamental requirement that we must step up to meet.

Environmental stewardship represents just one dimension of the challenges we face in adopting sound environmental and social policies and practices, alongside robust governance. These ESG considerations are a further example of a long-term objective which is having a significant impact now. We will continue to develop the integration of ESG considerations within our business conduct and operations, which will include screening and engagement processes, and working constructively with our stakeholders, founded on rigorous systems of internal control. We will progress from the sustainability roadmap that we have already developed, building on its immediate plans to take a more systematic approach that makes sure the right behaviours are fully embedded in our organisation for the long-term to ensure continuous progression towards stakeholder inclusivity.

The rapid rate of change in our professional and personal lives will continue. For Bahrain, the pace of change highlights the value of having a clear vision for the future and taking a long-term approach. We will continue to support the government's framework and vision, in which further economic diversification is an important element.

Every one of these issues creates challenges for our people now and in the future. In the short term, this has highlighted the need for resilience, teamwork, and dedication in the face of difficult personal and professional working conditions. In the medium and long term, these trends create the need for people to develop new skills and knowledge, whether that be in technical areas such as digital tools and techniques, or better understanding environmental impacts and management, or in developing soft skills which emphasise the value of flexibility, diversity, and inclusion.

The Acquisition of BisB

NBB's decision to increase its controlling stake in BisB to 78.8% was the result of a strategic vision for the business to penetrate the Islamic banking market and consolidate the Group's position in retail banking where the Group has a 25% market share. The integration has enabled NBB to diversify its portfolio with a full spectrum of Sharia' compliant services that complement NBB's conventional product offerings, enabling the capture of wider local and regional opportunities and subsequent growth of market share.

The decision to invest further in BisB was the result of continuous screening of opportunities and the conclusion that BisB was the most suitable fit for the Group since it has played a pivotal role in the development of the Islamic banking sector in the Kingdom of Bahrain and has paved the way as the first Islamic bank in the country. Integrating the two operations has strengthened the Group's position in the industry, and in particular the Islamic segment, allowing for pooling of future investments required for the Group to adapt to the evolution of the banking landscape in terms of sustainability, technology, regulation, and product offering, among others.

The continued integration of the two organisations is serving to reinforce both brand positions by drawing on respective strengths and best practices to maximise potential and deliver operational excellence.

Both entities are benefiting from the delivery of synergies in business and investments; access to a shared talent pool of expertise, resources and technologies; improved efficiencies and optimised performance; and an expanded solutions portfolio, all of which serve to enhance profitability and shareholder returns as well as improve the customer experience. BisB's vision to be a leading Islamic financial institution has been strengthened with the widening of its business model and lines.

Having worked closely with our respective Boards of Directors, the Central Bank of Bahrain and the Sharia Supervisory Board of BisB, our strategic ambition is to create a powerful banking Group with strong appetite, resources, and capability to accelerate value creation and capitalise on future market opportunities. This falls in line with our commitment to further establish ourselves as value-adding partners to the Kingdom, contributing in a meaningful manner to its continued growth and prosperity as a leading responsible banking Group.

Sustainability is an institutional commitment and comprises an integral part of BisB's pursuit of both good corporate citizenship and the fundamentals of sound business practice. The bank shares the vision and aspirations of NBB, and promotes the principles of sustainability in all markets, as this shift will further maximise its positive impact in Bahrain.

BisB activities are underpinned by sound corporate governance and risk management, employee growth, and the use of state-of-the-art technology to provide excellent customer service. Innovation has always been at the core of BisB, both in its operations and its financial services. Digitalisation, for BisB and NBB, is a key driver of operational efficiency and service innovation.

As the COVID-19 pandemic affected all its stakeholders, BisB's priority was, and continues to be, safety and security. The ongoing focus on "Simplifying your money matters" and the digitalisation of banking services, suited that purpose; safety and economic security for the key stakeholders. The bank introduced more ways for individuals and companies to access banking services without having to leave their homes or interact unnecessarily with others. The bank also worked in a co-operative spirit with regulators, to reschedule or extend loan repayment terms for its customers in need.

The Bahraini value in BisB reflects BisB's desire to instil Bahraini insights, which have grown from its Islamic roots. It is how the bank transcends its local values in daily tasks at work and in its approach to business. BisB attaches great importance to female participation in the workforce and its commitment to female representation is in line with the Kingdom of Bahrain's strategy to empower women.

Aligned with NBB, BisB has continued to invest in the growth of the Bahrain fintech ecosystem and similar initiatives that promote innovation on a local level, further enabling the Kingdom of Bahrain's FinTech sector to thrive and cementing its position as a FinTech Hub in the region. Additionally, the bank has pursued synergies between Organisations through initiatives that allow future talents and leaders to benefit and develop a range of skills such as innovation, creativity, entrepreneurship and leadership.

BisB puts future generations at the forefront of its decisions, annualy reviewing new ways to ensure the bank acts in an environmentally responsible manner - through initiatives to increase recycling, decrease waste, reduce paper use, and minimise electricity and water consumption. In the year ahead, the bank will develop its framework for managing its environmental impacts to align targets, processes and monitoring activities with NBB Bank.

Information on the specific activities of BisB during 2021, can be found in its annual and sustainability report which sets out its financial performance, along with its social, socio-economic, environmental and governance performance.

Sustainability

Our roadmap to sustainability

At NBB, our responsibility extends beyond our core business towards achieving inclusivity of all stakeholders in a sustainable manner. Our goal is to emerge as a best-in-class bank committed to sustainable development through responsible initiatives. This defines the essence of our roadmap to sustainability.

NBB has cemented its Sustainability leadership position after being ranked first within Bahrain in the banking sector for the second year in a row. TeamNBB is very proud to retain this position as it reflects its conviction towards stakeholders, inclusivity, which stems from the commitment to maintain mutually beneficial engagements with our key stakeholders in ways that add value to them today without impacting the ability to cater to the stakeholders of the future.

While the Sustainability journey in NBB has commenced only a few years ago, giving back to the community has been entrenched within the essence of our business model. This was reflected in the creation of the Donations and Contributions Fund back in 1980s where proceeds are used to various beneficiaries falling within key pillars of the Bahraini community such as education, healthcare and Social welfare.

This ESG driven position has been granted to NBB after assessment of its non-financial performance across a wide range of material key ESG issues that are relevant in the current dynamics of the world we live in, key to our region and fundamental to the sector we operate in.

These key ESG issues round up to a total of 30 that cover governance, environment, customers, human capital, community, transparency and business practices.

Within those key issues, NBB's adherence to its sustainability commitments elevated the level of recognition obtained amongst key areas that pertain to our sector including but not limited to Data Privacy and Security, Responsible Relationships with Customers, Employee Training and Development.

Key highlights for NBB:

Ranked first
for the second year in a row in Bahrain's banking sector by ESG Invest

We received an advanced performance score in
11 metrics
and a good performance score in
14 metrics

Our scores have improved by
42%

We have been assessed on
30 ESG
issues

Sustainability continued

Our attention is focused onintegrating ESG within our core business. We are beginning to see evidence of performance improvements from the implementation of the roadmap, and to measure and report on 'total impact'

With this belief, it is our aim to shift markets towards sustainability and to maximise our impact in Bahrain and other markets in which we operate. NBB considers it essential to target its efforts and capabilities towards being the banking partner of choice in the high-growth, high-impact sectors which will shape the future economy and competitiveness of Bahrain.

A forward-looking partner

We set the foundation for the development of the local banking sector over six decades ago and have been guiding its progress ever since. For the future, we strive to be influencers on a broader plane, to be value-adding partners, contributing in a meaningful manner to Bahrain's continued growth and prosperity and addressing the wider challenges facing society worldwide.

To accomplish this, we have developed a three-year sustainability roadmap. Our journey started in 2020, in which NBB sent a clear message of embedding sustainability at the core of its business. We have set specific targets with key performance indicators (KPIs) to follow its course. The bank has addressed disclosure gaps and presents all ongoing actions in a systematic way. Furthermore, we have put in place a management model, committees, a governance framework, and are refreshing policies to reflect the fundamentals of this sustainability shift. An ESG taskforce was created with a mandate to facilitate this journey.

In line with the second year of our sustainability roadmap, we have begun to build further on our key strengths of providing sustainability-oriented offerings, be it products, services or experiences. Our attention is focused on integrating ESG within our core business. We are beginning to see evidence of performance improvements from the implementation of the roadmap, and to measure and report on 'total impact'. This report, our second consolidated annual financial and sustainability report, focuses more on the impacts of our activities and the outcomes we aim to deliver.

In the third year, we aim to benefit from recognised ESG leadership, linked with growth, with the aim to achieve or strengthen our dominant market position, to become the partner of choice, in high growth, high sustainability impact sectors. With those in place, NBB would be a genuinely purpose and impact driven organisation.

The importance given to sustainability is reflected in the fact that the bank's environmental social and governance-related policies are considered by a main Board Committee – the Nomination, Remuneration, Governance and Sustainability Committee. In addition, a sustainability committee has been established, which is chaired by the Group Chief Human Resources and Sustainability Officer. Its purpose, as defined in its charter, is to recommend the sustainability strategy, guide its implementation, and monitor how the sustainability framework is being implemented across the organisation.

Sustainability continued

Our sustainability framework

Our Sustainability Framework has seven pillars: Economic Growth, Serving our Customers, Responsible Banking, Nurturing our Workforce, Community Investment, Preserving Natural Resources, and Governance and Ethical Behaviour.

Sustainability continued

We are aware of the desire from many stakeholders for coherent and consolidated performance information which links sustainability concerns with traditional core business activities. The bank is regularly assessed and continuously upgrades its sustainability approach in accordance with international standards and best practice.

The objectives for each pillar are:

Economic growth	• Capture net impact i.e., the overall contribution of NBB to society and Bahrain Vision 2030. • Gain strategic advantage, preference, and recognition as the impact-maximising banking partner of choice. • Drive growth, via focus on increasing financing and investments in high growth and high positive impact sectors. • Achieve solid financial performance, on an ongoing basis.
Serving our customers	• Offer best sustainability-oriented products and services. • Bring out sustainability and focus on impact in customer messaging. • Be transparent and fair in all aspects of customer relations. • Ensure the safeguarding of customer data and privacy. • Contribute to the wellbeing of customers.
Responsible banking	• Improve performance and help drive a shift in markets towards sustainable finance by: o Enhancing ESG criteria in lending and investment activities, and o Offering sustainability-oriented products and services. • Raise financial literacy and accessibility and practice responsible lending. • Expand SME clientele in line with Bahrain Vision 2030 ambitions.
Nurturing our workforce	Empower employees, reinforce development, effectiveness and satisfaction by: • Integrating sustainability-related values into policies, procedures, training, products and services. • Empowerment of Bahraini and female employees. • Linking rewards and promotions to sustainability performance. • Contributing to the wellbeing of employees.
Community investment	• Enhance the effectiveness of our community investment, through leveraging NBBs' full resources and capabilities
Preserving natural resources	• Significantly improve our environmental performance, including taking action to mitigate climate change and minimise our environmental impact.
Governance and ethical behaviour	• Achieve leading practice in good governance and integrity. • Embed a sustainability focus directly into the core of our business, reinforced by world-class governance of sustainability.

Since last year, the bank has reported important non-financial information about its operations, promoting transparency and providing comprehensive coverage of significant sustainability topics. We are aware of the desire from many stakeholders for coherent and consolidated performance information which links sustainability concerns with traditional core business activities. The bank is regularly assessed and continuously upgrades its sustainability approach in accordance with international standards and best practice.

This report highlights our direction of embedding sustainability in the core of our business, where we seek to take into account fundamental reporting principles, including accuracy, completeness, and balance.

In developing our sustainability framework, we have taken account of other relevant principles, goals and blueprints for action, including the Bahrain Vision 2030. An important international framework is provided by the United Nations Sustainable Development Goals (UNSDG), which represent an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve natural resources.

Sustainability continued

We, like other business organisations, can play an important role in delivering the SDGs, alongside other key stakeholders such as national and regional governments and civil society organisations. The actions we take do have an impact on the goals, as set out below.

SDG 17
- An integral part of Team Bahrain
- Supporter of the Bahrain 2030 Vision
- Support for government initiates to respond to the pandemic
- Key partner in launching and administering the Liquidity Support Fund
- Regular donation of 5% of net profits to local communities

SDG 9
- A leader in digital banking
- Innovative new products for customers, to make their lives simpler
- Ongoing internal process simplification, through digital transformation
- New approaches to retail banking
- A new state of the art mobile app, with no friction and much simpler user experience
- Providing more payment channels for our customers through launching Apple pay

SDG 13, 12, 11
- A well-defined sustainability roadmap
- Development of an ISO certified Environmental Management System to manage our direct impacts
- Project screening for environmental impacts is growing in maturity
- Sustainability questionnaire with our SME clients
- Resource efficiency initiatives, on energy and water use, in our property portfolio
- Introduction of solar panels at our branches, with plans tor further action
- Solar Finance initiative, to support uptake of solar energy in the market
- Auto finance scheme to support take up of electric vehicles
- Increasing monitoring/recording and reporting of emissions and water consumptions in all branches

SDG 8
- Supporting the Bahrain economy through our core products and services
- Providing start up finance for small and medium sized enterprises through Tamweel Al Watani loan
- Bespoke services for strategic clients, including government and high net worth individuals
- Advisory and financial restructuring services for companies in distress

SDG 3
- Support for the American Mission Hospital with construction and solar panel finance
- Paid leave for staff to receive vaccination

SDG 4
- Providing internship opportunities for young Bahrainis
- Supporting the Injaz Bahrain initiative
- Sponsorship of Bahrain University students at Solar Decathlon competition
- Provide a mentorship programme for the employees
- Engaging with the Bahraini youth in the NBB Digital Challenge in partnership with Bahrain Fintech Bay to compete for the best innovative idea

SDG 5, 10
- 2021 Investors in People accreditation
- Providing an equal opportunity work environment
- Taking action to support women in the workplace
- Developing an inclusive working environment.
- Offering opportunities for personal development and training
- Extensive learning and development offer
- Providing ATMs for workers at labour camps
- Offering Mortgage financing with Mazaya Loan scheme
- Women in Technology mentorship

SDG 15
- Initiatives to plant trees and beach clean up in partnership with Clean Up Bahrain
- Financing for a food sustainability project to support agriculture (a hydroponic farm project.)

Engaging our stakeholders

We engage with a wide range of stakeholders to better understand their needs and to meet their expectations. We recognise that the achievement of our sustainability goals depends on effective partnerships with various organizations in Bahrain and beyond.

Listening to our stakeholders is also essential in identifying the most material topics for reporting. These topics are used to design and activate mechanisms to continuously improve operations.

Lasting relationships

We pursue lasting partnerships founded on transparency, trust, and a commitment to a common goal.

Setting the standard

NBB has been a trusted voice in industry dynamics and a vital thought leadership source to elevate the local industry standards.

Sustainability continued

Our stakeholder	Main Interest	Key concerns	Our approach
Customers	NBB's relationship with its customers directly affects, and is a measure of its continued success.	We seek to connect with our customers, to understand them and help give them what they need, when they need it, in a way that works for them. We are committed to understanding our customers, delivering what matters most to them through every stage of their financial journey, and offer them convenient access to innovative and competitive financial products and services. We do this while maintaining the confidentiality of our customers' information, with comprehensive tools and systems to protect data privacy.	We ensure that we remain connected with our stakeholders and we engage with them through a range of channels such as social media, including Twitter, Instagram and Facebook. We provide our employees with numerous opportunities to engage in developmental training initiatives and opportunities to diversify their careers through internal mobility. This has a positive impact on their levels of engagement and contribution to the organisation. Given our strong social media presence, we understand our stakeholders' needs and we are committed to continue providing transparent information in a timely manner. All our contacts are underpinned by robust privacy and information security and we ensure that our customers are provided with the necessary tools to contact the bank and to raise any concern through our customer complaint form.
Employees	Having highly engaged and motivated employees is vital to our success. Our people must be given the opportunity to fulfil their potential and to evolve with the changing face of the industry to be able to maintain our leading position in the market and remain a significant regional player.	We strive to create a working environment featuring diversity and inclusion, which enables us to attract the best people and retain them throughout their careers. Training forms a significant element of our human resources and talent development. We take steps to protect and enhance workforce wellbeing, and to safeguard everyone's health and safety. We maintain an open culture in the bank by encouraging staff to report instances of unethical behaviour or any violation of our policies through our whistleblowing mechanism.	
Shareholders and Investors	NBB's long-term growth depends on its ability to attract investment and to capture opportunities.	We aim to ensure that clear, transparent and reliable information is communicated to our current and potential investors. We maintain open and transparent key communication channels through our Investor Relations Department, our website, our Annual Financial and Sustainability Report and our Annual General Meetings. We also provide financial and sustainability results quarterly.	
Government and Regulators	A robust compliance culture is central to NBB's strategy.	The bank has been focused on developing a sound framework which oversees compliance with the codes, rules, regulations and standards of the Kingdom of Bahrain, as well as those in other locations where it has operations. Our compliance department as well as our risk committee are responsible for ensuring strict adherence to all policies, regulations and government requirements.	
Communities	Supporting the welfare of families in the communities where we operate is of utmost importance to us.	We believe that sustainability goes further than simply serving our customers' banking needs. We ensure that our impact on the community remains positive by making financial donations and contributions and collaborating with philanthropic organisations. We participate in awareness campaigns and other social initiatives, including employee volunteering.	
Suppliers	We work in partnership with suppliers to act in a responsible manner.	We seek to maintain good relationships with vendors and suppliers while maintaining a streamlined value chain. We are committed to ethical, fair and transparent dealings with our suppliers. Our procurement department is responsible for supplier selection, tracking and communication though our supplier portal.	

The social media channels we use are:
LinkedIn: https://www.linkedin.com/company/nationalbankofbahrain/
NBB: Instagram, Facebook, Twitter @NBBonline
YouTube: https: //www.Youtube.com/user/nationalbankofbahrain
Customer complaint form: (https://nbbonline.com/sites/default/files/inline-files/Complaints-english.pdf)

Sustainability continued

Reporting what matters: our material topics

We recognise the need to report on the issues that are most important to our stakeholders and which have the most significant impact on our business performance.

In developing this report, we have focused on the most material topics as identified in our materiality survey - defining issues that reflect our economic, environmental and social impact or any matters that significantly influence the assessments and decisions of stakeholders. We have considered these in the light of our sustainability goals.

In determining material issues, we have taken account of customer, employee, shareholder and other stakeholder priorities, the Bahrain vision 2030, the UN SDGs, the ESG analyst priorities, the GRI, and the impacts that have the greatest financial implications for shareholders and effect on society. The analysis identified 14 topics:

Compliance and ethical behaviour
Regulatory requirements, as defined by national and international legislation, as well as customer demands, make it essential for us to establish and apply robust compliance procedures.

Data privacy and security
Protecting customer and stakeholder data is a fundamental requirement, particularly with the growth of digital banking, requiring robust security procedures and systems.

Governance, transparency and innovation
Operating in accordance with national and international regulations, policies, standards and codes of conduct underpins our license to operate and ensures that we can be transparent in our communications with all stakeholders.

Financial and economic performance
Strong financial and economic performance is required for us to deliver economic value, pursue new business opportunities, manage financial risk, and support the wider growth of our country's economy.

Responsible customer relationships
Levels of customer satisfaction with our products and services is very important to us, requiring detailed understanding of their needs, and behaving responsibly in our interaction with all customers – through the delivery of our products and services, our call centers, how we manage complaints, and how we respond to new customer demands.

Talent attraction, engagement and retention
Retaining and developing our people is a key component of our success, driving the need for the continuous growth of our employees' skills, knowledge, and experience. We fully recognise the need to engage with our workforce and to foster an inclusive and positive working culture where people have every opportunity to thrive. By doing so, we create an organisational culture which is attractive to potential recruits.

Financial Inclusion
One of the guiding principles of Bahrain's financial vision for 2030 is fairness. We aim to align with that by making financial services accessible and affordable to all people, regardless of their background, in the most sustainable way possible.

Responsible Finance
Responsible finance involves the development and offer of products and services in a way that takes account of environmental and social needs, through prudent product development. It also requires effective screening of investments, adopting processes that take account of environmental, social and governance (ESG) factors and being mindful of the needs of all types of customer.

Diversity, Inclusion and equal opportunity
We encourage a diverse workforce which mirrors the make-up of our society. We believe that, over and above legal requirements, diversity provides for better business decision making. An inclusive work environment results in a more productive working environment and by offering equal opportunities to our employees, we can help to build a sense of belonging.

Digital transformation
Digitalisation, through our state-of-the-art digital services and portals, has become a way of life for us and our customers. Digital innovation involves providing groundbreaking products and services for our clients and delivers significant process and resource efficiencies in our internal operations.

Direct environmental footprint
Minimizing the environmental impact of our own activities is a pre-requisite of responsible operations, required by national regulators, customers, partners, and civil society. International efforts and pressure to tackle climate change is a key strategic issue for every business, and drives our efforts to minimise our resource use and take a systematic approach to the management of all our environmental impacts.

We fully recognise the need to engage with our workforce and to foster an inclusive and positive working culture where people have every opportunity to thrive. By doing so, we create an organisational culture which is attractive to potential recruits.

Sustainability continued

Workforce wellbeing

Our employees are the lifeblood of our business, and they face diverse challenges in their professional and personal lives – particularly in the light of the coronavirus pandemic. We have always taken steps to ensure employee health and safety, and we are increasingly active in supporting their mental and physical wellbeing.

Community investment

We are proud of our heritage and commitment to Bahrain and recognise the need to support local communities and invest in their wellbeing. Our investment, programmes and initiatives aim to have a positive impact by providing financial support, addressing local needs, and diversifying the local economy.

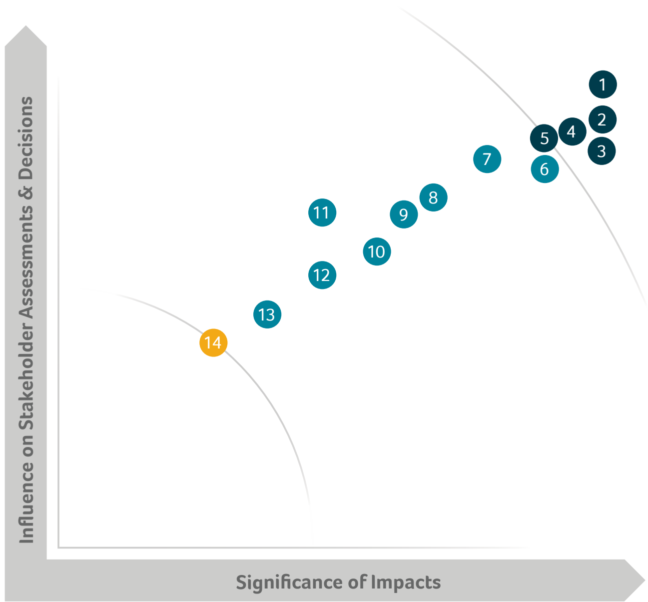
Responsible sourcing

We work in partnership with a range of suppliers and partners to produce products and services in a responsible manner, as well as enforcing our relationship and expectations from our suppliers through active engagement, assessments and implementing our code of conduct.

The material topics are listed and illustrated in the materiality matrix, which sets out our understanding of the influence of each topic on stakeholders' decisions and the impacts on NBB's business.

Materiality Matrix NBB

Least Material · Somewhat Material · Very Material



Material Topic

Very Material	1	Compliance and ethical behavior
	2	Data privacy and security
	3	Governance, transparency and accountability
	4	Financial and economic performance
	5	Responsible customer relationships
Somewhat Material	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
Least Material	14	Responsible sourcing

*NBB employees (from left): **Abdulla Naqi** from Risk Management, **Mohamed Alsadeq** from Retail Banking, **Mashael Buarki** from Seef Mall Branch **Nada Jaberi** from Retail Banking, **Mohamed Al Ali** from Commercial & SMEs and **Abdulla Al Khajah** from Information Technology.*

How we Create Value

Financial Review

NBB has reported a year-on-year increase in consolidated net profit of 8.5%, which translates to a 1.1% increase in profit attributable to the shareholders of the Bank. The results represent the second year following the acquisition of a majority share (78.8%) of Bahrain Islamic Bank (BisB), a strategic move that will result in synergies and a stronger positioning for both banks through enhanced revenue and shared costs over the coming year.

Overview

The outbreak of COVID-19 in 2020 continues to impact the Group, from stressed market conditions to relief measures put in place by the Central Bank of Bahrain. The Group's financial performance, however, demonstrated resilience despite the ongoing direct and indirect circumstances of the pandemic.

NBB has reported a year-on-year increase in consolidated net profit of 8.5%, which translates to a 1.1% increase in profit attributable to the shareholders of the Bank. The results represent the second year following the acquisition of a majority share (78.8%) of Bahrain Islamic Bank (BisB), a strategic move that will result in synergies and a stronger positioning for both banks through enhanced revenue and shared costs over the coming year.

The Group reported a net profit attributable to equity shareholders of BHD 53.9 million for the year ending 31 December 2021, compared to BHD 53.3 million in 2020. Despite an increased underlying business performance, the Group's profit growth was influenced by non-core business activities. These impacts related to lower recoveries of written-off assets and significant precautionary contingent provisions being taken by BisB during the year to ensure strong fundamentals as we enter 2022. Basic and diluted earnings per share during the year were maintained at 29 fils in line with 2020.

At the end of 2021, the Group's total assets were BHD 4,535.6 million, compared to BHD 4,361.4 million recorded on 31 December 2020; displaying an increase of 4.0%, attributed to the strong demand for NBB loan products during 2021, which increased by 10.2%. The Group maintains adequate liquid assets in the form of interbank placements, treasury bills and other readily marketable securities, to support its continued business and operations growth. Customer deposits stood at BHD 3,184.2 million which represent 70.2% of total liabilities and equity, while shareholders' funds represent 11.8% of total liabilities and equity.

Key performance indicators continue to remain strong in relation to our regional peers and international benchmarks, with a consolidated return on average equity at 10.5% and a return on average assets of 1.2% for the year.

Total comprehensive income attributable to NBB's equity shareholders for the year decreased by 10.0% to BHD 45.1 million compared with BHD 50.1 million in 2020. Other comprehensive income includes the mark-to-market movements during the year and as such includes temporary fair value fluctuations on the Bahrain Sovereign bond portfolios.

The Group presented a strong capital adequacy ratio of 22.1%, before the proposed appropriations. Liquidity continues to be comfortable with the Group being a net contributor of funds into the interbank markets throughout the year. The consolidated net stable funding ratio (NSFR) as at 31 December 2020 was 136%, while the average liquidity coverage ratio (LCR) for the fourth quarter of the year stood at 308%. The Group, therefore, continues to far exceed minimum required regulatory liquidity ratios of 80% (reduced from 100% by the Central Bank of Bahrain, due to the pandemic) and is also comfortably in compliance with the minimum required capital adequacy ratio ("CAR").

Net interest income

At the end of 2021, the net interest income of the Group was BHD 120.5 million compared to BHD 116.0 million for 2020, reflecting an increase of 3.9% attributed to the active and effective internal rate management and re-pricings. Accordingly, the net interest income as a percentage of earning assets (NIM), was recorded higher at 3.1% in 2021 compared to 3.0% in 2020.

Net fee and commission and other income

For 2021, the net fee and commission income was BHD 13.8 million compared to BHD 10.4 million recorded in the previous year. The increase of 32.7% was witnessed across all lines of business, and was reported despite the reduction in the consumer banking commission income attributable to a fee cap introduced by the regulator during 2020.

Other income was reported at BHD 16.6 million in 2021, segregated between core and non-core activities as presented in note 26 of the consolidated financial statements. Core activities predominantly relate to Treasury-related activities which saw an increase in revenue of 33.0% to BHD 12.9 million in 2021 from BHD 9.7 million in 2020. Other income from non-core activities recorded a contraction in 2021 due to lower level of recoveries from previously written-off assets.

The overall increase is in line with a business diversification strategy to enhance the contribution from non-interest related activities, which continues to represent a fifth of total income.

Operating expenses

Operating expenses at BHD 74.5 million represent an increase of 6.1% over the 2020 level, resulting mainly from our investment in upgrading the Group's infrastructure, including the branch locations and working environments, and the digital systems that are deployed both within the Group and for external use by our customers. An example of which is the award winning retail banking app that was deployed in 2021. Consequently, depreciation, amortisation and similar infrastructure improvement expenses increased by BHD 3.7 million to BHD 12.7 million, during 2021. The communication expenses increased by 25.7% in 2021 compared to 2020 as the Group lived by its brand promise "Closer to you" during the pandemic.

The Group's cost to income ratio stood at 49.0%, which is expected to decline further as cost synergies with BisB are realised. Details of staff and other operating expenses, with comparative figures for the previous year, are set out in notes 27 and 28 of the consolidated financial statements.

How we Create Value continued

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 in event of default, and rating migrations. Based on the ongoing assessment of the provision requirement on loans and advances, an amount of BHD 12.1 million was provided towards impairment during the year compared to BHD 27.3 million in 2020, inclusive of BHD 6.3 million of additional precautionary buffers for future credit losses relating to COVID-19, based on multiple stressed scenarios.

Additional provisions of BHD 10.1 million has been taken in 2021 in relation to specific contingencies and legal cases that are registered against the subsidiary, Bahrain Islamic Bank. The approach has been one of caution, to ensure adequate provisions are expensed by the subsidiary, irrespective of the future outcome of the legal cases and appeals that are ongoing.

Loans and advances are classified as part of the non-performing portfolio upon an impairment event. In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as such for a cooling-off period from the date of becoming performing. Despite this, the non-performing loan portfolio was reduced to BHD 99.6 million at the end of 2021 compared to BHD 116.0 million at the end of 2020. Details of the Group's non-performing loans, collateral details, provision coverage and movements therein during the year are detailed in note 8 of the consolidated financial statements. The Group's ratio of gross non-performing loans to total gross loans ("NPL ratio") was reduced to an historic low of 4.0% as at 31 December 2021 compared to 5.1% in 2020 and 7.6% in 2019.

Assets

At the end of 2021, the Group's total assets were BHD 4,535.6 million compared to BHD 4,361.4 million recorded on 31 December 2020, an increase of 4.0%, predominantly due to high demand for NBB loan products. The Group has a well-diversified asset profile with loans and advances representing 52.8% of total assets, whilst maintaining significant liquid reserves, made up of treasury bills, placements with banks and cash balances representing 14.2% of total assets. Investment securities of various maturities represent 27.7% of total assets. The loan portfolio is diversified with widespread participation in the domestic market and includes a constant broadening of business relationships in Bahrain and the wider region. At the year-end, the Group's investment portfolio consisted mainly of debt securities, a major part of which comprised of Government of Bahrain bonds and Islamic Sukuk. Notes 32 and 33 to the consolidated 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 3,184.2 million, compared to BHD 3,084.3 in 2020. The Group continues to be successful in generating core customer deposits. This has been further enhanced by the rollout of NBB's award winning retail banking app which compliments existing growth resulting from its "Closer to you" brand promise which entails rich product offerings, superior service and a dominant position in the domestic market. The Group 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 from banks and financial institutions stood at BHD 518.0 million as at 31 December 2021, compared to BHD 544.5 million at the 2020 year-end. Such interbank funding is considered supplementary funding, and the Group 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 79.6% at the year-end and representing the funding source for 87.1% of the combined loan and investment portfolios.

Capital strength

The Group's total equity attributable to owners increased by 1.6% to BHD 527.8 million compared with BHD 519.7 million recorded as at 31 December 2020. The increase was net of profits earned during 2021 reduced by the 2020 cash dividend payout and the temporary reduction in the mark-to-market on Bahrain Sovereign debt securities classified as fair value through other comprehensive income.

The Group's capital adequacy ratio as at 31 December 2021 was 22.1%, and the common equity tier 1 (CET 1) ratio was 21.0% before the proposed appropriations. The ratios have been calculated in accordance with the Basel III regulations and the Central Bank of Bahrain guidelines, incorporating credit, operational and market risks. The Group'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% set by the Central Bank of Bahrain. Additionally, according to the 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% of the total risk weighted assets, as calculated for the purposes of capital adequacy. The main factors that contribute to the Group'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 Group's profile includes significant exposures to low-risk asset classes such as sovereigns, public sector undertakings and prime banks and financial institutions. Note 46 to the consolidated financial statements and the risk and capital management disclosures provide further details on the Group's capital strengths.

How we Create Value continued

8 DECENT WORK AND ECONOMIC GROWTH

Financial sustainability & Economic Development

2030 أهداف التنمية المستدامة البحرين BAHRAIN SDGs

Economic growth and total impact

NBB is one of the key pillars of economic support in the Kingdom of Bahrain. This derives from the diverse services we provide to individuals, our support for corporate customers, and the active role we play in supporting initiatives and enterprises that have a social purpose and contribute to economic well-being.

Our strategy supports the growth of the economy across sectors and encourages dialogue between stakeholders to bridge the gap between the regional and international markets. Our results-oriented approach has accelerated our business, modernised our infrastructure and built best-in-class capabilities, with new clients, new products and increased market share.

As detailed in the financial statements within this report, our financial position has remained strong and resilient to the unprecedented challenges we have faced.

In support of economic and capital market initiatives that have a positive impact in the Kingdom, we remain among the main contributors to the Bahrain Liquidity Fund, created to enhance and deepen Bahrain's capital market. Along with local prominent institutional participants, NBB's participation accounted for more than 24% of the overall fund. We continue to support initiatives that promote local capital markets, alongside other efforts to promote economic development in the region.

We also continue to participate in the 2018 initiated Bahrain-based 'Al Waha Fund of Funds'. We have committed 10% to the overall USD 100 million fund. The fund, managed by Bahrain Development Bank (BDB), is backed by Mumtalakat, Batelco, NBB, Tamkeen and Osool. It aims to provide funding access to global Venture Capitals with a regional focus to develop Bahrain's start-up industry and is focused on investment in technology, Fintech, and smart cities. We envisage that Al Waha Fund will play an important role in bringing Bahrain as a hub for venture capital, start-ups, and technology companies. As a strategically important initiative for Bahrain, our investment in Al Waha demonstrates our commitment to support national initiatives that benefit and support the Bahrain economy.

Responsible banking

There has been a surge in the number of financial institutions and individuals pursuing 'responsible' lending and investment strategies, with implementation frameworks in place. We remain committed to integrating ESG factors into our lending and investment strategies and to develop sustainable products and services in the future wherever possible.

Environmental and social factors continue to be embedded within our Global Credit Policy. Our ambition to be recognised as a regional leader in responsible banking and sustainable finance stems from our commitment to make positive impact on the clients and communities we serve. ESG risk factors are examined across our financing activity with clients. We are working with leaders in the field to cement ESG risk assessment so that our approach is more entrenched within the overall credit risk management framework.

Islamic Finance

Providing products that promote ethics, inclusion and equality is at the heart of Islamic finance. Through BisB, we are providing our institutional finance customers with Shariah compliant products, contributing to support the Kingdom's leading position in Islamic finance and its objective to maintain economic prosperity. We continue to subscribe to Bahrain Bourses' Murabaha service, used by the bank when transacting in Islamic Commodity Murabaha financing.

Proudly supporting Bahrain's past, present and future

Established as the country's first locally owned bank, the National Bank of Bahrain has stood proud as the pillar of the Kingdom's banking industry for 64 years.

Our investments have ensured we remain solid, agile and flexible to adapt to changing market dynamics and mitigate risks.

Responsible banking

NBB is transforming in line with the national vision, implementing a business and social responsibility model that aligns to the 2030 economic goals. In our own operations, we function in a responsible manner because we are motivated by the belief that society should benefit from our success.

How we Create Value continued

A broader impact

Supporting economic wellbeing requires broad-based activity and engagement, not limited to financial services. We have sought to develop tailored products and services that deliver a specific social benefit. For example, we have continued supporting the Bahrain Mazaya programme that supports the government's housing initiative through the Ministry of Housing. The Mazaya mortgage loan is now one of the retail department's leading products and aims to serve customers with excellence during their quest to find their dream home. The product is structured to cater for beneficiaries by providing an inclusive credit policy and pricing. We recognise that safe, adequate, and affordable housing leads to wider social benefits in health, education, and economic growth. Since 2020, we have supported families through this programme with more than 600 loans, while during 2021 there was an increase of 300% in processed Mazaya loans. Loans delivered under the Mazaya programme represented more than 40% of the total mortgage loan portfolio in 2021.

We continued to provide a joint housing mortgage loan with Eskan Bank – described in the case study below.

We also offered deferred payments for personal loans (through Ramadan and during the two Eid holidays) to reduce financial burdens in addition to the CBB mandated postponement of loans for Bahrainis and residents.

Case study	Development of a Joint Housing Finance Product
Background	We have worked with Eskan Bank to support real estate residential growth by developing a product that addresses existing market gaps and demonstrates our approach to social responsibility. The joint housing finance product bridges existing offers from commercial banks and caters for a niche segment that currently does not have access to traditional banking products.
Approach	Development of this product involved completion of a business study, alignment of the product structure with relevant stakeholders, and securing internal and external product structure approvals.
	"At NBB, we strive to be influencers on strategic partnerships, and to become value-adding partners to the Kingdom and stimulate the real estate sector by contributing in a meaningful manner to its continued growth and prosperity. As such, we are keen to adopt new and improved housing solutions in partnership with Eskan Bank, allowing Bahraini citizens to benefit from our services and acquire their homes in one of Eskan Bank's numerous properties across the Kingdom. Our primary focus has, and always will be, our customers, and we will continue to provide the best in service quality to ensure that all our customers' needs are met." Subah Abdullatif Al-Zayani , Chief Executive of Retail Banking, NBB.

We recognise the need for banking services to cater for customers facing severe challenges, or who are experiencing difficulties in their lives. We have taken steps to waive banking service charges and fees relating to divorced and widowed women, orphans, and students.

Percentage of loan portfolio of products and services designed to deliver a specific social benefit	2019	2020	**2021**	Target
Mazaya programme (%)	N/A	9	25	10
Personal loans catered for retirees (%)	26	27	25	N/A

We have also facilitated the Voluntary Retirement Scheme (VRS) initiated by the government. We extended our credit exposure by rescheduling loans with deferment options and long-term repayment schedules of up to 20 years (originally seven years), without reducing customer exposures. This has helped to ensure that beneficiaries have sustainable disposable income during their retirement.

We have several exciting initiatives planned or in progress. In addition to embedding ESG criteria into our credit processes, we aim to assess and track our carbon exposure, launch sustainability products, and improve customer financial education. We have, for example, launched a solar finance and an auto finance product in 2021 which are structured to incentivise the take up of solar panels and electric/hybrid vehicles.

Financial inclusion and capacity building

Many people around the world find it difficult to acquire financial services and products, as poor financial literacy renders them unfamiliar with basic banking tools. These difficulties negatively influence financial inclusion and stunt economic growth. We support initiatives that seek to extend financial services to underserved or disadvantaged customers, such as people facing language, cultural, age, geographic, or gender barriers to accessing financial services, or people with disabilities or impairment.

At NBB, we are devoted to ensuring our customers – including those who are on low incomes or are disadvantaged – have appropriate financial products and services by providing easy access to a wide variety of our channels, based on their needs and preferences. Our digital innovations play a significant role in targeting financial inclusion. For example, our 'eWallet' cash withdrawal facility has been designed to support the financial inclusion of blue-collar labourers who need convenient access to their cash.

We also take action to support customers with special needs – providing easy access and ramps for our disabled customers at our branches. We are providing sign language training to 40 retail representatives to help serve hearing impaired customers. We upgraded our contact centre

How we Create Value continued

with a new set of services such as sign language and a video service. We provide voice-activated ATMs catering for visually impaired clients in two branches and provide braille formatted banking documents to cater for the visually impaired across our branch network.

Furthermore, we are providing an ATM truck with two portable ATMs, designed to access remote areas. The truck can offer services to customers in hard-to-reach locations and can serve disadvantaged residents in situations such as labour camps and remote villages.

Financial inclusion	2019	2020	**2021**	Target
Number of branches in low populated and economically disadvantaged areas*	2[2]	3[5]	1	1[3]
Number of ATMs in low populated and economically disadvantaged areas*	4[4]	3	5	3[5]

Notes: [1] Asry, [2] Asry & Sitra, [3] Sitra, [4] Alba – Asry – KHUH – BDF, [5] Alba – Asry – KHUH – BDF

The reduction in targeted disadvantaged areas presence in 2020 is due to the termination of the lease agreement with ASRY due to conflicting interests.

Changing the mindset of existing customers has taken considerable effort from relationship managers. However, results have been satisfactory. In relation to funding, we have changed the way we look at granting credit facilities from merely tangible security based to cash flow-based transactions.

We try to enable and facilitate lending to SMEs by identifying the challenges they face, such as access to technology, low barriers to entry, and strong competition. As such, we are implementing financial solutions to facilitate processes and give better access to products and services. For example, we use cash inflow/outflow ring-fencing as one way for lending.

Delivering value to our customers

As part of our transformation journey, we have taken steps to modernise our infrastructure, develop innovative products and services for our customers, and initiate new partnerships. Our progress has been positive: we have consolidated our position as one of the top market leaders and continue to play a central role in the development of the financial sector in Bahrain. By doing so, we are not only building the strength of our own business by developing market share but are making a valuable national contribution.

We value our relationship with our customers and we regard their loyalty as a measure of our continued success. We are committed to understanding all our customers, delivering what matters most to them through every stage of their financial journey, and offer them convenient access to innovative and competitive financial products.

Serving our customers by offering the best sustainability-oriented products and services and being transparent and fair in all aspects of customer relations, is an integral part of our sustainability roadmap. We want to contribute to the wellbeing of each and every customer and to safeguard their data and privacy effectively.

Growing around our customers

We have grown and transformed with the country and the industry has transformed with us.

We have invested heavily in growing our reach and presence in new locations, giving us the largest branch and ATM networks in the country, as part of our mission to provide existing and new customers with easy access to our services.

We reorganised our business and support functions 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.

How we organise our business lines

We channel our services to customers through the following segments:

Retail Banking, Digital Banking, Strategic Accounts Management, Commercial and SME Banking, Corporate and Institutional Investment Banking, Treasury, Capital Markets and Wealth Management, and Financial Restructuring.

How we Create Value continued

10 REDUCED INEQUALITIES

Retail banking

In 2021, NBB maintained our leading position in the retail banking market, with more than 264,000 clients, and an increase of approximately 18% in our loan portfolio with a loan-to-deposit ratio of 71.3%. We believe that the methodical and measured approach we have taken across the business, emphasizing innovation, customer-centricity, and growth, has resulted in a significant enhancement of our customers' experience.

The world of personal banking continues to change rapidly, particularly with the introduction of digital technologies that increase speed, flexibility, and simplicity for customers. Our network of more than 100 ATMs across Bahrain is an obvious example of how we can provide service to our customers wherever they are, and at all times of the day and night. Many features of these technologies make the personal experience of banking easier and more convenient than it has ever been before, with automated telebanking and other services and facilities available online. We are strong supporters of these technologies and have invested significantly in many leading practices. Yet, we also recognise the continuing importance of personal contact and have teams ready and able to respond to customer concerns directly.

Customers and deposit portfolio	2019	2020	**2021**	Target
Total number of retail banking customers	238,000	254,000	266,000	260,000
Total value of retail banking deposit portfolio (BHD million)	664	873	890	898

*From the right, **Ali Fakhro** from Strategic Accounts Management, and **Ali Nabil** from Seef Mall Branch*

We have extended our branch operating times and provided service touchpoints fit to serve different community members, including those with special needs where they are provided with physical, visual, and hearing supported services. Our branches offer – among other facilities – ATMs, Interactive teller Machines, Bulk Cash Deposit Machines (CDM), and executive lounges. In line with the high expectations of our clients, our branch model is energy efficient, environmentally friendly and has a modern edge. We are continuing branch enhancements, with plans well underway for more upgrades.

Our promise to our customers is to be "Closer To You". In previous years, this has been reflected in our opening of new branches that bring our services nearer to our customers. We have extended that further by providing our ATM Van (with two portable ATMs), designed to enable people in remote areas to access funds. A further aspect of being closer to our customers has been the provision of cash withdrawal facilities for 'eWallets', from the bank's ATM network - the largest such network in Bahrain.

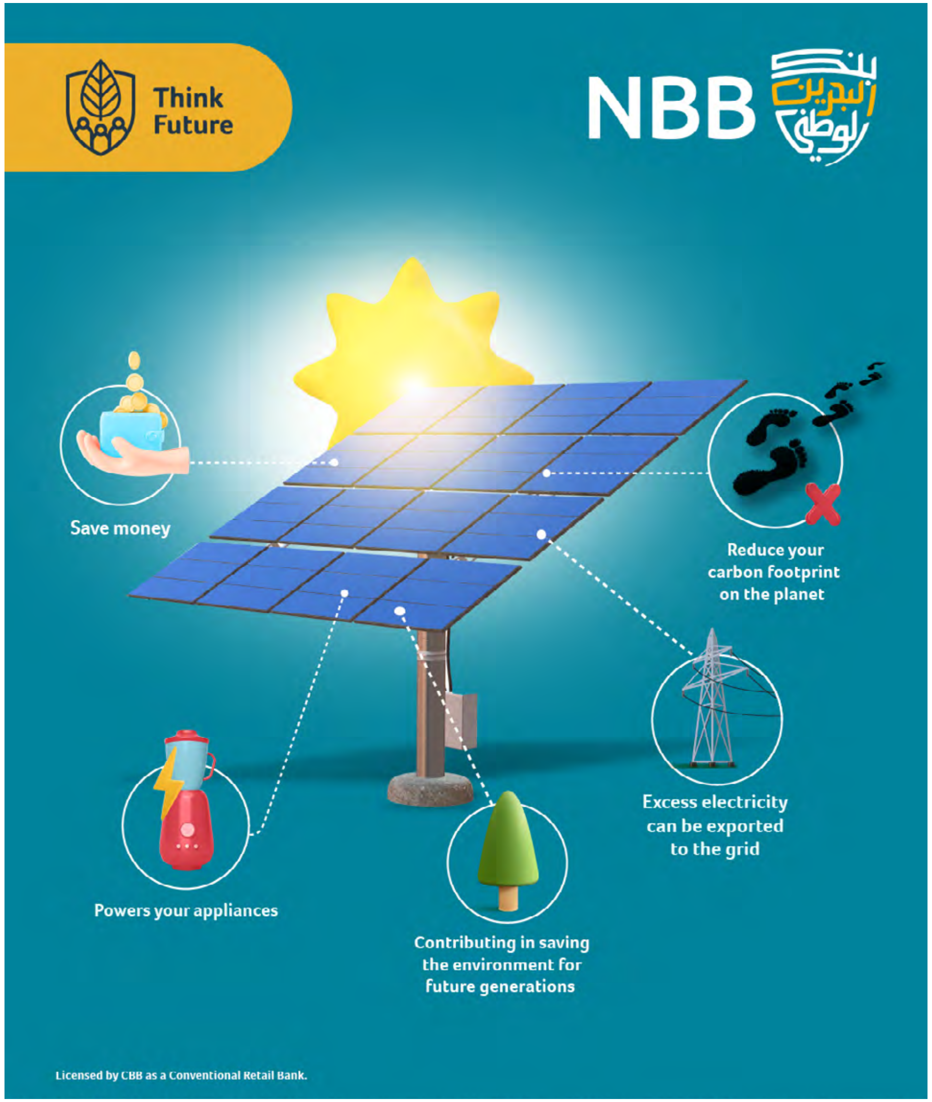
Closer to you

Through our extensive physical network and enhanced digital banking platforms, we are expanding our presence across the country to better connect with customers in line with our brand promise 'Closer to you' - reaching all citizens and residents with an enriched service.

Customer-centric

Customer-centricity is our focus; our mission is to simplify the customer journey through personalization and convenience to make clients' daily lives easier.

How we Create Value continued



We continue to provide highly tailored products and services that meet our customers' needs. These include the Personal Loan, Home Finance Loan and Home Equity, Mazaya Social Housing Finance, Auto Loans, Solar Loans, and personal loans catered for retirees, 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 attractive year-long cash prizes in line with the bank's objective of rewarding savings among customers.

Our debit and credit cards use Near Field Communication (NFC) and tokenisation technology which enables customers to tap and pay at local and international NFC-enabled machines either through the card itself or through their smart phones. 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 offered Visa's elite credit card products, Visa Signature and Infinite cards, with more exceptional benefits and rewards, in addition to travel lounge access.

We seek to make a positive contribution to our customers by supporting them at key moments in their lives. We continued to offer promotions and special offers to our cardholders on Mother's Day and during Ramadan and Eid. We have also offered lifestyle benefits through a range of retail partnerships, primarily focused on the children and youth account, SaveWave. We strive to offer inclusive products to all our customers. Hence NBB is one of the banks that offer the lowest minimum requirement when it comes to applying for a personal loan, to ensure we are able to cater to financially disadvantaged segments as well.

With the trend of increasing online purchases, we have ensured that our customers continue enjoying this experience by 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.

We anticipate that an increasing number of customers will prefer digital platforms in future, relying on mechanisms such as remote account opening and onboarding, instant credit issue, and lifestyle management. Our introduction of a digital banking app in 2021 is supporting customers in the transition to new ways of banking.

Digital transformation

Digital has become a way of life for us and our customers; we embraced Digitalisation as a core pillar of our transformation strategy to make our clients' interaction with the bank simpler and more efficient. Doing so has brought improvements to customers' lifestyles and has increased their engagement with our digital channels.

The integration of a robust digital ecosystem within the bank's technology infrastructure has given NBB a leading edge in competitive offerings and digital innovation that empower our customers in a fast-paced digital era.

How we Create Value continued

Closer to you in action: offering bespoke financial services

In line with the bank's vision to deepen and broaden relationships with our strategically important customers (individuals, entities and Government institutions), the Strategic Accounts Banking Department is tasked to ensure that our clients are offered world-class, customised service and an exclusive banking experience that will encourage them to make NBB their preferred banking partner.

The unit serves a segment of customers whose deposits significantly contribute to the bank's liquidity position. Additionally, as the bank introduces newer and innovative products and service lines, like Business Online Banking, Cash Management services (CDMs/ATMs) and digital banking platforms, the department serves as an effective channel to bring these services to key clients. Additionally, by leveraging its strong relationships with Government sector entities which are among the major employers in the Kingdom, the department played a significant role in supporting the staff of these employers with personal loans and cards.

Constraints imposed by the pandemic continued to make it challenging to deliver a service predicated on 'Closer to you'. However, one way that bespoke, high quality service was maintained was through introducing digital solutions to a number of government and ultra high net worth clients – market channels which we will continue to promote in future.

The Ultra High Net Worth and High Net Worth units within the department provide personalised service to the bank's prime customers. The department continued to offer bespoke, round the clock personalised service to these customers, along with a range of value additions and benefits, with a view to enhancing loyalty.

In 2021, we strengthened relationships by onboarding new important government entities. This included the organisation responsible for empowering and investing in the next generation of Bahraini entrepreneurs – providing them with the tools, resource, and networks to develop and prosper. We also engaged with the organisation responsible for national export development and internationalization, as part of a national effort to support SME business expansion and international growth. Relationships were deepened with strategic and highly sensitive national security related clients, which demonstrates the comfort these entities have with the bank and their appreciation of the high levels of service and confidentiality provided.

The migration of customers to digital options will reduce paper waste while providing enhanced financial management.

Digital Banking

Our digital transformation is making us a more agile organisation, and is delivering enhanced value to our customers.

Digitalisation comprises a fundamental part of our approach to interacting with customers. We offer a wide range of digital banking solutions through our digital banking platform, including a state-of-the-art mobile app, online banking, and ATMs to elevate the customer experience and to help us improve internal efficiency and collaboration.

We have continued our digital transformation by improving digital capabilities and ensuring that our operations continued to modernise and advance. We have adopted processes and procedures to deliver convenience for our customers, which deliver a new customer experience for them, including new product development, upgrades to our core banking system, improving IT infrastructure and systems, and adopting solutions to use and analyse data more effectively. They enable customers to open new accounts digitally, receive credit, prepaid and virtual cards in just a few clicks, updating their personal details and to engage with the bank without the need to visit a branch. The pandemic, which has reduced social contact, has expedited and increased the adoption of our digital products and services.

How we Create Value continued

NBB digital banking challenge

As part of the digital transformation, we recognise the need to harness the talents of young people in digital innovation, and to build their skills to build a digital community. As part of this, our digital challenge saw seven shortlisted teams embark on a six-week mentoring programme with workshops coupled with individual sessions from NBB volunteers to impart vocational insights and sectoral knowledge. The challenge, run in partnership with Bahrain FinTech Bay, concluded with teams pitching their ideas for NBB's digital banking app at the opening of Bahrain National week at Dubai Expo 2020. The winning teams received cash prizes, opportunities for internships, and three months of incubation support from Bahrain FinTech Bay.

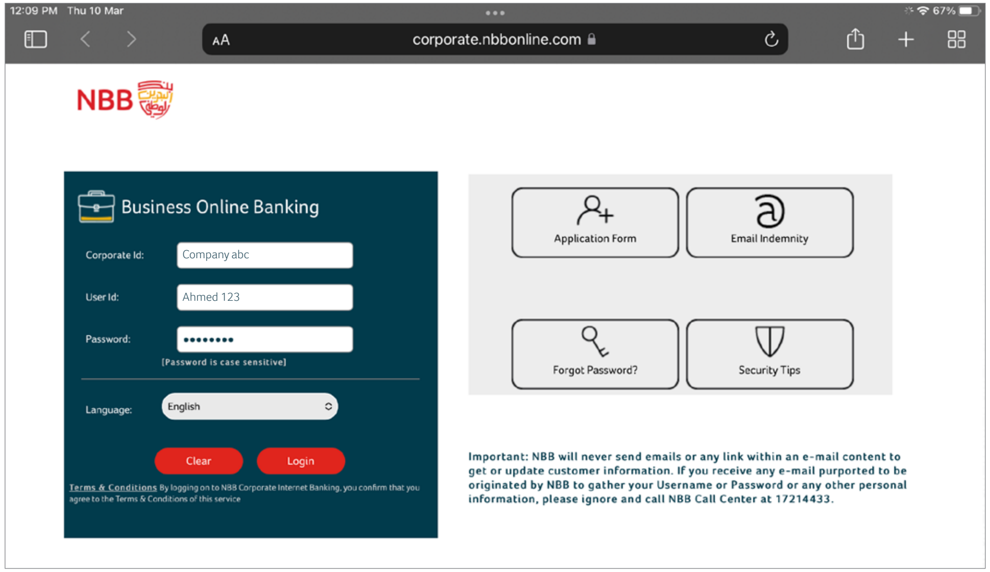
Digitalisation for customers

In 2021, our branches recorded a total of 1.1 million transactions. Online and mobile transactions represented 67% of the total.

Retail Digital services and customers	2019	2020	**2021**
Digitally registered customers	58,066	77,096	107,200
New to Bank customers onboarded digitally	-	-	9,860
Credit and pre-paid cards sold digitally	-	-	3,232
Retail end-to-end products and services offered digitally (%)	19	19	22
Number of logins to the NBB mobile app (monthly)	-	-	291,248
Number of retail transactions made through mobile app	673,724	791,532	891,343

Business Online Banking: Digitally processed transactions	2018-19	2019-20	**2020-21**
Percentage increase in digitally processed transactions (%)	720	658	64

Note: A transaction on Business online Banking (BoB) constitutes a successfully processed payment request (Within NBB transfer / Local transfer / Cross currency transfer / Bill payment / NBB Credit Card payment)



How we Create Value continued

"Amazing. Very nice interface. I would say it's much better-not just compared to the current NBB offer but other banks too. And we use a good number of banks."

Jawad - Tap Tech

"The rapid release of the latest updates falls within our strategic approach towards accelerating our digital transformation journey and our goal to remain closer to all our customers. We continuously look to reshape the customer experience and to improve our products and services in line with the rapid market demands in the digital space, and strive to provide our customers with a simple, secure accessible leading financial digital services to facilitate their lives, putting our customers at the heart of our innovation".

Omar Al Adhami,
Head of Retail Digital Banking

Business Online Banking	2019	2020	**2021**
% increase in corporate clients on-boarded	50.7	39.5	21.7

Our team that works with corporate and institutional investors has focused on increasing its customers' adoption of digital channels. This has been reflected in a 64% increase in the use of our Business Online Banking platform in total volume (the number of transactions) from December 2020 to December 2021. For 2021, there has been a total of 5.2 million transactions with a value of BHD 7.4 bn. We plan to build on this by releasing a full upgrade of the platform in 2022. This will be one of several projects that support digital banking such as an initiative to provide E-cheques and enhancing point of sale solutions for merchants in ways that are cost-effective and easy to use.

Our revamp of the corporate digital platform, scheduled for launch in 2022, will enhance the customer experience by reducing the number of steps needed to use the portal and removing friction from within the system. Enhancements were introduced following an extensive process of research, design and user testing.

For personal customers, the bank has launched its new and improved mobile app for iOS / android and a new web-based portal designed to transform and elevate the customers' digital banking experience and make remote banking faster, simpler, and seamless. More than 9,000 customers have successfully taken up the innovative mobile application.

The app was designed and built to meet the evolving needs of our customers, enabling them to simplify their banking experience. Through the app, customers can open an account with NBB, can issue a credit card within minutes, and in a few simple steps. They no longer need to visit our branches to carry out these kinds of activities. In building the app, our developers created and ensured a smooth migration journey for customers from the existing app to the new one, consolidating all digitally available services offered via NBB's branches into a one-stop-digital-shop with dynamic features and options. Its development was based on regular touchpoints with focus groups of our targeted customers. We launched upgrades and new releases in 2021 which introduced new features such as virtual cards and Apple pay for all debit, prepaid and credit cards to reduce the use of plastic cards and to encourage frictionless payment methods, as well as enhanced card management and the provision of international remittances.

We took a range of other steps to enhance the digital offer for our customers. Within our branches, we sought to re-fashion our customer's digital experience. For example, we enhanced ATM services and created new digital corners within branches and improved existing ones. We allocated digital ambassadors to our locations to better serve customers and convert traditional customers to digital ones. In line with our 'Closer to you' strategy, we invested in our ATM network to facilitate eWallet cash withdrawals. We have launched tap and go services for contactless payments across the largest ATM network in the Kingdom, with an aim to further ease withdrawals and inquiry processes. We continue to facilitate paperless salary bulk transfers, where a sizeable portion of Bahrain government salaries and pensions are paid through our digital corporate online banking platform.

We were one of the first banks in Bahrain to launch the Apple pay service for customers. The service, introduced after a comprehensive pilot, simplifies payment options for customers and provides access to their money using international channels.

Digitising processes

In our internal processes, we began a system upgrade to modernise our core systems. Beginning with our overseas branches in Abu Dhabi and Riyadh, we upgraded the legacy banking system to introduce a more technologically advanced system with improved functionality. We plan to implement the upgrade at our main site in Bahrain in 2022.

We have continued to digitalise our internal processes, reducing the need for printed forms and documents. More information on our drive to create a paperless working environment is provided in the section of this report focused on protecting and enhancing our natural resources.

How we Create Value continued

Delivering value to commercial and SME customers

NBB recognises that commercial and SME businesses are a vital element of the economy. The support we provide to this segment of the market helps to diversify economic activity, provide jobs, and support a culture of entrepreneurial activity.

The coronavirus pandemic has resulted in a weakening of economic activity, which has affected the volume of start ups and demand for finance. Nevertheless, we continued to support micro, small, medium-sized, and commercial customers, with 224 borrowing groups comprising a portfolio of BHD 123.7 million. More than 380 new accounts were opened free of charge, with 127 newly formed commercial registrations; mostly for small businesses.

Internal process improvement

Significant infrastructure upgrades have equipped us with a modern, robust internal system capable of delivering our products and services efficiently, simply and seamlessly.

Supporting SMEs

Our early engagement strategy supports start-ups and SMEs, which constitute the backbone of the local economy - helping them to develop a viable business outlook.

Account opening	2019	2020	**2021**
Total accounts opened	541	613	388
Newly formed commercial registrations	317	316	127
Percent of total accounts opened (%)	59	52	33

Number of borrowing customers	2021	Exposure (BHD Million)
SME	84	18.3
Others	107	110.4
Total	191	128.7

SMEs are defined as per Ministry of Industry, Commerce and Tourism (MOICT).
Total number of customers reflects the number of Commercial & SMEs clients with exposures as of 31st December 2021.
'Others' are corporates and individuals managed under Commercial and SME portfolio.

Sectoral Composition of Loans (BHD Million)	2018	2019	2020	**2021**
Materials				
Mining (sub-sector)	-	-	-	-
Construction	25.9	51.2	58.9	61.0
Manufacturing/Trading	42.4	33.8	42.0	40.2
Oil and gas (sub-sector)	-	-	-	-
Utilities				
Power (sub-sector)	0.1	0.2	0.1	0.1
Water (sub-sector)	-	-	0.2	-
Personal	14.7	8.8	9.6	7.0
Healthcare	0.7	0.5	0.5	1.4
Financials	-	-	-	-
Technology, media and telecommunication	-	-	-	-
Transport	2.9	2.7	0.6	2.3

How we Create Value continued

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

We continue to raise awareness of ESG issues among our clients. As part of this, we carried out an online sustainability survey to measure and examine our clients' understanding of sustainability and their ESG initiatives and plans. The preliminary results indicate the value in raising awareness of climate-related risks and how those risks are identified and addressed. As the survey matures, it will enable us to score companies based on their response and offer price concessions to clients on a case to case basis.

https://www.nbbonline.com/sustainability-awareness-survey

Targeted support for SME clients

The Tamweel Al Watani lending scheme, which we launched in May 2021 when SME access to funding was being adversely affected by COVID-19, provides a mechanism to give targeted support to SMEs. Under this initiative, small and medium-sized businesses are eligible for loans of up to BHD 100,000, with repayment plans of up to five years' duration. The scheme features an easy application process and quick turnaround for applicants.

'At NBB, we are working with our clients to overcome the impact of the pandemic on the economy, introducing inclusive solutions with more ease to help SME's sustainable development. Locally owned businesses are an important pillar of the economy and our goal with this new scheme is to support viable small and medium sized businesses.'

Sayed Mohamed Al Hashemi, Relationship Manager, Commercial and SMEs, NBB

The survey also helps us get to know our clients better understand ESG concepts and initiatives. Over the year, we formed partnerships with interest groups and business societies to further extend the reach of the department in communicating our offerings and to build direct relationships with active actors in the business community. For example, we are one of the most active banks in Bahrain in providing banking platforms to non-profit making organisations such as societies, unions, and clubs. We recognise that these accounts require constant monitoring and control, especially from an anti-money laundering perspective.

A further initiative has been to finance waste management /recycling facilities; a sector with a clear positive environmental impact. An example of the support we have provided to this kind of businesses is provided in the 'Enabling customer environmental action' section of this report.

Working in the pandemic has been challenging from all angles, affecting the liquidity of small and medium sized companies, and therefore having an impact on many companies' turnover and profitability. It has also interrupted customer accounts maintenance where physical sighting of documentation was not easy to achieve, with the need to consider employee and customer wellbeing. However, these factors have encouraged us to adopt different ways of thinking about how to protect shareholders' interests and extend a helping hand to customers.

How we Create Value continued

During the pandemic, we provided support in the form of increased limits for clients in the food business in line with the Government's direction to ensure that food supplies remained available.

We continued to play an important role in the operation of the Liquidity Support Fund (LSF 3.0) in 2021 with the Ministry of Finance and National Economy (MOFNE). The initiative was originally announced by the Government of Bahrain in 2019 under the auspices of HRH the Crown Prince, through MOFNE and other stakeholders and a select group of local banks. The purpose of the fund is to provide support to local corporate entities facing temporary liquidity constraints by providing low-cost funding. In 2021, we volunteered to act as the collecting agent of LSF 3.0 applications on behalf of the participating banks and successfully created a digital platform for receiving applications.

During the pandemic, we successfully completed the deferment of loans, as per CBB directives. The process involved system customization, product differentiation, and analysis. In 2021, we streamlined the process to ensure smooth transition of deferment. In addition, we have been acting as an advisor for a number of clients during the deferment process to guide them and redirect them to available alternatives and to help them select the best option for their companies.

We renewed our partnership with Start-Up Bahrain and Start-up MGZN in 2021, an initiative that brings together entrepreneurs, corporates, investors, incubators, educational institutes, and the Bahrain Government to promote an entrepreneurial culture in Bahrain.

Working in the pandemic has been challenging from all angles, affecting the liquidity of small and medium sized companies, and therefore having an impact on many companies' turnover and profitability. These factors have encouraged us to adopt different ways of thinking about how to protect shareholders' interests and extend a helping hand to customers.

Case study: Financing start up Bahraini business – in the telecoms sector

Background	We have been monitoring local start-ups with the aim of providing financial support to qualified, viable and scalable small enterprises that have a solid team base and a robust business plan. Supporting a local startup strengthen the Kingdom's business ecosystem by localising the supply of telecommunication infrastructures for Internet Service Providers.
Approach	We recognised the critical importance that telecommunications infrastructure plays in keeping businesses, governments, and societies connected and running. The company presented a strong business case supported by expectations of growing operations. This company exhibited a high level of corporate governance and a healthy internal culture, encouraging us to provide the required support.
Outcomes	With our working capital facility, our client has been able to improve its performance significantly, with credit turnover increasing to approximately four times the granted facility. The company was able to manage their business operations successfully and won a number of projects with government and non-governmental bodies. "I would like to take this opportunity to express my sincere gratitude for the support that the entire team at NBB has extended to our company. It speaks volumes that one of the biggest banks in Bahrain is willing to support a new and promising local company such as ours, and in turn, I hope that this agreement works to encourage other local ventures to approach the national leader for support on their business needs." Company CEO

'We are excited to announce our strategic partnership with the National Bank of Bahrain is entering a new phase. Through NBB's leadership and collaboration, and their unwavering role in incentivising and supporting the SMEs ecosystem in the Kingdom, we can envision the direction we're heading towards with Bahrain's digital economy and start-up ecosystem. It's one that is certainly promising, even during the pandemic.'

Maryam Malik
Project Manager of Start-up Bahrain and Start-up MGZN.

How we Create Value continued

Delivering value to corporate and institutional investment customers

We play an important role in supporting corporate and institutional investment clients. We support vital sectors of the economy and critical infrastructure including manufacturing, government and government-related services such as digital services, construction and real estate, oil and gas, utilities, and healthcare.

Throughout the pandemic, and during its continuation, we have sought to maintain our position as a stable pillar of the economy. This has involved supporting local and regional sovereign and government-related entities and providing financial solutions and relief packages for corporate customers. It has also involved giving advice on the managed business finances and the timing of transactions. During this turbulent period, we have maintained good asset quality.

We have taken actions that have cut footfall in NBB branches and have reduced the need for clients to be physically present in our premises. This includes our online banking offer, and improvements we have made to bulk payment systems, making the provision of salary payments, pensions and invoices for government commercial and corporate clients easier and more reliable. Our bulk cash deposit machines have enabled us to reduce cash transport distances and to process cash quickly and seamlessly.

Just as we are digitising our own operations, our corporate clients are embarking on Digitalisation processes involving the application of new technologies and increasingly sophisticated platforms. To meet their needs, we have developed a number of tailor-made solutions for our large customers such as the National Bureau of Revenue and E-government. Our B2B direct debit service has been taken up widely in the corporate business market.

Case Study: NBB 'Supernova' Challenge

Background	The lack of a cheap and efficient host-to-host integration solution means businesses still have to upload payment instructions and download statements manually from bank's online portals. This creates duplication of effort and is inefficient, as the process has to be customised to the requirements of every bank. A cloud based, cost efficient, secure and easy-to-implement integration solution would directly connect client accounting and banking systems.
Approach	We launched a competitive challenge, in partnership with CBB & Finhub973, to find a cloud-based solution with host–to–host capabilities to help clients with their accounting and enterprise resource planning integration. Seven organisations participated, with four selected to make final pitches for adjudication. MindGate were awarded the work to develop a proof of concept, which is under way now.
Outcomes	The development of this system will deliver a number of benefits: • Automation of processes involved in payments / reconciliation • Faster payment processing • Faster reconciliation • Reduced customer onboarding time • Support for multiple standard payment file formats • Ability to configure any payment file format

The uncertainty and volatility caused by the COVID-19 pandemic has also highlighted the need for diverse funding solutions, ranging from short-term foreign currency bridge loan financing to longer term financings. We have continued to be active in leading and coordinating large scale funding exercises for local and regional clients, delivered by our debt capital markets and syndications team.

The project finance and refinancing services we provide support a range of sectors including energy, utilities, healthcare, infrastructure, and industry. We continue to seek expansion into sectors such as aircraft finance, reserve base lending, and renewables. We consider social and environmental impacts in our project finance delivery and ESG factors form part of the criteria that business units use when evaluating transactions before the start of a formal credit approval process. We strive to promote eco-friendly transactions which feature favourable credit committee decisions. We are continuing to work to integrate ESG risks as part of our credit application processes.

We are working to fund projects relating to infrastructure development, social housing, and hospital construction, through competitively priced action that delivers economic and social benefits.

We are also expanding the provision of our services to new markets including Saudi Arabia, Kuwait, United Arab Emirates, and Egypt.

How we Create Value continued

Sectoral Composition of Loans (BHD million)	2019	2020	**2021**
Materials	1.6	-	-
Mining (sub-sector) EP	1.6	-	-
Construction	41.5	40.3	44.4
Manufacturing/Trading	190.1	200.5	233.1
Oil and gas (sub-sector) EP	102.9	90.7	97.9
Utilities	0.2	36.8	39.1
Power (sub-sector) EP	0.2	36.8	39.1
Water	-	-	-
Personal	-	-	-
Healthcare	3.3	3.2	7.5
Financials	60.1	60.5	71.2
Technology, media and telecommunication	11.9	5.7	-
Transport	14.0	26.2	23.9

Our Debt Capital Markets (DCM) and Syndications team is the leading DCM house in Bahrain, and is proud to expand its service offerings to new and existing regional clients. NBB has been active in leading and coordinating large-sized funding exercises for both local and regional clients, marking another active year in providing both Debt Capital Markets and Bank Loan financing solutions. NBB provided multiple funding solutions ranging from short-term foreign currency bridge loan financing during high uncertainty and volatile periods on the back of the COVID-19 pandemic, to longer term financing. This highlights our strong advisory and global distribution outreach to financial institutions and investment managers across key global financial centres.

Origination services abide by international standards which take account of environmental and social factors. We have, for example, engaged in project finance transactions which adopt the Equator Principles within the facility documentation. Every potential capital market issue considers environmental concerns as part of the due diligence process, alongside other considerations. Syndications arranged and/or participated in by NBB also have Loan Market Association standard environmental representations and warranties given by the borrowers.

Protecting and promoting value for companies in distress: Financial Restructuring

Business organisations across the region and in Bahrain are facing complex challenges in the current market environment. The COVID-19 pandemic has created particularly difficult market conditions for many organisations.

Our financial restructuring business supports companies in need of specialised financial restructuring advice, with a primary focus on corporate clients in addition to selected commercial banking clients. This includes acting as an independent adviser to companies facing challenges, as well as the companies where NBB is a creditor.

Our team of experts work closely with companies' boards of directors and executive management teams. We support them with expertise and advice that enables them to protect, maintain, and unlock the value that exists within their businesses.

In the course of 2021, we have taken on the role and responsibility of chair or member in many creditor committees and steering committees for leading company restructuring efforts.

Case Study: Financial restructuring aids in preserving the employment of Bahraini nationals

In 2021, we supported the restructuring of a major manufacturing company that had filed for protection under bankruptcy and reorganisation law in the courts. The restructuring plan was approved after lengthy deliberations between the court, the court appointed trustee and a creditors' committee which was chaired by NBB. The approval of the restructuring plan will eventually aid in preserving the employment status of over 600 employees, of whom the majority are Bahraini nationals.

Case Study: Financial Restructuring preserves the operations of a specialised company based in Bahrain

We supported the restructuring of a manufacturing company in which NBB formed part of a group of creditors who coordinated to restructure the company's outstanding debt and assist it in continuing its operations without interruption. This restructure required close cooperation between the company and the creditors to reach a satisfactory profile for the equity and debt of the company in order for it to be able to continue to meet its commitments and preserve the operations of this specialised company based in Bahrain. The restructure was concluded within 2021.

How we Create Value continued

8 DECENT WORK AND ECONOMIC GROWTH

Our plans include extending our services to launch a Trading Book for non-performing assets (NPAs) which will enable us to sell and purchase NPAs in the distressed debt market. We are in the process of developing the procedures and obtaining the necessary internal and regulatory approvals to offer this service.

More generally, we aim to broaden the provision of our services through regional branches in KSA and the UAE, and to increase our participation in relevant national and international forums. Internally, we will continue to build the capability of our team and will further align our policies and procedures for financial restructuring mechanisms with BisB.

Treasury, Capital Markets and Wealth Management

Our services in this area involve the provision of transaction and investment guidance, trading services, and liquidity management. We support clients with risk mitigation, providing solutions on hedging policy and working with customers on their foreign exchange and commodity hedging requirements. Our team provides tailor-made solutions and risk management products. Our expertise has led to us being appointed as a hedge coordinator in strategic transactions for key clients in the Kingdom. NBB is also the bond house for the Kingdom and plays a significant role in primary market mandates.

Part of the reason we have been able to deliver excellent client service has been the range of initiatives we put in place to streamline our treasury services. We have implemented a number of software solutions that have enhanced and automated our treasury and trading operations. For example, our adoption of the Finacle cash management suite has enabled us to transform our transaction banking business by adopting a digital approach. Our advanced trading, pricing, and risk assessment capabilities are based on the implementation of the Bloomberg Toms and Mars ecosystem. Our online solution provides a full range of streamlined services across the whole trading workflow of foreign exchange and short-term deposits, adding real-time value for our clients, and enhancing compliance and transparency.

By extending the scope of our Islamic banking, we have made our business more relevant and appealing to shariah compliant markets and geographies. Through collaboration with local Islamic players, we have grown the volume of transactions under this line of business and have executed several Shariah compliant transactions including Waad Islamic forward contracts and collateralised Murabaha.

Our clients are increasingly demanding easier and faster access to online trading, and the capacity to invest directly in stocks on the Bahrain Bourse on-the-go, through various digital channels. One way in which we meet this demand is through our AL Watani TRADE platform for local equities and our intermediary and custody services for local, regional, and international bonds and sukuks. These platforms facilitate the execution of stock and bond orders online and provide safe keeping for securities purchased through our platform. AL Watani TRADE also enables customers to track, analyse, and stay informed about stock and global financial market performance.

Our equity investing approach focuses on investment in local companies only, both listed and unlisted. Potential investments are considered against the risk framework set out by our risk department and credit committee. Our screening approach considers environmental, social and governance criteria. The assessment criteria include the counterparties' performance on prudential norms of responsible corporate behaviour including environmental, social, and governance-related norms related to human rights, working conditions, child labour, environmental impact, anti-corruption, and

Case Study: Libor Cessation and the introduction of Risk-Free Rates

Background	The phase out of Libor, an interest rate benchmark widely used in financial markets, has represented one of the most fundamental changes to affect the financial industry. The transition to 'risk-free rates' has required full process re-engineering, systems upgrades, comprehensive financial reporting of the Libor changes, modification of legal contracts, and the introduction of new products. It required a high degree of collaboration and involvement from many departments within the Group.
Approach	We formed working groups composed of individuals and heads of all the departments affected (including Finance, Treasury and Capital Markets, IT, Risk, Legal, and Operations). In addition, certain carve-out products were assigned to experts within each department to ensure full implementation before year end. We relied on physical and online meetings to ensure all individuals involved received the information relevant to their areas of concern. A consultant was hired to assist in the process.
Outcomes	The preparations for the Libor cessations were successfully completed, with front, middle and back-office systems upgraded. The effort spread awareness among clients, enabling us to offer new products, enhance our systems to accommodate new rates. At the heart of the change were the contracts and exposures clients have with NBB Group. These contracts went through a rigorous commercial and legal review to offer our clients smooth transition options. We provided client webinars, presentations, and LinkedIn materials to raise awareness among our client base. These efforts were well received and our clients expressed appreciation for the out-reach programme.

How we Create Value continued

production of banned weapons. The assessment also includes evaluating any on-going litigations around environmental or social allegations / controversies.

The bank's portfolio book has been designed to support the real economy, reduce market volatility, and protect asset prices and consumer wealth. We invest in local bond issues and work to enable more liquid capital markets and more active repo channels, to support the country's real economy. We support and promote healthy and tightly governed capital markets which exhibit counter cyclical behaviour and focus on preserving customer wealth and asset prices.

Brand Health Report

The independent research considered a variety of factors including levels of awareness of NBB, perceptions of our brand, the channels customers use, key issues of concern, and overall levels of satisfaction.

The findings provided a wide range of data and feedback, which we are considering now. Overall levels of customer satisfaction were high, and top of mind awareness of the bank was strong. The findings suggested that we were highly valued for our strong national presence, our internationalism, and for our support for the local community. They also pointed to areas where we can do more to capitalize on our digital channels, and invest more in market segments such as with female customers and Bahraini youth.

Customer relations

Responsible customer relationships

We are committed to providing exceptional customer service, and a wide range of customised products and services that meet the changing needs of our customers. This approach is in line with our brand promise of 'Closer to you', by building strong relationships and creating value for our customers.

Enhancing customer satisfaction

To enhance our customers' satisfaction and experience, we have adopted a Consumer Code of Conduct, and a Customer Complaint policy for concerns received through various channels including our branches, contact centre and email.

We also carry out independent customer research, such as that completed in 2021 by IPSOS, involving face-to-face interviews with men and women across Bahrain, examining our brand health (see 'Our customers' voices, below).

Excellence in customer service is one of the essential tools to sustain business growth and attract new business. We not only believe that providing prompt and efficient service is essential but also recognise the right of our customers to complain and view complaints as a valuable form of feedback to improve products and services. To facilitate engagement and feedback processes with our customers, we have centralised our customer communication channels to optimise our response time and make sure all communications are consistent.

Protecting customer privacy

At NBB, we protect customer privacy and secure personal information. We understand that this is essential to maintain the trust and confidence of our customers. The security and privacy measures we have implemented to safeguard our customers and facilitate transactions across different platforms whether they be online, mobile, or ATMs.

Our aim is to remain transparent and fair in all aspects of our customer relations and to focus on impact in customer messaging. We are committed to safeguarding our customers' data and privacy through secured transactions, and to that end, we have adopted and upgraded our data privacy policy, which is available on our website. We disclose all our documents such as the Consumer Code of Conduct or our general banking terms and conditions and pricing information on our website. We make all this information available in Arabic and English.

Having a positive impact

The impact of these various actions is seen in the results of our customer experience monitoring, which shows the progress we have made on the five-year plan we set out in 2017. As of 2021, our strategic world standard Net Promoter Score (NPS) is 53, good progress but making it clear that we have further work to do.

How we Create Value continued

Our complaints policy

The bank's complaints process is free, and accessible to all customers, investors, depositors, and shareholders. Complaints can be made anonymously and online if this is the preferred method of communication.
The action we take to rectify the complaint and improve the complainant's condition are limited to the disclosed information.
The online complaints form is available on our website: (https://nbbonline.com/sites/default/files/inline-files/Complaints-english.pdf).

Banking plays a vital role in the community, and not just through our core functions of supporting economic activity. Our wider role in supporting the community has been made particularly clear over the past two years, where the initiatives we have taken have supported individuals, families, businesses, and other organizations through the coronavirus pandemic.

For example, we supported the government of Bahrain's initiatives to defer payment of loan instalments by reducing the interest rate on loans for procurement of medicines to a very low level for three months. By increasing facilities for customers in the food sector, we helped individuals and families procure essential food items. We contributed to the wellbeing of customers by implementing measures in response to COVID-19 across our branch network.

Over the past years, our support towards diverse initiatives and programmes have contributed to broader government aims for better healthcare and diversity and inclusion.

Responding to customer complaints
In order to strengthen the Customer Complaints framework and enhance the customer experience, the Bank has updated the Customer Complaints Policies and Procedures to further enhance the quality of Customer Complaints Response. All complaints received their final response before the completion of 30 calendar days, in line with CBB guidelines. We maintained our 100% response rate in responding to complaints and closing them, for the fourth consecutive year. The Customer Complaints during the year were mainly related to queries on services (such as loan interest calculation, charges, and deferments), external frauds, processes, systems and people.

Moreover, to help maintain effective response, our customer complaint handling unit carried out an awareness session for NBB employees which provided training on issues such as the objectives of complaint management, complaints channels, and procedures.

Customer complaints	2019	2020	**2021**
Number of complaints received	53	75	195
Number of complaints closed	53	75	195
Response rate to customer queries (%)	100	100	100

The complaints policy enables us to improve the complaint resolution process. To that end, we aim to resolve complaints within four weeks, either at the frontline or where the complaint was received. If a complaint is not resolved during this time, or a complainant is not satisfied with the bank's final decision, they have the right to refer the case to the Central Bank of Bahrain (CBB) within 30 calendar days of receiving the bank's letter if the customer is not satisfied with the response received. Customers can submit the case on the CBB's website www.cbb.gov.bh. All complaints received are acknowledged in writing, complete with a reference number, within five working days of receipt. The response to the customer complaint will be sent in writing, explaining the position and the bank's decision.

Delivering value for our people

The development of our people, and the creation of leaders from within our organisation is a strategic priority for the bank. Our goal is to be an employer of choice, enabling us to attract and retain the most talented people who are committed to delivering our vision and supporting the bank's transformation. To achieve this, we recognise the need to deliver value for our workforce, helping them to grow and prosper in their personal and professional lives. We also fully understand that achieving this generates business benefit for us, and wider beneficial impact for Bahrain.

How we Create Value continued

Workforce composition	2017	2018	2019	2020	**2021**
Total workforce (excluding trainees, students and outsourced staff)	670	702	763	761	779
Full-time employees	670	702	763	761	779
Senior management employees	23	29	31	31	32
Middle management employees	137	146	169	189	214
Non-management employees (staff)	510	527	563	541	533

Workforce by age and gender (excluding trainees, students and outsourced staff)	2017	2018	2019	2020	**2021**
Employees aged 18-30	315	300	311	309	280
Employees aged 31-50	268	319	375	385	435
Employees aged 51+	87	83	77	67	64
Male employees	437	465	491	486	491
Female employees	233	237	272	275	288
Female employees in middle management	22	24	27	36	43
Female employees in senior management	2	1	1	1	2

New hires and turnover	2017	2018	2019	2020	**2021**
Total new employee hires:	139	77	107	43	77
Male	76	59	59	29	49
Female	63	18	48	14	28
Employee turnover (voluntary and involuntary)	54	45	48	45	59
Male	38	31	34	34	44
Female	16	14	12	11	15
Employee turnover (voluntary and involuntary) (%)	8.6	6.6	6.3	5.9	7.8

How we Create Value continued

Corporate culture and ethics

We are dedicated to building a learning environment that builds our people's capabilities to help them thrive and evolve, not only for our purposes but for the benefit of wider industry. The tools and programmes we put in place to motivate employees enhance their competencies and build their loyalty. This includes succession planning, which covers all managerial positions in the group. We encourage our people to nominate themselves for new or more senior roles, which supports mobility, stimulates discussions about career aspiration, and allows for early adoption of the different mechanisms (such as mentoring, job rotation, or formal training) which help them achieve their goals.

A magnet for talent

NBB has invested in attracting the right talent and creating a dynamic pool of experts to drive its vision forward.

We actively support internal mobility, through processes of career enhancement, role expansion, or by providing people with new opportunities to move into. Approximately 110 redeployments of these kinds took place in 2021 across NBB and BisB. We only hire externally where a specialised skillset and experience are not available from within the Group. When we do hire externally, we make every attempt to hire Bahraini nationals.

We have a range of programmes that deliver value for our workforce. Many of these have an impact on day-to-day working life, such as special projects that enable employees to contribute beyond their job description. Opportunities are advertised for internal job vacancies to enable employees to pursue new opportunities. High-calibre training programmes are offered alongside regular performance assessments and feedback throughout the year. Mentoring programmes and opportunities for people to develop their skills form part of the working environment.

We also offer a range of opportunities beyond the scope of employees' job related responsibilities, such as participation in the Social committee or the Diversity and Inclusion committee. These enable employees to make a broader contribution where they can add value and pursue their personal interests. In addition, the benefits we provide, such as bonuses, flexible hours, and insurance provision, help to retain our employees. Our 'Appreciation Programme' recognises and appreciates employees for their performance, loyalty and commitment.

Our compensation policy/framework, in compliance with the sound remuneration practices regulation of the CBB, is built to reward performance while reaching competitive levels essential to attract and retain our talents. The remuneration elements include monthly salaries and allowances with an annual discretionary bonus scheme based on net income of the year and employees' individual performance. The bank also has a discretionary bonus scheme based on net income for the year which takes account of employees' performance.

Our parental leave policy provides for maternity leave of up to 120 days of paid leave for our female employees and up to three days for male employees and covers a range of other circumstances such as vaccination leave, childcare, and medical leave.

Performance reviews	2017	2018	2019	2020	**2021**	Target
Percentage of employees who received a performance and career development review	100	100	100	100	100	100

To gain insight into how far our values are embraced and to better understand how to improve our engagement with employees, we conducted a culture survey to assess the level of employee alignment with our core values and culture. Our engagement and employee satisfaction ratings were positive, but we are always looking for ways to improve.

In 2021, we have sought advice from an internationally recognised human capital development evaluation organisation, Investors in People (IIP), considering employee engagement. NBB's benchmark scoring was 748 out of 900 which is equivalent to 83%, rated against nine key indicators:

- Leading and inspiring people
- Living the organisation's values and behaviours
- Empowering and involving people
- Managing performance
- Recognising and rewarding high performance
- Structuring work
- Building capability
- Delivering continuous improvement
- Creating sustainable success

Employee engagement	2019	2020	**2021**	Target
Employee engagement (%)	85	82	83	-
Employee satisfaction score (%)	80	84	83	80

How we Create Value continued

Diversity and inclusion

We recognise the value that diversity brings to the workplace, in generating open-mindedness, tolerance and appreciation of difference in opinion. These attributes are essential in developing high-performing teams. A webinar for the Board of Directors on the importance of diversity and inclusion in the workplace re-affirmed the importance of these issues in 2021 and was attended by 91% the Group's Board of Directors and executive management.

Diversity and inclusion are principles that drive NBB's approach to the development of our workforce. We promote a culture of inclusion and acceptance of differences among employees. The objective is to continue to build 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.

Our Grievance Policy, updated in 2019, provides clear guidance on how to raise and resolve workplace concerns. There were no reported incidents of discrimination or harassment, nor any incidents of child or compulsory labour, or poor labour practice at NBB in 2021.

Embracing difference

Diversity and inclusion are two values deeply ingrained in NBB; we empower our people regardless of their differences and provide equal opportunities for all to excel.

"Our Diversity and Inclusion Committee has been working to enhance the experience of women in the workforce and in particular support for working mothers".

Maryam Al Jaber, Processing Clerk, Bank operations

Building local capability

As one of the largest national employers we remain focused on employing and nurturing Bahraini calibre into the next generation of banking professionals who will pave the way for new industry standards.

How we Create Value continued

4 QUALITY EDUCATION
5 GENDER EQUALITY

Female empowerment
Our sustainability roadmap recognises the need to reinforce Bahraini and female empowerment. Attracting and retaining female talent is one of our most important objectives. In 2021, women represented 37% (288) of our total workforce and held 20% (43) of middle management positions. Two female employees held executive management positions, and we have one female member of the board of directors.

We provide flexibility in the form of benefits that are tailored to our female employees. Our HR policies contain clauses designed to support female employee flexibility in attendance and maternity leave.

Parental leave	2017	2018	2019	2020	**2021**
Number of female employees who took parental leave	5	17	18	11	15
Number of female employees who returned to work after parental leave ended (return to work)	5	17	18	11	14
Number of female employees who returned from parental leave were still employed twelve months after return to work (retention)	5	16	17	11	14
Return to work rate (%)	100	100	100	100	93.3
Retention rate (%)	100	94.1	94.4	100	93.3

Data are for NBB Bahrain only.

Nationalisation
As part of the bank's efforts to recruit and develop local talent, 64 Bahraini nationals were hired for employment in 2021, resulting in a Bahrainisation rate of 95%, positioning NBB among the highest Bahrainisation rates in the industry. Additionally, our internship programme offers a broad view of the banking industry while ensuring interns have an engaging and rewarding experience. Of 60 interns on-boarded in 2021, a total of 25 were hired full time.

Nationalisation (in NBB Bahrain)	2019	2020	**2021**
Nationalisation of senior management (%)	64	72	79
Nationalisation among total workforce (%)	94	95	95

Note: Senior management are defined as those who are heading Strategic Business Units and Department Heads.
Nationals are Bahraini employees.

How we Create Value continued

Protecting our people

We aim to offer our employees 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. In 2021, we carried out six training webinars focused on optimizing health and safety awareness for our employees.

Our Health and Safety policy provides a framework for the protection of all staff, assets and customers. NBB has a low risk tolerance for any health and safety incidents. We are committed to the continuous improvement of Health and Safety performance and do not compromise on the safety of our staff, customers, visitors, or contractors across all properties. The health and safety plan is in line with local laws and regulations and WHO standards.

We are continuing to formalise the development of a safety management system, with risk management guidelines covering all premises, as per Bahrain legal requirements. This system will cover areas such as legal compliance, inspection, induction and procedures, staff health and safety training, incidents, and unsafe condition reporting and investigation procedures. Its scope also covers a range of procedures including contractors' management, first aid, safety communication, emergencies, workstation safety, and manual and chemicals handling.

As part of our effort to provide a safe and healthy working environment, we have partnered with the Paramedics Academy in association with the American Safety & Health Institute to equip our employees with first aid training. A total 57 employees, representing all functions and departments including branches, completed the training and were issued with two-year validity certificates at the end of the programme.

This initiative aims at ensuring the availability of certified first aiders at every location to ensure a safe environment for all NBB stakeholders. The training was conducted in a practical platform and a ''learning by doing' style, enabling employees to handle any circumstances that might arise and encounter any sudden injury whilst at work in addition to theoretical elements.

Information on HSE incidents, if they occur, is compiled monthly and reported to senior management. Depending on the nature of the incident, incidents are also reported to the Operational Risk or HR department. In 2021, two lost-time injuries were reported. We are pleased to report that no fatalities occurred.

Health and Safety	2020	2021
Employee fatalities	0	0
Contractor fatalities	0	0
Employee lost-time injuries	1	2
Contractor lost-time injuries	0	0

Pandemic response

The pandemic continued to create challenges for the safe operation of our business and in ensuring a safe working environment for all our employees, contractors, and customers. Many staff continued to work from home and COVID-19 protocols were maintained. These constraints added to the challenges of integrating BisB staff within the new organisation.

We have provided required Personal Protective Equipment (PPE) to all staff and ensured all contractors are using the right equipment to comply with CBB and Ministry of Health guidelines. In many of our branches, security strength was increased to manage visitors/customers more effectively in bank premises.

We have conducted awareness sessions for contractors to ensure they remained aware of the new measures that need to be followed during the pandemic. This has covered areas such as how to handle working from home, stress, managing employees remotely, productivity while working from home, and mental health and wellbeing.

Health and safety targets

NBB will continue to maintain all necessary information, instructions, training and supervision to ensure a safe and healthy environment across all assets.

We aim to develop an annual health and safety plan to identify, monitor and mitigate risks and implement health and safety arrangements. We are working to strengthen our health and safety framework, to have more control on monitoring bank premises, and giving regular and continuous training to all staff.

Our targets for 2022 are to reinforce the strength of our health and safety system across the bank and to impart continuous awareness training to all staff members. We aim to reduce the number of health and safety incidents to zero.

How we Create Value continued

A commitment to people development

Investment in the personal growth and professional development of our people is one of the three core areas of our change strategy because our transformation is a collective journey, and it is necessary to be driven from within..

Training and education

Having highly engaged and motivated employees is vital to our success. To be the leading financial institution locally and to be a significant regional player, our people must be given the opportunity to fulfil their potential. The growth and development of our employees is an integral part of our sustainability framework.

We have developed a comprehensive portfolio of training and development programmes that keep abreast of industry best-practices. They fall within the following areas:

- Regulatory and mandatory training.
- Sustainability:
  - In line with our three-year sustainability roadmap, our training seeks to enhance awareness of sustainability across the group, in alignment with our sustainability framework. A range of environmental, social and governance awareness sessions have been conducted throughout the year including courses on environmental management, and ISO 14001, the environmental management systems standard. We have also provided training on embedding a culture of volunteerism and on a variety of governance topics such as the code of conduct, compliance awareness, cyber safety and security.
  - 489 employees completed the sustainability awareness e-learning programme, which accounts for 65% of the total employee workforce higher than 2020 by 166%.
- Empowerment:
  - A proactive approach was initiated in 2020 through the introduction of a non-limiting, easily accessible, easy platform made available to all employees at their discretion.
  - This platform continued to be effectively used in 2021, which contributed positively towards:
    - Employee empowerment: Employees are empowered to learn, participate and manage their own training tracker to ensure achieving a minimum of 15-training hours annually through the ease of accessibility and flexibility of the virtual platform.
    - Supporting the Sustainability framework: Aligned monthly virtual calendars with the sustainability framework by ensuring each topic is linked to one of the seven pillars that make up the framework.
  - Our approach to training seeks to empower employees to be accountable and responsible for their own personal growth and development. We support them by offering training courses and programmes, along with on-the-job development. We encourage employees to consider their careers as journeys of continuous learning, equipping them with the skills and knowledge needed for development while ensuring business needs are met.
- Technical: To ensure the required level of technical competencies are maintained across the various functions.
- Data Literacy: Our Data Literacy Academy was launched in 2021, broken down into three phases and spanning over three years. Phase one was completed in 2021 and provided employees with an introduction to data literacy fundamentals including topics such as data sources, collection, storage and forms. A more advanced course focused on improving employees' knowledge of data visualisation, concepts and principles. Seventy-five employees successfully completed the advanced data literacy course, which involved five days of training followed by an exam.

'The Academy aims to build sustainable skills that our employees can use to make more effective, evidence based, data drive decisions that will translate into improving organizational performance and building a pipeline of data literate leadership teams for the future'.

Dana Buheji,
Group Chief Human Resources & Sustainability Officer, NBB

How we Create Value continued

- Leadership:
  - To ensure succession is possible at all levels, focus was placed on leadership and development initiatives within the organization. In 2021, the Bank witnessed the successful completion of the Rise 1 Programme with 20 Graduates representing a variety of departments. In 2021, NBB launched Rise 2, an evolution of Rise 1. In addition, it launched the Group Rise Programme with a new cohort to include NBB and BisB Future Leaders.
  - Inspire is NBB's mentoring programme, which was launched as a pilot in 2019. Inspire was limited to the NBB Rise programme pool of candidates as mentees and only executive management as mentors. It consisted of 65 mentees and 27 mentors. On the programme's completion, we launched an enhanced programme "Inspire2.0", to expand the initiative to make it more inclusive – extending it to all NBB group employees, catering for different objectives, able to explore the use of different connection channels (physical, virtual, individual and group sessions) and using technology to facilitate the matching of mentor and mentee.

In total, we provided our employees with 38,620 training hours during 2021, an increase on the hours provided in 2020. We continued to offer training through the pandemic, using online webinars. These virtual training sessions were accessible to all employees through different devices, with course awareness raised through the issue of a virtual training calendar. The aim of the sessions was both to provide employees with coping mechanisms to help them better adjust to the challenging work environment, and to provide opportunities for them to continue to build their skills and knowledge.

Training	2017	2018	2019	2020	**2021**
Total training delivered (hours)	6,354	25,186	25,284	32,737	38,620
Average training per employee (hours)	11	36	36	43	50
Number of employees who completed sustainability awareness e-learning programme	-	-	-	294	489

	Head Count			Total Training Hours				
				Total Training Hours	Female		Male	
	Total	Female	Male		Total	%	Total	%
Senior Management	12	2	10	374	71	19%	304	81%
Middle Management	233	43	190	12,421	2,543	20%	9,878	80%
Non Management	534	243	291	25,825	11,216	43%	14,609	57%
Total NBB	779	288	491	38,620	13,830	36%	24,790	64%

	All	Female	Male
Average Training Hours	50	48	50

Notes: Definitions pertaining to training data only:
Senior management (Executive management)
Middle management (Managerial levels)
Non-management (Non-managerial levels)

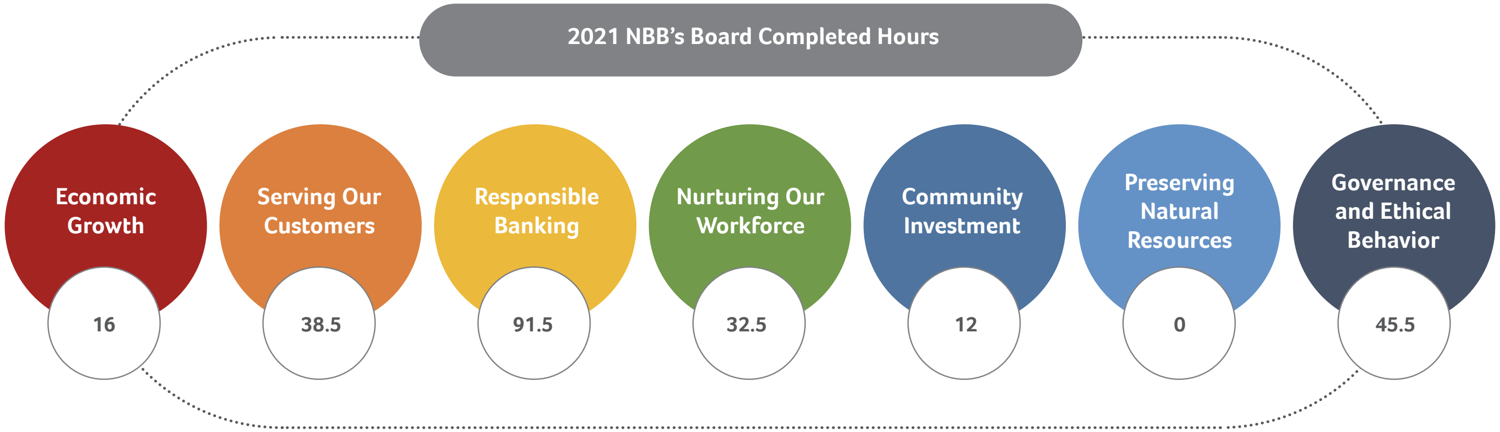
> "NBB also continues to lead by example, having launched their own mentorship scheme in 2019, showing their strong belief in the value of mentorship and the important role such programmes play in accelerating professional and leadership development. NBB's input and experience will help highlight the benefits of mentorship and, importantly, how it can and should be prioritised in the post-pandemic workplace."
>
> Zahraa Taher,
> Managing Director of FinMark Communications, the Forum's founder and organiser

How we Create Value continued

Board training

Training and inclusion sessions are also provided when joining NBB's board. As per the CBB Rulebook, each board member is required to complete 15 hours of continuous professional development training each year. As shown, board training covers a range of financial and non-financial topics:

	Governance & other ESG related			Information Security			Banking Finance			Others			Total Number of Training hours		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Board members	35	91.5	65	0	11.5	19	203	95.8	77	96	47.5	75	334	246.3	236



Compliance Centre of Excellence

NBB's Compliance Centre of Excellence aims to build effective competencies that align with international compliance standards. The latest initiative's fundamental principles are based on providing experience and education to its participants. It will consist of role-specific training, professional qualifications, micro- learning, immersive scenarios, masterclasses and a continuous professional development programme.

"Embedding compliance throughout various business operations is a necessary responsibility. NBB is making significant strides through the initiation of its Compliance Centre of Excellence that will encourage others to follow suit".

Helen Langton, Chief Executive Officer of ICA, APAC and Middle East

How we Create Value continued

Volunteering

The monetary element of our community giving is supported by our efforts to develop a culture of employee volunteering. In 2021, we targeted a volunteering population of 15% across all NBB Bahrain employees, with engagement across functions. In 2021, a total of 212 employees volunteered in a variety of community investment opportunities representing 28% of the NBB population.

Injaz Bahrain are one of our main partners when it comes to volunteering for the significant role and impact they have in our local community. In addition, we have partnered with key stakeholders such as The Ministry of Labour and Social Development, the University of Bahrain, Bahrain FinTech Bay, Clean Up Bahrain and AIESEC to support their volunteering activities.

We are keen to pursue opportunities to be active partners with communities and collaborate with them in activities and events such as the National Sports Day. Our guiding principle is a willingness to engage in ways that make a real difference to the physical, mental and spiritual well-being of others, enriching the lives of generations.

Empowered to make a difference

Our people are empowered to spread social awareness and take an active role in helping to make a difference in their communities within.

Beach Cleaning

In its biggest volunteering event of 2021, The National Bank of Bahrain and Bahrain Islamic Bank organised a beach clean-up at AlMalkiya Beach, in partnership with CleanUp Bahrain, a local non-profit environmental organisation. In the spirit of giving back to the Kingdom, 350 volunteers comprising employees from both Banks and their family and friends, came together in 2021 to volunteer in the initiative, and collected a total waste amount of 1,050 kg covering a space of 1,182 m in 1.5 hours.

How we Create Value continued

10 REDUCED INEQUALITIES | Supporting an Enabling Environment for Sustainable Development | Upholding the values of the state & society | 2030 أهداف التنمية المستدامة البحرين BAHRAIN SDGs

Supporting our community

Involvement in the welfare of the families in the communities where we serve is of utmost importance to us. It is both our duty and our privilege to be supporting the community that has been our home and our most loyal supporter – its prosperity is key to our success.

We strive for a holistic approach that aligns our efforts with the needs of the community and the country's social, economic and environmental priorities.

Delivering value to the community

Giving to communities has been part of our core values and a priority since we opened for business. Our Donations and Contributions Policy stipulates that 5% of our net annual profit is earmarked to social outreach activities. To date, we have allocated more than BHD 50 million to local communities.

Our community investment approach is structured, clearly defined, and built around seven themes:

- Education: such as making contributions to educational institutions and scholarships.
- Healthcare: equipping hospitals and medical centres and contributions to registered organisations.
- Social welfare: making contributions to associations, social and philanthropic societies.
- Development: organising and participating in professional occasions, specialised symposiums and events aimed towards development.
- Diversity and inclusion: supporting initiatives enhancing the acceptance and inclusion of differences between people.
- National sports: supporting national sports initiatives which have a positive impact on society and /or the image of the Kingdom of Bahrain.
- Others: all other investments and contributions justified by our DCC committee.

In addition to launching initiatives ourselves, we also receive applications for support from a wide range of external organisations, where clear criteria and specified requirements are set to ensure eligibility before applications are assessed. This includes consideration of how well the initiative aligns with our brand, our customer promise of being closer to you and our goal of enriching the lives of future generations. We also consider its alignment with our seven sustainability pillars. Our support is given either in cash or in-kind such as through staff expertise, and promotional campaigning. External requests for support our considered by the management and the donation and contributions committee. We are pleased to see that our presence frequently encourages others to become involved in similar initiatives.

In the year ahead, we plan to review and revise our community investment framework to leverage NBB's full resources and capabilities and align with our strengths. We also plan to assess existing projects and improve planning of new initiatives using a social return on investment methodology.

The bank contacts entities each year that are receiving donations and seeks regular documentation of their audited financial information and proof of their achievements in the period, as a mechanism for monitoring the effectiveness of its community development approach. We follow internal requirements to ensure compliance with local regulations, such as ensuring that the required licenses and registration to operate in the Kingdom are in place.

Community investment Allocation	2019	2020	**2021**
Value of allocation to the Donations and Contributions Fund (BHD m)	3.5	3.7	2.7

Notes:
1. Each year, the annual allocation for donations and sponsorships is 5% of NBBs' net profit for the previous year.
2. For 2021 the allocated amount was BHD 2.7 million. The actual amount spent during the year was BHD 4.1 million including projects instalments.
3. The donation pool is an accumulation of the previous year's allocations that is used in accordance with the year's strategic initiatives and approval authority directions to the beneficiaries.

Quality and preservation of life is foremost in our healthcare outreach, encompassing donations to hospitals, medical centres and health providers, and arranging vital well-being awareness campaigns throughout the year. 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 hospital construction at an estimated cost of BHD 1.7 million over the next two years.

The construction, refurbishment, and equipping of the Khalifa City Health Centre in Jaaw has recently been completed. We also 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 organizations such as the Red Crescent Society and Bahrain Mobility International. We also donate to social centres, libraries, and health centres including homes for the elderly.

How we Create Value continued

Financial literacy

Our initiatives to enhance financial literacy educate customers and targeted groups such as young people, individuals on low-incomes, and immigrants on financial planning and management.

The financial literacy webinars, social media posts, and educational sessions we provide improve the financial literacy of our customer base as well as the public. For our customers, our aim is to make sure they are aware of how they can make best use of our products and services. They benefit by getting advice and tips on how to enhance their savings, manage their finances, or other financial matters. More broadly, this effort forms part of our approach to contribute to the growth of a better-informed public, literate in financial matters.

We have also carried out financial literacy initiatives for commercial and small and medium sized company clients. An initial session, supported by the Ministry of Industry, Commerce and Tourism (MOICT), covered topics such as SME certification, eligibility, the application process, benefits, success stories and future plans. The session discussed the ways to align MOICT's initiatives with those available at NBB for the benefit of the SME sector. A second session, targeting business owners, focused on financial budgeting.

Supplier Relations

We value our relationships with all stakeholders, including our suppliers. Through responsible sourcing, we continuously look for opportunities and seek to mitigate risks associated with our supply chain, streamlining our performance and sustaining our operations.

We are committed to ethical, fair and transparent dealings with our suppliers.

We believe in mutually beneficial partnerships and adding value through opportunity creation. Acting as a reliable partner has guaranteed us decades of financial success and a solid reputation in the industry and beyond.

We recognise that a robust supplier engagement approach protects our own business from risk. As our human rights policy makes clear, "we do not tolerate engaging with contractors or service providers who do not observe and respect human and labour rights in all their undertakings. In our dealing with non-retail customers, we consider human rights".

We also understand that constructive supplier engagement contributes to the development of supplier capability in the wider economy. As part of our supplier selection process, we measure service quality, vendor capability and cost. By digitising our procurement process, we have both streamlined our own practices – including know your supplier requirements – and furthered the uptake of digital approaches in the supply chain.

In alignment with the Bahrain Vision 2030, we aim to source locally whenever possible. By doing so, we support the development of the local 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. In 2021, 72% of our total procurement spending was with local suppliers, slightly lower than in previous years.

Local procurement (for Bahrain operations only)	2019	2020	**2021**
Total number of suppliers engaged	336	228	411
Total number of local suppliers engaged	309	187	334
Total number of SME suppliers engaged	131	57	40
Total number of women-owned suppliers engaged	43	16	8
Total procurement spending (BHD m)	30	46	38
Procurement spending on local suppliers (BHD m)	23	34	30
Percentage of spending on local suppliers (%)	78	78	79
Number of suppliers assessed against sourcing code of conduct	336	228	189

Notes: Local suppliers are defined as any company having a commercial registration (CR) in the Kingdom of Bahrain (as per Sijilat). While the bank's code of conduct does not cover vendors, all our vendors go through the onboarding process and 'Know Your Supplier' practice which covers confidentiality and transparency.

Pursuing sustainability goals

We want to lead initiatives that create opportunities for individuals and communities to thrive, that enrich people's lives and support sustainable progress for a more prosperous future.

Protecting and enhancing the value of natural resources

We are dedicated to managing the environmental impact arising from our own operations, including energy and water consumption, and our waste management and recycling. We are putting actions in place to boost our performance in all these areas.

How we Create Value continued

Managing our own environmental impact

We have successfully introduced an ISO certified Environmental Management System (EMS) in 2021, which established a robust framework for the systematic management of our environmental impacts.

The EMS supports our ambitions to preserve and protect natural resources by preventing or mitigating adverse environmental impacts and helping us to meet our compliance obligations. The system also provides a framework for enhancing environmental performance by controlling or influencing the way in which our products and services are designed, manufactured, distributed, consumed and disposed. It is underpinned by a life cycle perspective that seeks to prevent environmental impacts from being unintentionally shifted elsewhere within the life cycle. The system also provides a framework that helps us communicate environmental information to relevant interested parties. To help its development, our internal audit department conducted a comprehensive review of the system.


Bureau Veritas Certification

NATIONAL BANK OF BAHRAIN

NBB TOWER, BUILDING 120, GOVERNMENT AVENUE, BLOCK 316, MANAMA, KINGDOM OF BAHRAIN

Bureau Veritas Certification Holding SAS – UK Branch certifies that the Management System of the above organisation has been audited and found to be in accordance with the requirements of the management system standards detailed below

ISO 14001:2015

Scope of certification

PROVISION OF BANKING SERVICES

Original cycle start date:	08-12-2021
Expiry Date of Previous Cycle:	NA
Certification / Recertification Audit date:	02-12-2021
Certification / Recertification cycle start date:	08-12-2021
Subject to the continued satisfactory operation of the organization's Management System, this certificate expires on:	07-12-2024

Certificate No.: BH001962 Version: 1 Issue Date: 08-12-2021

NAUMAN MUNAWAR- CERTIFICATION MANAGER

UKAS MANAGEMENT SYSTEMS 0008

Certification Body Address: 5th Floor, 66 Prescot Street, London, E1 8HG, United Kingdom

Local Office: Bureau Veritas Bahrain, Flat No. 11, Building No. 574, Road 1111, Tubli 711, Kingdom of Bahrain

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Property management

Over the past four years, we have taken major strides to improve the efficiency of our office space and have created a better working environment that supports collaboration and team working.

We have also taken steps to act on the findings of an audit of our branch network, including carrying out branch refurbishments and improving accessibility and ease for customers. While we continue to progress with renovations, we are confident that the newer branches offer a consistent and modern feel for customers.

Energy use

We have taken action to reduce energy use and increase energy efficiency, such as process redesign, conversion and retrofitting of equipment, encouraging changes in employee behaviour, and making operational changes. We have:

- Installed a building management system to control and optimise utility consumption.
- Initiated the installation of solar panels in two NBB Branches, at Istiqlala and Riffa Souq. The project contract has been signed and site preparation started in December 2021.
- Retrofitted lighting in our offices and branches, where 90% of lights fittings have been converted into LED and more energy efficient fittings.
- Begun reporting CO2 emissions based on utilities and fuel consumption.
- Replaced tube lighting with energy efficient LED at all lift lobbies in the NBB Old Tower.
- Replaced lights in the New Tower Lift lobbies and corridors with energy efficient LED fittings, and incorporated motion sensors to reduce power use.

Taking a systematic approach to managing our environmental impacts

Background	Establishing an EMS is in line with NBB sustainability strategy and three-year road map. Implementing the management system will help us to address key environmental topics such as climate change.
Approach	An internal ISO project team was formed, drawing on personnel from various departments, to implement the requirements. We engaged an external specialist, HA Consultancies, to assist us throughout the process of management system development and certification. They supported us in preparing audit requirements, guidance and development of the required policies and procedures.
Outcomes	NBB is the first bank in Bahrain to receive ISO 14001:2015 EMS certification. We are moving ahead within the three-year plan to integrate sustainability by taking steps to reduce waste and improve the efficiency of our natural resource use to reduce our carbon footprint.

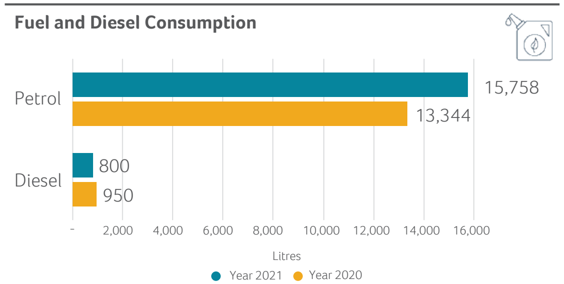
"Our Environmental Management Systems Certificate 14001:2015 is the best evidence of us moving towards promoting environment friendly initiatives as well as taking action to reach climate neutrality and minimizing our impact on the environment."

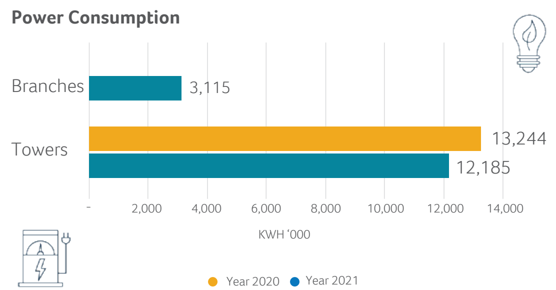
Mr. Haitham Seyadi
Group Head of Property, Procurement & Administration, NBB.

How we Create Value continued

- Renovated office space in the NBB New Tower and achieved a 30% improvement in space utilisation and reduced space occupancy per employee. We have also created a customer destination area, more staff collaboration space, and a dedicated staff café and training rooms.
- At our branches, we have optimised the use of space, introducing collaboration spaces, which increases work productivity.

We do not currently use renewable energy but are developing plans to extend our uptake of solar panels in our properties.





	2019	2020	2021	Target
Total number of branches (no.)	26	27	24	
Total m^2 of space across all facilities (office, storage, facilities, etc.) (m^2)	36,790	36,847	35,827	
Direct energy consumption*				
Petrol consumption from operations and vehicles (litres)	-	13,344.41	15,758.23	
Diesel consumption from operations and vehicles (litres)	-	950	800	900
Energy consumption from diesel consumption (GJ)**	-	39	32	36
Energy consumption from petrol consumption (GJ)***		480	567	

Notes:
* Petrol Consumption calculations were based on money spent, then converted to consumption using the Tariffs imposed on the type of Gasoline Consumed for each vehicle i.e. Gasoline 91 or 95
The Tariffs rates are 0.140 BHD for Gasoline 91, and 0.200 BHD for Gasoline 95.
Diesel Consumption at NBB refers only to backup generators.
** Diesel was converted from m3 to GJ, and the conversion rate is 41.030 as per DataQualityApps e. K. website.
*** Petrol was converted from m3 to GJ, and the conversion rate is 36.006 as per DataQualityApps e. K. website.

Indirect energy consumption*	2019	2020	2021		Target
Electricity consumption (office, storage, facilities, etc.) (kWh)	15,484,480 NBB towers	13,244,080 NBB towers	12,185,400 NBB towers	3,115,289* branches	12,200,000 KWH/yr NBB towers
Energy consumption from electricity (GJ) **	55,744.12	47,678.68	43,867.44 NBB towers	11,215.04 branches	43,920
Energy consumption from outside the organisation (GJ)	-	-	NA		
Energy consumption intensity (GJ/employee)	73.16	62.65	83.23 (NBB towers) *** 64.45 (branches)		-
Energy intensity by space (GJ/m2 of space)	2.07	1.77	1.63 (NBB towers) 1.26 (branches)		-
Renewable energy consumption (office, storage, facilities, etc.) (kWh)	-	-	NA		

*Branches Power Consumption was only reported in 2021. Three branches that did not report electricity consumption were excluded from the calculations as the landlord pays for the electricity consumption. The number of branches that reported electricity consumption is 20
** The conversion factor from Kwh to GJ is 0.0036 as per DataQualityApps e. K website
***Energy intensity relates to internal energy consumption only. Energy Consumption Intensity was calculated by Dividing Energy Consumption (GJ) by the Number of Staff in Branches or Towers excluding interns and contractors.
The Number of NBB Staff in Branches is 174
The Number of NBB Staff in Towers is 527

How we Create Value continued

Direct energy consumption	2019	2020	2021		Target
Total energy consumption (kWh)*	15,484,480 NBB towers	13,244,080 NBB towers	12,185,400 NBB towers	3,062,145 branches	12,200,000 KWH/yr NBB towers
Energy consumption intensity (GJ/ employee)**	73.16	62.65	83.23	63.35	
Energy intensity by space (GJ/m^2 of space)	2.07	1.77	1.63	1.24	

*Branches that did not report electricity consumption were excluded from the calculations of energy consumption intensity as the landlord pays for the electricity consumed. The number of branches that reported electricity consumption is 20.
** Energy intensity relates to internal energy consumption only.
Energy Consumption Intensity was calculated by Dividing Energy Consumption (GJ) by the number of staff in branches or towers, excluding interns and contractors.
The number of NBB staff in branches is 174.
The number of NBB staff in towers is 527.

Greenhouse gas emissions*	2019	2020	2021		Target
Direct GHG emissions (scope 1) (tons CO_2e)	-	34.4	39.8		
Indirect GHG emissions (scope 2) (tons CO_2e)	9,801.7 NBB towers	8,383.5 NBB towers	7,713.4 NBB towers	1,972 branches	
Other indirect GHG emissions (scope 3) (tons CO_2e) – business travel	-	-	-	-	
Total GHG emissions (tons CO_2e)	9,801.7	8,417.9	9,725.2		
GHG emissions intensity (tons CO_2e / employee)**	12.86	11.06	14.63** NBB towers	11.3 branches	

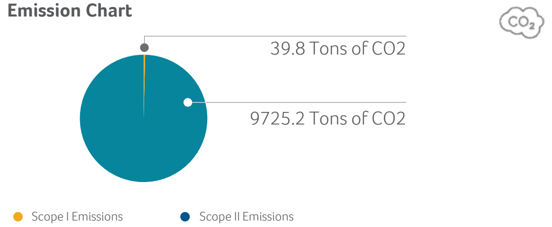
*The GHG Emissions were measured in accordance to the international GHG protocol that defines reporting scopes 1, 2 and 3. The CO2 Emissions were calculated in accordance to ISO 14064:2018 Greenhouse Gas Emissions.

**The GHG Emissions Intensity was calculated by dividing the CO2e by the Number of Staff in Branches or Towers excluding interns and contractors

The Number of NBB Staff in Branches is 174

The Number of NBB Staff in Towers is 527

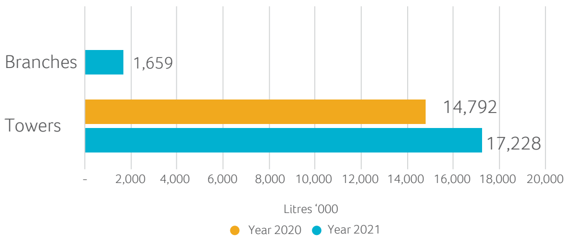
Emission Chart



How we Create Value continued

Case study:	Supporting the development of solar power with Bahraini students
Background	NBB supported students from the University of Bahrain in the Solar Decathlon competition, who qualified to attend Dubai Expo 2020 to showcase their project covering solar energy and the use of efficient energy sources, through sustainable means.
Approach	The Solar Decathlon is an international competition created by the U.S. Department of Energy in which universities from around the world meet to design, build, and operate sustainable solar-powered houses. The University of Bahrain team of 20 qualified to continue in the competition as the team has passed the first qualifiers. The team is the only participant from the Kingdom of Bahrain against 18 Arabian teams from different countries and universities.
Outcomes	As a result of the contribution made towards this project, they have achieved their goal, and have placed Bahrain on the map in line with other countries in the development of solar energy sources. 'It is always a great honour to support our young students in this international event, and we are constantly seeking to invest in expanding the knowledge base and promote innovative initiatives within the education sector. Furthermore, international events like this provide an opportunity to showcase the Kingdom's vision to capitalise on renewable energy, and gain recognition for the success of our national talents by highlighting their diversified capabilities and accomplishments.' Jean-Christophe Durand, Chief Executive Officer, NBB

Water Consumption



To reduce water consumption in our office premises, we have refurbished our facilities with various sanitary ware equipped with sensors to conserve water. However, water consumption increased in 2021 as a result of a major maintenance activity which required tank emptying and refilling.

Water consumption*	2019	2020	**2021**	**Target**
Total water consumption (000 litres)	19,952 NBB towers	14,792 NBB towers	17,228 NBB towers 1,659** Branches	13,000
Water consumption intensity (litres/ employee)**	26.2	19.4	32.7 NBB towers*** 9.5 Branches	

* This table excludes branches that did not report any water consumption as the landlord pays for them.
The number of branches that reported water consumption is 15.
** Water consumption intensity is calculated by dividing water consumption by the number of staff in branches or towers, excluding interns and contractors.
The number of NBB staff in branches is 174.
The number of NBB staff in towers is 527.

How we Create Value continued

Waste management and recycling

We recognise the need to improve employee awareness of the need for waste minimisation and recycling. Our operational control procedure enables us to monitor waste generated and recycling, as well as energy consumption. We have carried out awareness raising efforts to promote waste reduction, reuse and recycling.

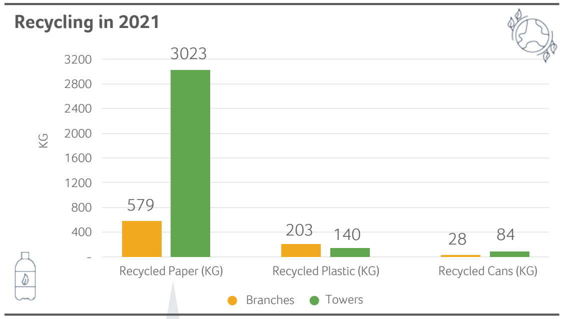
Total waste generated	2019	2020	2021	Target
Non-hazardous waste (tons)	-	-	24.32	
Hazardous waste (tons)*	0	0	0	
Total paper consumed (kg)**	-	21,479	15,124	Reduce paper use by 5% by Q2 2022
Total waste produced (tons)***	-	-	67.12	

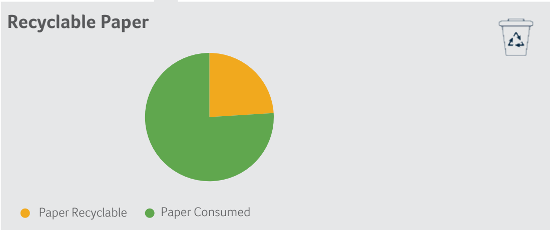
* The bank does not report any Hazardous waste as of 2021
** Paper consumption weight is calculated by multiplying the total number of papers consumed at NBB by the weight of one Ream of A3 or A4 paper
***Total Waste produced consists of the sum of Non-hazardous waste, Total paper consumed and General Waste.
General waste data collection started from August 2021 for NBB Towers.

Total waste recyclable	2019	2020	2021	Target
Non-hazardous waste (tons)*	-	-	24.32	Increase recyclable waste by 5%
Hazardous waste (tons)	0	0	0	
Total volume of wastewater generated (m³)				
Total volume of wastewater reused or recycled (m³)				
Volume of IT products recycled (tons)				
Printer cartridges (tons)				
Personal computers / ATM machines (tons)			6.9	

*We started measuring recyclable waste in Mar'21.

How we Create Value continued





Approximately 24% of Paper Consumed was Recyclable

We undertook several initiatives to convert paper-based systems into paperless or digital workflows, which resulted in significant reductions in paper use.

Furthermore, we started recycling old IT and ATM machines in 2021 in which around 6.9 tons of parts were reused/recycled.

We continue to implement our 'Go Green' initiative, establishing a vendor self-service to receive work orders and submit invoices digitally to reduce the bank's environmental footprint. We have been encouraging our clients to use digital platforms to minimise the printing of statements, reports and other documentation. We have also encouraged the digital onboarding of new and existing clients which eliminates physical account opening forms and documentation. NBB ATMs now prompt the customer to select the option of not printing receipts and receiving SMS messages as an alternative. This initiative in ATMs has been extended to account statements and credit cards statements and has resulted in effective paper waste reduction. It is estimated that this has resulted in savings of more than four million paper items per year from ATM receipts, 212,000 from account statements, and 250,000 from credit card statements. We have also introduced virtual cards to reduce plastic production and waste. Overall, we recycled 343.6 kg of plastic waste in 2021.

In our internal processes, we use virtual documents and signatures to reduce paper use where possible. We track and report our paper consumption and have developed an easy to use visual reporting tool that enables us to monitor consumption and report it accurately. In 2021, We recycled approximately 24% of paper used.

Total paper consumption (paper count)	Q1	Q2	Q3	Q4	Annual total
2019	-	1,666,450	908,027	766,288	3,340,765*
2020	1,030,595	1,636,928	843,066	800,451	4,311,040
2021	795,499	742,951	817,626	680,259	3,065,355

* 9 months data only

Enabling customer environmental action

We recognise that we have considerable influence, as a funder and investor, on the environmental impacts arising from our customers' activities. In addition to taking action to minimise our direct environmental footprint, we consider the environment, social, and economic impacts of customer activities, and we are keen to support projects that deliver wide-ranging benefits to society.

We support positive impact in a range of ways, including the provision of credit lines, support for organizations that demonstrate excellence in standards of corporate governance, and providing finance for business initiatives that develop environmentally beneficial products and services.

Case Study	Financing for Food Sustainability Project
Background	NBB has sought to support green financing initiatives and provided support to a food sustainability project. The project involved the design, build, operation and handover of a hydroponic farm in the Kingdom.
Approach	NBB has offered the financing required for the project, which is set to complete within 12 months. The project falls within a wider initiative targeting various sectors, specifically small and micro projects in the Kingdom, specialising in agriculture. The effort focuses on the principles of stability and the prosperity of Bahraini citizens as well as the preser-vation of national natural resources and encouraging community participation. Hydroponic farming is revolutionising the agricultural industry, with the hydroponic plant using 90% less water than traditional methods, making it more sustainable than regular farming. Minimising the country's carbon footprint, hydroponic fields also eliminate soil borne pests for healthier crops and the need for plant fertilisers. The engagement has required close communication with our clients and understanding the business opportunity. The proposal was routed through the normal credit proposal as per bank's policy before the facility was disbursed to the client.
Outcomes	"We are pleased to be partnering with NBB to bring this project forward. The initiative will assist in disseminating the awareness of agricultural techniques and overcoming challenges within the sector. By encouraging the use of modern agricultural methods and empowering the workers of this sector they will be able to use these modern techniques and therefore create more job opportunities in collaboration with the public sector and all relevant authorities." **Majed Al Ameen,** Vice Chairman of Ali Rashid Al Amin Co. "We are delighted to be collaborating with Al Amin Gardens to help develop this initiative. The importance of this project is at the heart of NBB's journey towards encouraging sustainability and ESG-friendly financing. Through this initiative we can drive more national projects that are in line with the Kingdom's efforts to promote environmental values as part of Bahrain's Economic Vision 2030. NBB continues to invest in initiatives that will benefit both the community and the future of the Kingdom." **Arif Janahi,** Head of Commercial & SME, NBB

How we Create Value continued

Case Study	Credit lines for metal scrap recycling business
Background	The company, involved in the collection, sorting and development and export of value added products from scrap material, participated and won a tender to clear scrap/ferrous scrap. NBB's role was to finance the company to lift the scrap materials and to handle the export documents arising from the transaction. The focus of our engagement with the company was two-fold: First, we provided support from the Government backed Liquidity Support Facility to support the operations of the company, Second, we provided Project Short Term Loans to support the client in the waste/scrap management project.
Approach	Our Commercial & SMEs department approached this transaction by engaging with the client and taking expert input from the trade finance product team to structure the deal.
Outcomes	Our client was able to execute the project successfully. Our financial assistance enabled the company to recycle around 10,000 tonnes of ferrous scrap, which not only delivered environmental benefit but also contributed to export income.

Case Study	Financing for hospital construction and solar panel installation
Background	NBB has supported financing for the construction of a new fully-fledged hospital which includes the installation of solar panels.
Approach	The company exhibited a high level of corporate governance and a healthy internal culture, which encouraged the Commercial & SME department at NBB to provide the required support, in line with the bank's commitment to supporting the health sector.
Outcomes	The hospital will be the first private hospital in the Kingdom to have a renewable energy source. The solar panels will be fully equipped with a net metering system and will be used to meet a significant portion of the company's power requirements. The hospital will be a leading eco-friendly hospital in the Kingdom, covering up to 50% of its electricity requirements from photovoltaic energy. "With NBB's support, we are looking to install around 3,000 solar panels on the hospital's roof to generate a sufficient amount of power that aims to reduce our electrical bills by up to 50%. As the first eco-friendly private hospital, we hope that this will become the norm amongst other healthcare facilities and hospitals across the Kingdom." Dr. George Cheriyan, Corporate Chief Executive Officer of American Mission Hospital.

Protecting Value

Corporate Governance and Ethical Behaviour

A well-established corporate governance structure, which adheres to the regulations of the CBB, has helped NBB 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 disclosure.

The board currently consists of four independent directors, representing 36% of the board, and seven 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's directors are paid an annual remuneration. Total remuneration levels are linked to performance targets, which include financial and social targets set for executives every year.

BDI
GCC Board Directors Institute

Board Training

The Board of Directors conducts an annual self-evaluation of the board's performance and its sub-committees, which is subject to review by shareholders each year during the annual general meeting. This assessment is undertaken through a structured questionnaire examining the effectiveness and involvement of each member against pre-defined criteria in line with the mandate of the board and each board sub-committee. All board members receive training and induction sessions when joining NBB's Board. Board training involves an extensive set of subjects including governance and other related ESG issues, information security, banking and finance and other relevant subjects. The total number of working hours for board training accounted to 236 hours in 2021. Specific governance and ESG related training hours totalled 65 hours in 2021.

The teams were able to conduct all board and board sub-committee meetings in 2021 notwithstanding the substantial logistical and health issues posed by COVID-19. All meetings were conducted transparently, and all post-meeting requirements were satisfied in a timely manner. The main completed milestones related to finalizing KSA's Corporate Governance Guidelines, conducting two General Meetings of the Shareholders, one of which was conducted on 13 October 2021 where the current Board was elected/appointed, held both virtually and physically, for the term ending in March 2024.

Promotion of a healthy compliance culture lies at the heart of NBB's strategy

We have focused on strengthening every department to maintain business sustainability and are well-positioned as a market benchmark in terms of compliance with regulations, corporate governance and risk management.

Corporate Governance and Ethical Behaviour

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 CBB regulations and applicable legislation 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. In maintaining these standards, the Bank has 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 are appointed by Bahrain Mumtalakat Holding Company, which holds 44.06% of the Bank's share capital and one member is appointed by Social Insurance Organisation, which holds 10.85% 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 elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. 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 was elected at the Ordinary General Meeting in October 2021 and its term is scheduled to expire by the Ordinary General Meeting to be held in March 2024.

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

In accordance with the definitions stipulated by the Central Bank of Bahrain, Directors are categorised as independent, executive and non-executive. The Board currently comprises of four independent directors and seven 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 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. 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 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.

Corporate Governance and Ethical Behaviour (continued)

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 are the Executive Committee, the Audit Committee, the Risk and Compliance Committee, Nomination, Remuneration, Governance and Sustainability Committee, Digitalization Committee, Overseas Committee and the Donations and Contributions Committee.

Executive Committee

The Executive Committee is comprised of five Board members selected and appointed by the Board, with one member being an independent director. The Executive Committee meets at least six times a year. The role of the Executive 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 Board members selected and appointed by the Board, two of whom are independent directors, including the Chairperson. The Audit Committee meets at least four times a year. The primary function of the committee is to review the bank's accounting and financial practices, 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 financial statements. 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 and regulations. 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 Donations and Contributions Committee is created to manage the distribution of funds allocated towards corporate donations and contributions ensuring that it adheres to the bank's strategic outlook and positioning reflected through its pillars. The committee is comprised of four Directors. The allocated annual contribution towards the fund is equivalent to 5% of the bank's net profit.

Risk and Compliance Committee

The Risk and Compliance Committee comprises of five members selected and appointed by the Board. It includes three directors and two independent advisors. The Risk and Compliance 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 bank's compliance framework.

Nomination, Remuneration, Governance and Sustainability Committee

The Nomination, Remuneration, Governance and Sustainability Committee (NRGSC) comprises of six Board members selected and appointed by the Board of Directors. Two Directors are independent and attend every meeting. The NRGSC meets at least three times a year. The role of the committee is to assist the Board in fulfilling its responsibilities with regard to the bank's nomination, remuneration policies, corporate governance guidelines and sustainability targets, based on regulatory requirements or industry best practices. The NRGSC has the mandate of identifying persons qualified to become members of the Board, CEO, CFO, Corporate Secretary, and any other officer positions considered appropriate by the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the Board and management.

Digitalization Committee

The Digitalization Committee, newly established in 2021, is responsible, amongst other things, for supervision and advising on matters relating to the digital strategy of the bank and its implementation, guiding its innovation, and related data frameworks. The Digitalization Committee will also discuss and monitor the associated risks, however, only to support the Risk and Compliance Committee to prevent overlap in mandates. The Digitalization Committee shall, in its oversight of digitalization report to the Board of Directors, including reporting its conclusions and recommendations on (i) the bank's digital transformation covering, including but not limited to, defining the adequate digital strategy, related technology adoption, digital operations, and reviewing and recommending the budget proposed by management for this purpose, and (ii) the bank's execution of its digitalization and related technology strategies to support its digital banking and IT functions. In this regard, the Digitalization Committee will take a forward-looking perspective, seeking to anticipate changes in business conditions.

Overseas Committee

The Overseas Committee, newly established in 2021, is responsible, amongst other things, for oversight and advising on matters relating to the overseas branches of the bank as well as the development and the monitoring of the risks associated therewith. It provides an essential role in supporting the strategic direction of the overseas branches. The Overseas Committee in its oversight reports to the Board of Directors with its conclusions and recommendations.

Corporate Governance and Ethical Behaviour (continued)

Board Meetings and Attendance

The Board 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 Central Bank of Bahrain 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 2021 and attendance are detailed below:

	Board		Executive Committee		Audit Committee		Risk and Compliance Committee		Nomination, Remuneration, Governance and Sustainability Committee		Donations & Contributions Committee		Digitalization Committee		Overseas Committee		Total		
Name of the Director	**Total No of meetings**	**Meetings attended**	**Total No of meetings**	**Meetings attended**	**Total No of meeting**	**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**	**Total No of meetings**	**Meetings attended**	**% of Meetings attended**
Farouk Yousuf Khalil Almoayyed Chairman	7	7							7	7	1	1					15	15	100
Dr. Esam Abdulla Fakhro Deputy Chairman	7	7	7	7					7	7	1	1					22	22	100
Fawzi Ahmed Kanoo Deputy Chairman	7	7	7	6							1	1			2	2	17	16	95
Sh. Rashed Bin Salman Al-Khalifa Director	7	7	7	7					7	7					2	2	23	23	100
Hala Ali Hussain Yateem Director	7	7			6	6					1	1	4	4			18	18	100
Rishi Kapoor Director	7	7					7	7	2	2							16	16	100
Mohamed Tareq Mohamed Sadeq Mohamed Akbar Director	7	7			6	6	7	6									20	19	95
Yusuf Abdulla Yusuf Akbar Alireza Director	7	7	7	7					7	7			4	4	2	2	27	27	100
Amin Ahmed Alarrayed Director	7	7	3	3	5	5			2	2			1	1			18	18	100
Vincent Van den Boogert[1] Director	3	3					2	2					3	3			8	8	100
Zaid Khalid Abdulrahman[1] Director	3	3			1	1											4	4	100
Khalid Yousif Abdulrahman[2] Director	4	4			5	5											9	9	100
Hussain Sultan Al Ghanem[2] Director	4	4	4	4													8	8	100

1 Vincent Van den Boogert and Zaid Khalid Abdulrahman joined the Board on 13th October 2021.

2 Khalid Yousif Abdulrahman and Hussain Sultan Al Ghanem left the Board on 13th October 2021.

Corporate Governance and Ethical Behaviour (continued)

Board Meetings and Attendance (continued)

Dates of meetings and attendance details

Board meetings: Total number of meetings held: 7

Name	Meeting dates						
	17/2/ 2021	5/5/ 2021	11/8/ 2021	28/9/ 2021 (Ad-Hoc)	13/10/ 2021 (Ad-Hoc)	27/10/ 2021	12/12/ 2021
Farouk Yousuf Khalil Almoayyed – Chairman	✓*	✓*	✓*	✓*	✓	✓*	✓
Dr. Esam Abdulla Fakhro – Deputy Chairman	✓*	✓*	✓*	✓*	✓	✓*	✓
Fawzi Ahmed Kanoo – Deputy Chairman	✓*	✓*	✓*	✓*	✓	✓*	✓
Sh. Rashed Bin Salman Al Khalifa – Director	✓*	✓*	✓*	✓*	✓	✓*	✓
Hala Ali Hussain Yateem – Director	✓*	✓*	✓*	✓*	✓	✓*	✓
Rishi Kapoor – Director	✓*	✓*	✓*	✓*	✓*	✓*	✓
Mohamed Tareq Mohamed Sadeq Mohamed Akbar – Director	✓*	✓*	✓*	✓*	✓	✓*	✓
Yusuf Abdulla Yusuf Akbar Alireza – Director	✓*	✓*	✓*	✓*	✓*	✓*	✓*
Amin Ahmed Alarrayed – Director	✓*	✓	✓*	✓*	✓	✓*	✓
Vincent Van den Boogert[1] – Director					✓	✓*	✓*
Zaid Khalid Abdulrahman[1] – Director					✓	✓*	✓
Khalid Yousuf Abdulrahman[2] – Director	✓*	✓*	✓*	✓*			
Hussain Sultan Al Ghanem[2] – Director	✓*	✓*	✓*	✓*			

* Attended through video conference.

[1] Vincent Van den Boogert and Zaid Khalid Abdulrahman joined the Board on 13th October 2021.

[2] Khalid Yousif Abdulrahman and Hussain Sultan Al Ghanem left the Board on 13th October 2021.

Executive Committee Meetings: Total number of meetings held: 7

Name	Meeting dates						
	20/1/ 2021	31/3/ 2021	16/6/ 2021	27/9/ 2021	1/11/2021 (Ad-Hoc) Joint with Digitalization Committee	10/11/ 2021	22/11/2021 (Ad-Hoc) Joint with Digitalization Committee
Dr. Esam Abdulla Fakhro – Chairman	✓	✓	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo – Director	✓	✓	✓	✓	x	✓	✓
Sh. Rashed Bin Salman Al Khalifa – Director	✓	✓	✓	✓	✓	✓	✓*
Yusuf Abdulla Yusuf Akbar Alireza – Director	✓*	✓*	✓*	✓*	✓*	✓*	✓*
Amin Ahmed Alarrayed[1] – Director					✓	✓	✓*
Hussain Sultan Al Ghanem[2] – Director	✓	✓	✓	✓			

* Attended through video conference.

[1] Amin Ahmed Alarrayed has been appointed on the Executive Committee on 13 October 2021.

[2] Hussain Sultan Al Ghanem left the Executive Committee on 13 October 2021.

Corporate Governance and Ethical Behaviour (continued)

Board Meetings and Attendance (continued)

Audit Committee Meetings: Total number of meetings held: 6

	Meeting dates					
Name	3/2/2021	9/2/2021	4/5/2021	20/5/2021 (Ad-Hoc)	10/8/2021	24/10/2021
Khalid Yousuf Abdulrahman[1] - Chairman	✓*	✓*	✓*	✓	✓*	
Hala Ali Hussain Yateem[2] - Chairwoman	✓*	✓*	✓*	✓	✓*	✓
Mohamed Tareq Mohamed Sadeq Mohamed Akbar - Director	✓*	✓*	✓*	✓	✓*	✓
Amin Ahmed Alarrayed[1] - Director	✓*	✓*	✓*	✓	✓*	
Zaid Khalid Abdulrahman[2] - Director						✓

*Attended through video conference.

[1] Khalid Yousif Abdulrahman and Amin Ahmed Alarrayed left the Audit Committee on 13 October 2021.

[2] Hala Ali Yateem has been appointed as Chairwoman and Zaid Khalid Abdulrahman as a Member of the Audit Committee on 13 October 2021.

Risk and Compliance Committee Meetings: Total number of meetings held: 7

	Meeting dates						
Name	28/1/2021	11/4/2021	27/6/2021	14/7/2021 (Ad-Hoc)	3/10/2021	30/11/2021	13/12/2021 (Ad-Hoc)
Rishi Kapoor - Chairman	✓	✓	✓*	✓*	✓*	✓	✓
Mohamed Tareq Mohamed Sadeq Mohamed Akbar - Director	✓	✓	✓*	✓*	✓	✓	x
Vincent Van den Boogert[1] - Director						✓*	✓*
Sabah Al Moayyed - Non-Director Advisor to the Board	✓	✓	✓*	✓*	✓	✓	✓*
Metthew Deakin - Non-Director Advisor to the Board	✓	✓	✓*	✓	✓	✓	✓*

*Attended through video conference.

[1] Vincent Van den Boogert joined the Risk and Compliance Committee on 13 October 2021.

Nomination, Remuneration, Governance and Sustainability Committee Meetings:
Total number of meetings held: 7

	Meeting dates						
Name	24/1/2021	10/2/2021	25/2/2021 (Ad-Hoc)	15/4/2021 (Ad-Hoc)	1/7/2021	1/11/2021	1/12/2021
Farouk Yousuf Khalil Almoayyed - Chairman	✓*	✓*	✓*	✓*	✓*	✓	✓
Dr. Esam Abdulla Fakhro - Director	✓*	✓*	✓*	✓*	✓*	✓	✓
Sh. Rashed Bin Salman Al Khalifa - Director	✓*	✓*	✓*	✓*	✓*	✓	✓
Yusuf Abdulla Yusuf Akbar Alireza - Director	✓*	✓*	✓*	✓*	✓*	✓*	✓
Amin Ahmed Alarrayed[1] - Director						✓	✓
Rishi Kapoor[2] - Director				✓* (Invitee)			✓

*Attended through video conference.

[1] Amin Ahmed Alarrayed joined the NRGSC on 13 October 2021.

[2] Rishi Kapoor joined the NRGSC on 1 December 2021.

Digitalization Committee Meetings: Total number of meetings held: 4

	Meeting dates			
Name	6/9/2021	1/11/2021 (Ad-Hoc) Joint with Executive Committee	22/11/2021 (Ad-Hoc) Joint with Executive Committee	22/11/2021
Vincent Van den Boogert[1] - Chairman		✓*	✓*	✓*
Yusuf Abdulla Alireza - Director	✓*	✓*	✓*	✓*
Hala Ali Yateem - Director	✓*	✓	✓	✓
Amin Ahmed Alarrayed[2] - Director	✓*			

*Attended through video conference.

[1] Vincent Van den Boogert has been appointed on the Digitalization Committee on 13 October 2021.

[2] Amin Ahmed Alarrayed left the Digitalization Committee on 13 October 2021.

Corporate Governance and Ethical Behaviour (continued)

Board Meetings and Attendance (continued)

Donation and Contributions Committee Meeting: Total number of meetings held: 1

Name	Meeting dates 8/6/2021
Farouk Yousuf Khalil Almoayyed - Chairman	✓*
Dr. Esam Abdulla Fakhro - Director	✓*
Fawzi Ahmed Kanoo - Director	✓*
Hala Ali Hussain Yateem - Director	✓*

*Attended through video conference.

Overseas Committee Meetings: Total number of meetings held: 2

Name	Meeting dates	
	20/6/2021	18/11/2021
Fawzi Ahmed Kanoo - Chairman	✓	✓
Sh. Rashed Bin Salman Al Khalifa - Director	✓	✓
Yusuf Abdulla Yusuf Akbar Alireza - Director	✓*	✓*

*Attended through video conference.

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
Weekly Executive Committee Meeting (WEM)	**1- Jean Christophe Durand - Chief Executive Officer (Chairman)** 2- Abdulaziz Al Ahmed - Chief Executive, Strategic Accounts 3- Dana Buheji - Group Chief Human Resources Officer 4- Iain Blacklaw - Group Chief Operating Officer 5- Bruce Wade - Group Chief Executive, Financial Restructuring 6- Yaser Alsharifi - Group Chief Strategy Officer 7- Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary 8- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 9- Russell Bennett - Group Chief Financial Officer 10- Isa Maseeh - Group Chief Risk Officer 11- Subah Al Zayani - Chief Executive, Retail Banking 12- Rana Qambar - Group Chief Compliance Officer* * Rana Qambar was appointed as Group Chief Compliance Officer on 15 June 2021.	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 executive/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 within his delegation.

Corporate Governance and Ethical Behaviour (continued)

Management Structure (continued)

Committee Name	Members	Objective
Management Credit Committee Frequency: weekly	Permanent Members: **1- Jean Christophe Durand - Chief Executive Officer (Chairman)** 2- Isa Maseeh - Group Chief Risk Officer 3- Yaser Al Sharifi - Group Chief Strategy Officer 4- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 5- Ali Ehsan - Chief Credit Officer Temporary Members: 1- Abdulaziz Al Ahmed - Chief Executive, Strategic Accounts	Overseeing the effective implementation of the bank's credit risk framework. Approving credit proposals and monitoring the credit portfolio in line with the bank's defined risk appetite and policies.
Operational Risk Management Committee (ORMC) Frequency: monthly	1- Jean Christophe Durand - Chief Executive Officer **2- Isa Maseeh - Group Chief Risk Officer (Chairman)** 3- Rana Qambar - Group Chief Compliance Officer * 4- Iain Blacklaw - Group Chief Operating Officer 5- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 6- Dana Buheji - Group Chief Human Resources and Sustainability Officer 7- Subah Al Zayani - Chief Executive, Retail Banking 8- Jaffar Mohammed - Head of Operational Risk & Permanent Controls 9- Razi Amin - Group Chief Information Officer** 10- Panos Moschonas - Group Chief Internal Auditor (Observer)*** 11- Fadhel Abbas - Group Chief Internal Auditor (Observer)**** *Rana Qambar was appointed as Group Chief Compliance Officer on 15 June 2021. **Razi Ameen left the ORMC in Q3 2021 ***Panos Moschonas's last working day in the bank was 30 September 2021. ****Fadhel Abbas was appointed as Group Chief Internal Auditor effective on 1 October 2021.	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 divisions of the bank.
Group Asset Liability Committee (GALCO) Frequency: monthly	**1-Jean Christophe Durand - Chief Executive Officer (Chairman)** 2- Hassan Jarrar - Chief Executive Officer, Bahrain Islamic Bank 3- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 4- Russell Bennett - Group Chief Financial Officer 5- Ameer Shabaan - Chief Financial Officer, Bahrain Islamic Bank 6- Isa Maseeh - Group Chief Risk Officer 7- Yaser Al Sharifi - Group Chief Strategy Officer 8- Jaafar Husain - Head of Liquidity and Market Risk	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.

Corporate Governance and Ethical Behaviour (continued)

Management Structure (continued)

Committee Name	Members	Objective
Project Steering Committee Frequency: monthly	**1- Jean Christophe Durand - Chief Executive Officer (Chairman)** 2- Yaser Alsharifi - Group Chief Strategy Officer 3- Iain Blacklaw - Group Chief Operating Officer 4- Isa Maseeh - Group Chief Risk Officer 5- Russell Bennett - Group Chief Financial Officer 6- Razi Amin - Head of Information Technology 7- Abdulla Buali - Head of Project Management Office 8- Muneera Mahmood - Strategy Manager 9- Panos Moschonas - Group Chief Internal Auditor (Observer)* 10- Fadhel Abbas - Group Chief Internal Auditor (Observer) ** * Panos Moschonas's last working day in the bank was 30 September 2021. ** Fadhel Abbas was appointed as Group Chief Internal Auditor effective 1 October 2021.	Ensure that the strategic programmes and major projects as approved by the management are successfully implemented. 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.
Group Compliance Management Committee Frequency: monthly	1- Jean Christophe Durand - Chief Executive Officer **2- Rana Qambar - Group Chief Compliance Officer (Chairperson)*** 3- Isa Maseeh - Group Chief Risk Officer 4- Dana Buheji - Group Chief Human Resources and Sustainability Officer 5- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 6- Subah Al Zayani - Chief Executive, Retail Banking 7- Zaina Al Zayani - Head of Business Development and Investments 8- Arif Janahi - Head of Commercial and SMEs 9- Nabeel Mustafa - Acting Head of Bank Operations 10- Panos Moschonas - Group Chief Internal Auditor (Observer)** 11- Mariam Turki - Head of Compliance Advisory (Secretary) * Rana Qambar was appointed as Group Chief Compliance Officer on 15 June 2021. Isa Maseeh held the position of committee chairman prior to her appointment. ** Panos Moschonas's last working day in the bank was 30 September 2021.	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 and Ethical Behaviour (continued)

Management Structure (continued)

Committee Name	Members	Objective
Digital Advisory Committee (DAG) Frequency: every two weeks	**1-Yaser Alsharifi - Group Chief Strategy Officer (Chairman)** 2-Iain Blacklaw - Group Chief Operating Officer 3-Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 4-Subah Al Zayani - Chief Executive, Retail Banking 5-Razi Amin - Group Chief Information Officer 6-Zaina Al Zayani - Head of Business Development and Investments 7-Ali Ghuloom - Head of Digitization and Projects Management 8-Mohemmed Kadhem Ebrahim - EPMO and Governance Leader	To define the digital direction of the bank, govern the digital initiatives and projects and support business transformation via: - Understanding the digital priorities of the bank - Reviewing the solutions and evaluate these to the bank - Aligning IT to the bank's direction and priorities in a planned manner to ensure effective and efficient utilization of technology - Ensuring that staffing, technology and investment are available to ensure reliable and timely services and projects - Overseeing all digital related projects and initiatives
Information Security Committee (ISC) Frequency: monthly	**1- Isa Maseeh - Group Chief Risk Officer (Chairman)** 2- Iain Blacklaw - Group Chief Operating Officer 3- Rana Qambar - Group Chief Compliance Officer* 4- Razi Amin - Group Chief Information Officer 5- Ali Al Majed - Group Chief Information Security Officer 6- Panos Moschonas - Group Chief Internal Auditor (Observer)** 7- Fadhel Abbas - Group Chief Internal Auditor (Observer) *** 8- Salman Radhi - Information Security Technical Support Manager and Sustainability (Secretary) 9- Subah Al Zayani - Chief Executive, Retail Banking. 10- Ali AlSaegh - Head of IT Security * Rana Qamber was appointed as Group Chief Compliance Officer on 15 June 2021 and subsequently joined the committee. ** Panos Moschonas's last working day in the bank was 30 September 2021. *** Fadhel Abbas was appointed as Group Chief Internal Auditor effective on 1 October 2021.	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 plan and monitor its implementation.
Business Continuity Management Committee Frequency: monthly	**1- Iain Blacklaw - Group Chief Operating Officer (Chairman)** 2- Isa Maseeh - Group Chief Risk Officer 3- Razi Amin - Group Chief Information Officer 4- Haitham Seyadi - Group Head of Property, Procurement and Administration 5- Nabeel Mustafa - Acting Head of Bank Operations 6- Ali Al Majed - Group Chief Information Security Officer	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. Function as a point of liaison with the local authority and Crisis Management Team at the Bank at times of crisis. Oversea the creation of appropriate task force groups, working groups and teams to develop and execute the business continuity plan, whenever is required.

Corporate Governance and Ethical Behaviour (continued)

Management Structure (continued)

Committee Name	Members	Objective
Product and Service Approval Committee Frequency: as and when a new product and/or service is considered for launch.	**1- Jean Christophe Durand - Chief Executive Officer (Chairman)** 2- Isa Maseeh - Group Chief Risk Officer 3- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 4- Iain Blacklaw - Group Chief Operating Officer 5- Rana Qambar - Group Chief Compliance Officer* 6- Jaffar Mohamed - Head of Operational Risk and Permanent Controls * Rana Qambar was appointed as Group Chief Compliance Officer on 15 June 2021 and subsequently joined the committee.	Approve new products and services. Approve material changes to existing products and services. Ensure that the key risks associated with the introduction of products and services are identified, thoroughly considered, and addressed in a controlled manner before the launch/ reactivation of the product or services.
Tender And Asset Disposal Committee: Frequency: Meetings convened as deemed necessary by the meeting administrator or their nominated alternate.	**1- Haitham Seyadi - Group Head of Property, Procurement and Administration (Chairman)** 2- Russell Bennett - Group Chief Financial Officer. 3- Rana AbdulAziz Qambar - Group Chief Compliance Officer* 4- Abdullah Abdulrahman Buali - Head of Project Management ** 5- Zaid Yusul Khonji - Head of Legal and Corporate Governance*** * Rana Qamber was appointed as Group Chief Compliance Officer on 15 June 2021 and subsequently joined the committee. ** Abdullah Abdulrahman Buali, Head of Project Management was appointed to this committee in May 2021. *** Zaid Yusuf Khonji, Head of Legal and Corporate Governance, was a member of the committee until May 2021.	Reinforce corporate governance, integrity, and transparency in the procurement process, contract management and asset disposal. The responsibilities are: • Ensure adherence to the bank Code of Conduct, Procurement Management Framework and Tendering Policy and procedure at all time. • Reinforce the principles of probity and accountability to ensure transparency of processes, fairness, confidentiality, and effective management of conflicts of interest. • Review evaluation criteria and raise any concerns related to the proposals submitted against such criteria. • Approve the tender awarding of all NBB Group tenders. • Approve disposal of assets with NBV up to BHD 10,000. All asset disposals with NBV of BHD 10,000 and above should be referred to CEO for approval. • Raise recommendations for any proposed award of project procurement contract that is not within the committee authority to the appropriate authority for the approval.

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

Corporate Governance and Ethical Behaviour (continued)

Performance evaluation of Board of Directors and sub-committees

Being known to strive for well-developed and balanced governance practices, ethical standards and fair dealings, NBB has revamped its Board performance evaluation process and enhanced its format to identify improvement opportunities to enhance the overall performance of the Board and its Committees.

The Board performance evaluation for the year 2021 has been conducted electronically through a structured performance evaluation questionnaire against pre-defined criteria, as per the mandate of the Board and each of its Committees. The form examined the effectiveness and contribution of the overall performance of the Board, its committees and the performance of each Board member. The evaluation process also covers the Board external advisors serving on the Board Risk and Compliance committee. The Group Chief Legal Officer and Corporate Secretary and the Board Secretary collated the responses, analyzed them and submitted a summary report to the NRGSC. As the body responsible for overseeing the Board performance evaluation process the NRGSC presented its findings to the Board of Directors in the first quarter of 2022, which confirmed that the bank's Board and its Committees continue to operate with a high level of effectiveness. The Board considers this a beneficial exercise that can enhance governance and therefore deliver and unlock value to NBB and its shareholders.

Related party transactions and conflict of interest

All directors have a duty under the Commercial Companies Law, the Central Bank of Bahrain 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 2021 are disclosed in Note 30 of the consolidated financial statements.

The independent directors play a key role in protecting minority shareholders' interests throughout their participation at a Board level and at the level of the committees which they are members of. Independent members are regularly informed and reminded of their right to conduct separate meetings comprised of only the independent members and this is exercised as and when requested by the independent members. For the year 2021 this was requested once and was held pursuant to that request.

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 30 of the consolidated 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 2021.

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 including Approved Persons. The Human Resources & Talent Development must be informed of any familial relationship to review reporting lines and responsibilities and mitigate any associated risks.

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 of Conduct and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

Shareholder's rights

The bank has a public disclosure on its website on shareholder's rights. It includes, amongst other things, the right to deal in the bank's shares, to attend the general assembly and the right to receive dividends as decided by the general assembly.

Corporate Governance and Ethical Behaviour (continued)

Whistle Blower policy

In line with CBB requirements and leading practices, we have implemented a whistleblowing policy to protect our employees from any form of violation. If employees or other parties providing the Bank with services (including agents, consultants, auditors, suppliers and other service providers under contract with the Bank) observe any unethical or improper practice or behavior, a wrongful conduct of a financial of legal nature, or any activity that violates the code of conduct, they have the opportunity to report these to the chairwoman of the Audit Committee without fear of repercussion. The Chief Internal Auditor will be delegated by the chairwoman to investigate in a timely and fair manner allegations raised by the whistleblower. The Chief Internal Auditor will keep the Audit Committee advised of the outcome of the investigation and depending on the materiality of the investigation results, the Audit Committee members may meet with the executive management to discuss the results and explore the available disciplinary actions. The Bank is exploring the possibility of automating the whistleblowing process. The full whistleblowing policy is available in the bank's official website.

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.

Directors and executive 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 Dec 2021[1]	Sales during 2021	Purchases during 2021	31 December 2020
Farouk Yousuf Khalil Almoayyed - Chairman	Ordinary	30,156,216	-	-	27,414,742
Dr. Esam Abdulla Fakhro - Deputy Chairman	Ordinary	13,133,875	-	-	11,939,888
Fawzi Ahmed Kanoo - Deputy Chairman	Ordinary	118,868	-	-	108,063
Khalid Yousuf Abdulrahman - Director	Ordinary		Left the Board		27,275,075
Hussain Sultan Al Ghanem - Director	Ordinary		Left the Board		-
Sh. Rashed Bin Salman Al Khalifa - Director	Ordinary	-	-	-	-
Hala Ali Hussain Yateem - Director	Ordinary	5,858,467	-	45,053	5,284,923
Rishi Kapoor - Director	Ordinary	-	-	-	-
Mohamed Tareq Mohamed Sadeq Mohamed Akbar- Director	Ordinary	-	-	-	-
Yusuf Abdulla Yusuf Akbar Alireza - Director	Ordinary	-	-	-	-
Amin Ahmed Alarrayed - Director	Ordinary	-	-	-	-
Zaid Khalid Abdulrahman - Director	Ordinary	252,648	-	-	Not a Member
Vincent Van Den Boogert - Director	Ordinary	-	-	-	Not a Member
Total shares		**49,520,074**	**-**	**45,053**	**72,022,691**
As a % of the total number of shares		**2.64%**			**4.23%**

[1] Shares as at 31 December 2021 includes bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held and share swap consideration as part of the acquisition of Bahrain Islamic Bank.

Corporate Governance and Ethical Behaviour (continued)

Directors and executive management interests (continued)

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

Name	Type of shares	31 December 2021[1]	Sales during 2021	Purchases during 2021[2]	31 December 2020
Jean Christophe Durand - Chief Executive Officer	Ordinary	1,117,721	-	541,438	523,894
Abdulaziz Al Ahmed - Chief Executive Strategic Accounts	Ordinary	1,146,690	-	226,505	836,532
Bruce Wade - Group Chief Executive of Financial Restructuring	Ordinary	76,395	70,000	109,023	33,975
Dana Buheji - Group Chief Human Resources & Sustainability Officer	Ordinary	104,143	150,000	142,468	101,523
Iain Blacklaw - Group Chief Operating Officer	Ordinary	184,897	-	90,218	86,072
Yasser Alsharifi - Group Chief Strategy Officer	Ordinary	40,000	51,677	91,677	-
Hisham Alkurdi - Group Chief Executive - Corporate, Institutions and Investment Banking	Ordinary	-	121,750	80,604	37,406
Moschonas Panagiotis - Group Chief Internal Auditor	Ordinary				68,310
Russell Bennett - Group Chief Financial Officer	Ordinary	59,108	-	35,062	21,860
Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary	Ordinary	186,525	-	86,627	90,817
Isa Maseeh - Group Chief Risk Officer	Ordinary	25,144	100,000	62,526	56,926
Rana Abdulaziz Qambar - Group Chief Compliance Officer	Ordinary	-	-	-	-
Fadhel Abbas Ahmed- Group Chief Internal Auditor	Ordinary	220,616	-	-	-
Subah Al Zayani - Chief Executive, Retail Banking	Ordinary	19,388	-	15,005	3,985
Total shares		**3,180,627**	**493,427**	**1,481,153**	**1,861,300**

Notes

1. Shares as at 31 December 2021 includes 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:

Name	Type of shares	31 December 2021	31 December 2020
Total number of shares held	Ordinary	52,927,255	73,989,539
As a % of the total number of shares		2.83%	4.35%

Corporate Governance and Ethical Behaviour (continued)

Remuneration

Board of Directors Remuneration

The Board is paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting 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. 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. 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. Directors' remuneration is accounted as an expense as per International Financial Reporting Standards and Central Bank of Bahrain regulations, the payment of which is subject to approval by the shareholders at the Ordinary General Meeting. In addition, the directors are paid sitting fees for the various 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. 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 7% to 9% of the net profit before the bonus and the variable remuneration of senior management is reviewed and approved by the Board Nomination, Remuneration, Governance and Sustainability Committee of the bank.

Remuneration of Board Members, executive management and fees paid to external auditors

The aggregate remuneration paid to board members and executive management personnel are disclosed in detail in the Board of Directors Report which includes all required regulatory disclosures in this regard.

KPMG Fakhro are the Bank's external auditors for the financial year ended 31 December 2021. During the year of 2021, total of audit and non-audit services provided by KPMG amounted to BHD 272,000 out of which BHD 70,700 is for audit services, BHD 59,300 is for CBB mandatory review requirements under the Agreed Upon Procedures and BHD 142,000 is for non-audit services.

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. Three of the bank's directors, Mr. Farouk Almoayyed, Dr. Esam Fakhro and Mr. Fawzi Kanoo 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 is 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.

Corporate Governance and Ethical Behaviour (continued)

Guidance (continued)

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, Governance and Sustainability Committee, which has six members two of whom are independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Nomination, Remuneration, Governance and Sustainability 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, Governance and Sustainability Committee does not satisfy the requirements of HC-1.8.2, however, it is the Board's determination that the Nomination, Remuneration, Governance and Sustainability Committee is sufficiently independent to meet its requirements and responsibilities, and on this basis the CBB has confirmed that it has no objection to the combination of these committees in this manner.

Remuneration Report

Our philosophy

NBB has adopted a total rewards philosophy which translates its vision, strategy and 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 to success through team-based oriented work relationships and a balanced work life mix.

This translation of this philosophy has been implemented through compliance with a strong corporate governance framework, one which is both in adherence with regulatory requirements and aligned with industry benchmarks and best practices. In terms of oversight, the NRGSC 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.

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 non-financial objectives summarized in line with our performance management system. This assessment also considers adherence to the bank's values, risk, compliance measures and, above all, the need to act with integrity. Altogether, performance is 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.

NRGSC role and focus

The NRGSC has oversight of all compensation policies for the bank's employees. The NRGSC 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 NRGSC 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 NRGSC 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.

Corporate Governance and Ethical Behaviour (continued)

Remuneration Report (continued)

NRGSC role and focus (continued)

- 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 NRGSC 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 NRGSC to address the above-mentioned objectives. Details of the committee, including its meeting dates, are included within the Corporate Governance Report. The aggregate remuneration paid to the NRGSC members during the year in the form of sitting fees amounted to BHD 16,000.

Scope of application of the remuneration policy

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

Variable remuneration for staff

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, in the context 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 NRGSC 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- and long-term measures and include profitability, solvency, liquidity and growth indicators.

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

The bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the bank's objective to pay out bonuses out of realized and sustainable profits. Based on the quality of earnings, the bonus base could be adjusted based on the discretion of the NRGSC.

For the 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 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.

As mentioned above, the total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 7% 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 based on 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 other than value adding tasks which are specific to each unit.

Corporate Governance and Ethical Behaviour (continued)

Variable compensation for business units

Variable compensation for the business units is primarily decided by the key performance objectives set through the bank's performance management system. 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 remuneration system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the bank. In seeking to do so, the bank considers both quantitative measures and qualitative measures in the risk assessment process. Quantitative measures and human judgement 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 NRGSC 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 consider all types of risk, including intangible and other risks such as reputation risk, liquidity risk and 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 NRGSC keeps itself abreast of the bank's performance against the risk management framework. The NRGSC 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 its financial performance, the risk adjustment framework includes several adjustments. The NRGSC 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 NRGSC, with Board's approval, can rationalize 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 allow the bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable 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 allow the bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include (i) reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year, and (ii) 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.

Corporate Governance and Ethical Behaviour (continued)

Components of variable remuneration

Variable remuneration has the following main components

Upfront cash	The portion of the variable compensation awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation awarded and paid in cash on a pro-rata basis over three years.
Upfront share awards	The portion of variable compensation 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 awarded and paid in the form of shares on a pro-rata basis over three 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

Note: * The deferral vests on a pro-rata basis over a three-year period.

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

Details of remuneration paid

Board of Directors

BHD 000's	2021	2020
Sitting fees	**70.0**	33.5
Remuneration	**460.0**	460.0

Corporate Governance and Ethical Behaviour (continued)

Employees

1-Employee remuneration

	2021										
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
BHD 000's	Number of staff*	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons											
- Business Lines	**6**	**1,358**	**148**	**-**	**-**	**217**	**-**	**54**	**271**	**-**	**2,048**
- Control and Support	**19**	**2,179**	**179**	**-**	**-**	**373**	**75**	**-**	**298**	**-**	**3,104**
Other Material Risk Takers	**1**	**78**	**16**	**-**	**-**	**9**	**2**	**-**	**7**	**-**	**112**
Other Staff	**702**	**12,850**	**3,932**	**-**	**-**	**2,267**	**75**	**8**	**337**	**-**	**19,470**
Overseas Staff	**51**	**2,053**	**262**	**-**	**-**	**113**	**5**	**3**	**34**	**-**	**2,470**
Total	**779**	**18,519**	**4,537**	**-**	**-**	**2,979**	**157**	**65**	**947**	**-**	**27,204**

* This represents staff as at 31 December 2021. 51 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.

	2020										
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
BHD 000's	Number of staff*	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business lines	6	1,295	149	-	-	286	10	60	336	-	2,136
- Control and support	17	2,139	211	-	-	391	76	-	306	-	3,123
Other material risk takers	1	78	16	-	-	9	2	-	7	-	112
Other staff	688	12,734	3,663	-	-	2,492	61	12	305	-	19,267
Overseas staff	49	2,095	369	-	-	50	2	1	11	-	2,528
Total	761	18,341	4,408	-	-	3,228	151	73	965	-	27,166

* This represents staff as at 31 December 2020. 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.

Corporate Governance and Ethical Behaviour (continued)

2. Deferred Awards

	2021				
	Cash	Shares		Others	Total
	BHD 000's	Number	BHD 000's*	BHD 000's	BHD 000's
Opening balance	**431**	**4,970,217**	**2,806**	**-**	**3,237**
Awarded during the year	**73**	**1,971,305**	**1,120**	**-**	**1,193**
Cash/Stock dividend awarded during the year *	**139**	**694,189**	**439**	**-**	**578**
Interest on deposits	**2**	**-**	**-**	**-**	**2**
Paid out/released during the year *	**(286)**	**(2,953,250)**	**(1,434)**	**-**	**(1,720)**
Closing balance	**359**	**4,682,461**	**2,931**	**-**	**3,290**

* Based on the original award price for each award period

	2020				
	Cash	Shares		Others	Total
	BHD 000's	Number	BHD 000's*	BHD 000's	BHD 000's
Opening balance	454	4,835,173	2,654	-	3,108
Awarded during the year	124	2,549,071	1,759	-	1,883
Cash/Stock dividend awarded during the year	184	737,838	509	-	694
Interest on deposits	6	-	-	-	6
Paid out/released during the year	(338)	(3,151,865)	(2,115)	-	(2,454)
Closing balance	431	4,970,217	2,806	-	3,237

* Based on the original award price for each award period.

Compliance

Promotion of a healthy compliance culture lies at the heart of NBB's strategy. During 2021, the Bank reinforced its efforts to further develop the Compliance framework, which oversees adherence to Bahrain's laws and regulations, as well as those in other countries where NBB has operations.

NBB is committed to comply with all relevant regulatory requirements, adhering to the applicable regulations is vital to conduct our operations responsibly, maintain our reputation, and protect our customers.

Compliance Culture

We continue to strengthen our compliance culture through a training and awareness programme, providing employees with monthly compliance news and compliance training.

In addition, we provide continuous and relevant awareness and training sessions for the branch staff on combating money laundering and fraud beyond the mere online skim-through courses. The Compliance Department started conducting "Q&A" sessions with various stakeholders within the bank to discuss compliance matters and issues.

During 2021, in compliance with CBB requirements, we conducted three online training sessions on AML. Additionally, awareness sessions were conducted on customer due diligence and 100% of NBB's customer facing employees undertook anti-money laundering online training this year.

Moreover, quarterly compliance awareness sessions are being delivered to all staff to promote a compliance-oriented culture and help achieve the bank's strategic objectives, as well as support the business in delivering fair outcomes for their customers and stakeholders in line with the regulatory requirements.

Compliance Governance

A Group Compliance Management Committee (GCMC) was established in 2019 and continuously governs all compliance related risks and provide updates on progress towards closing audit and self-identified issues, and as an escalation point to bring any issues requiring attention to senior management. The Group Chief Compliance Officer reports relevant management information from GCMC sessions to the Board Risk and Compliance Committee (BRCC).

Corporate Governance and Ethical Behaviour (continued)

Compliance Framework

In order to strengthen the compliance framework, the Bank continues updating and crafting Compliance policies and procedures to ensure full adherence to all applicable regulatory requirements. Any changes made to policies and procedures are discussed and agreed at GCMC level, submitted for discussion and recommendation to the BRCC and approved by NBB's Board of Directors.

Financial Crime Compliance (FCC)

As part of the bank's efforts to combat financial crime, anti-money laundering and countering the financing of terrorism, we are committed to apply and improve our 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. The bank is obliged to ensure the adequacy of transaction-monitoring scenarios, and that the configuration of parameters and applicable thresholds remain relevant for the generation of alerts that are investigated by our compliance officers.

NBB is fully committed to comply with its obligations to combat financial crime and countering the financing of terrorism. Accordingly, the bank has in place an Anti-Money Laundering (AML) Policy, Compliance Policy, Sanctions Policy and AML Transaction Monitoring Procedures defining the framework for payment and name screening. Additionally, NBB uses automated systems to conduct sanctions and AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) screenings. NBB compliance officers periodically undertake roles-based training on specialized AML/CFT and sanctions topics to hone their skills and enable them to discharge their responsibilities more efficiently. Our Compliance Department also investigates, on a targeted basis, any changes in patterns and behaviours of the bank's client base, to ensure any concerns from a broader financial crime perspective are investigated, escalated and discussed with the Money Laundering Reporting Officer and other relevant stakeholders. In this regard the bank continues to act in accordance with the requirements of the authorities to enhance the AML and sanctions framework as well as the required systems to ensure the effectiveness of the financial crime controls.

Compliance Testing and Monitoring

Compliance monitoring and testing has a key role in ensuring that NBB manages its regulatory risks by detecting and preventing behaviours activities that create those risks. Therefore, the Bank will continue assessing the Bank adherence to the regulatory requirements as well as the effectiveness of the associated first & second line of defense activities to provide reasonable assurance that the business is operating in line with relevant regulations by following a risk based approach compliance testing.

Personal Data Protection Law

For the year ahead, we will continue implementing the Personal Data Protection Law assessment at Group Level.

Internal Audit

The Internal Audit function is integral to the bank's risk management system and plays an important role in evaluating the independence of risk management functions as well as the adequacy and effectiveness of the bank's internal control system. A periodic review is conducted by the department to confirm that established policies, procedures, and approved terms are complied with, and areas of concern are highlighted so that corrective action can be taken in time. The department is subject to an independent external quality assurance review system.

The department adopts a risk-based approach, and part of each audit assignment involves verifying the availability of comprehensive, reliable and up-to-date policies and procedures. We assess the completeness and clarity of applicable policies, procedures and systems on a regular basis throughout the year, in line with the audit plan. The plan, which is formulated after an annual risk assessment exercise, includes the assessment of the effectiveness and adequacy of controls, validation of risk models and operational compliance. It forms part of a three-year strategic audit plan which ensures that all the functions and processes of the bank, including local and overseas branches, are properly covered.

The department operates in conformance with international standards for the professional practice of internal auditing. More than 60% of audit department staff are professionally qualified by well-known international associations (such as CIA, ISACA, and ACCA).

Risk Management

The financial sector continues to grow in complexity and sophistication with ongoing changes in regulatory and operating environments globally. Technology advances 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 creditworthiness 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.

Corporate Governance and Ethical Behaviour (continued)

Risk Management (continued)

Overall authority for risk management in the bank is vested in the Board of Directors. A Board Risk and Compliance Committee has been established to provide oversight and advice to the Board. The Board authorises appropriate credit, operational, liquidity, market and information security risk policies based on the recommendations of management. Approval authorities are delegated in a hierarchy depending on the amount, type of risk and collateral security. The bank has also established an Operational Risk Management Committee (ORMC), Group Asset Liability Committee (GALCO), Management Credit Committee (MCC), Business Continuity Management Committee (BCMC), and Information Security Committee (ISC) to address different areas of risk.

The bank's risk management process encompasses the various dimensions of risk as outlined below.

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 the vision in our 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. It actively assesses 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 considers the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive assessment of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least annually. Regular monitoring of the portfolio enables the bank to address accounts that evidence deterioration in risk profile.

The bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have been implemented to govern the bank's investment activities. Not only are regular appraisals conducted to judge the creditworthiness 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 such accounts. The bank applies rigorous standards for provisioning and monitoring of non-performing loans.

The bank's Global Credit Policy integrates ESG factors into the credit process, as follows:

- Controlled Credits: One up level approval required for borrowers violating prudential norms of responsible corporate behaviour including environmental, social and governance-related norms related to human rights, working conditions, child labour, environmental impact, anti-corruption, production of banned weapon, tobacco etc.
- Credit Application templates require specific mention of risks arising from environmental, social and governance factors.
- Business Units shall not consider requests from borrowers engaged in activities considered harmful or inappropriate (without proactive mitigating actions) from an environmental, social or governance point of view.

Aiming to make a positive contribution to both internal and external stakeholders, we have sought to embed sustainability in our Global Credit Policy and credit activity since 2020. Our ambition to be recognised as a regional leader in responsible lending and sustainable finance stems from our commitment to make positive impact on the clients and communities we serve. ESG risk factors are examined across our financing activity with clients. We are working with leaders in the field to cement ESG risk assessment so that our approach is more fully entrenched in the overall credit risk management framework.

Legal Risk

The Legal Department manages and mitigates legal risks through prompt review and advice on bank-wide matters and on transactions including all related documents. The main goal is to ensure the bank's interests are protected and the bank is in a position to make informed decisions in transactional and operational matters. The team keeps abreast of latest developments in domestic and relevant international legislation that would have an impact on the bank's operations and initiates 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, the Legal Department manages its panel of internationally renowned firms and conducts engagements with firms where specific advice on local and foreign legal matters is required, or when the bank requires transaction or contentious representation.

Corporate Governance and Ethical Behaviour (continued)

Risk Management (continued)

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 always available to meet the funding requirements of the bank. The asset/liabilities management of the bank covers 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, and others.

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 Asset Liability Management 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 necessary. In addition, the Group Asset Liability Committee 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 standardized 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 requirements 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.

The Bank supports the move to more robust and reliable benchmark rates. The Bank has completed a Group-wide initiative to identify, assess, and monitor risks associated with the discontinuation or unavailability of benchmarks, including LIBOR, and the transition to Alternative Reference Rates. We have also completed the evaluation of existing contracts across all products to determine the impact because of the discontinuation of LIBOR and other benchmarks and to address potential amendments to those contracts.

Operational Risk

Operational risk is the risk to achieving our strategy or objectives because 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.

Throughout 2021, the Crisis Management team (CMT) continued to remain active. The focus has been on business continuity as well as the safety and security of employees and customers by applying social distancing measures, implementing work from home processes, and segregating its critical-function employees on various areas within the workplace.

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) that 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 further supports the Group 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.

Corporate Governance and Ethical Behaviour (continued)

Risk Management (continued)

Operational risk is (continued)

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. We continue our ongoing work to strengthen the 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 exercising (accidentally triggering or intentionally exploiting) a particular potential vulnerability, and the resulting impact of that adverse event on the organisation.

The bank has aligned its security function to the ISO/IEC 27001 standard and attained the certification in 2020. This has been done by way of 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 information security risk management processes into the life cycle of all information systems and infrastructures, thus mitigating and minimising the risk to an acceptable level.

The bank has continued to strengthen the ISMS system and enhance the maturity of the associated processes. The ISMS system consists of administrative controls (policies, standards, and processes/procedures) and technical controls (the implementation of technical security measures). The programme is risk-based in which processes continuously evaluate the risk relevant to the use of technology in business and then addresses the identified risk. The programme is monitored by management through the bank's Information Security Committee. Periodic security reports are reviewed by the Board of Directors. During 2021, we had zero data security breaches.

Nevertheless, to strengthen our detection and response capabilities, we have modified procedures to include stricter controls and enhanced detection services by acquiring multiple advanced systems.

Further to having attained the ISO 27001 certification, the bank is also PCI-DSS (Payment Card Industry Data Security Standard) compliant and certified. In addition, the CBB mandates that all banks should comply with the Personal Data Privacy Law (PDPL) of Bahrain. NBB has taken early steps to comply with this law.

At NBB, we protect customer privacy and secure personal information with the highest care to retain 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 continuously inform our customers through social media about the collection and the use of their data. As part of our information security awareness training, we provide staff with privacy awareness training.

Internal audits on information security are conducted during the year, while an external audit is performed annually. In addition, we undertake external Penetration Testing (PT) twice a year, an internal PT exercise once a year and Approved Scanning Vendors (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 carried out every month and an internal Wi-Fi detection scan is performed once a year.

NBB has acquired technical controls to strengthen its security posture. NBB is currently working to enhance its existing Security Operations Centre (SOC) service and its Cyber Incident Management Plan.

The bank has continued to engage external suppliers to check for cyber compromise, forensic investigation and cyber resilience. The bank has multiple suppliers for SOC management, cyber intelligence, extended detection and response, and receives security updates and recommendations from various CERT bodies in the region.

Corporate Governance and Ethical Behaviour (continued)

Risk Management (continued)

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 and is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system incorporates as an ethos the maintenance of business practices of the highest quality for customers, shareholders, regulators, and 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 aspects of risk mentioned above are reviewed regularly at meetings of the Board Risk and Compliance 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.

Managing human rights risk

Our Human Rights Policy commits us to fully respect human rights and comply with all requirements within national and international bills, laws, and treaties.

The policy encourages us to continuously develop a supportive organisational culture that respects employees' freewill. This involves creating awareness and workplace grievance mechanisms that encourage open and honest communication amongst all employees. The policy is also applicable in our contracts with vendors.

Regulatory compliance and financial crime risks

The Operation Risk Management Department (ORMD) has implemented a Fraud Risk Management Policy which covers bribery, corruption, and asset misappropriation. The bank has also put in place a fraud response plan that guides employees on the protocol that should be followed in each possible category of fraud.

Financial Statements

For the year ended 31 December 2021

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Independent Auditors' Report
to the Shareholders

National Bank of Bahrain BSC
P.O. Box 106
Manama,
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of National Bank of Bahrain BSC (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 8 and disclosures of credit risk in note 3 of the consolidated financial statements)

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of loans and advances representing 53% 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. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; 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 of loans and advances 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 incorporating consideration of the economic disruption caused by COVID-19. 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 Group operates; • Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them.

Independent Auditors' Report

to the Shareholders (continued)

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
• The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and

• Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programmes and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.
</td><td>
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 Group'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 Group'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 technology specialists to test controls over the IT systems and recording of data in source systems;
• We involved our credit risk specialists in:
o evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);
o re-performing the calculation of certain components of the ECL model (including the staging criteria);
o evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and
o evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends including the impact of COVID-19.
Disclosures
Evaluating the adequacy of the Group'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.
</td></tr>
</table>

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information 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 Board of Directors for the Consolidated Financial Statements

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

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

Independent Auditors' Report
to the Shareholders (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with the 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 consolidated financial statements are in agreement therewith;

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

c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB 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 Salman Manjlai.

KPMG

KPMG Fakhro

Partner Registration Number 213

22 February 2022

Consolidated Statement of Financial Position

As at 31 December

	Note	2021 BHD millions	2021 USD millions	2020 BHD millions	2020 USD millions
Assets					
Cash and balances at central banks	5	**123.0**	**326.2**	125.5	332.9
Treasury bills	6	**225.7**	**598.7**	236.7	627.9
Placements with banks and other financial institutions	7	**294.4**	**780.9**	335.4	889.7
Loans and advances	8	**2,395.8**	**6,354.9**	2,173.1	5,764.2
Investment securities	9	**1,258.6**	**3,338.5**	1,231.4	3,266.3
Investment in associates	10	**27.2**	**72.1**	36.7	97.3
Interest receivable and other assets	11	**93.3**	**247.5**	112.5	298.4
Property and equipment	12	**64.0**	**169.8**	55.7	147.7
Goodwill and other intangible assets	13	**53.6**	**142.2**	54.4	144.3
Total assets		**4,535.6**	**12,030.8**	4,361.4	11,568.7
Liabilities					
Due to banks and other financial institutions	14	**518.0**	**1,374.0**	544.5	1,444.3
Borrowings under repurchase agreements	15	**221.6**	**587.8**	112.9	299.5
Customer deposits	16	**3,184.2**	**8,446.2**	3,084.3	8,181.2
Interest payable and other liabilities	17	**76.5**	**202.9**	93.4	247.7
Total liabilities		**4,000.3**	**10,610.9**	3,835.1	10,172.7
Equity					
Share capital	21	**187.3**	**496.8**	170.3	451.7
Shares unallocated under share incentive scheme	21	**(1.2)**	**(3.2)**	(1.3)	(3.4)
Share premium	22	**11.4**	**30.2**	10.5	27.9
Statutory reserve	22	**93.6**	**248.3**	85.1	225.7
General reserve	22	**32.4**	**86.0**	32.4	85.9
Other reserves and retained earnings	22	**204.3**	**541.9**	222.7	590.7
Equity attributable to the shareholders of the Bank		**527.8**	**1,400.0**	519.7	1,378.5
Non-controlling interest		**7.5**	**19.9**	6.6	17.5
Total equity		**535.3**	**1,419.9**	526.3	1,396.0
Total liabilities and equity		**4,535.6**	**12,030.8**	4,361.4	11,568.7

The consolidated financial statements were approved by the board of directors on 22 February 2022 and signed on its behalf by:

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Esam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 47 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss
For the year ended 31 December

	Note	2021 BHD millions	2021 USD millions	2020 BHD millions	2020 USD millions
Interest income	24	**153.3**	**406.6**	164.4	436.1
Interest expense	24	**(32.8)**	**(87.0)**	(48.4)	(128.4)
Net interest income		**120.5**	**319.6**	116.0	307.7
Net fee and commission income	25	**13.8**	**36.6**	10.4	27.6
Other income	26	**16.6**	**44.1**	21.5	57.0
Total operating income		**150.9**	**400.3**	147.9	392.3
Staff expenses	27	**38.5**	**102.1**	39.5	104.8
Depreciation, amortisation and equipment expenses	28	**12.7**	**33.7**	9.0	23.9
Other operating expenses	28	**23.3**	**61.8**	21.7	57.5
Total operating expenses		**74.5**	**197.6**	70.2	186.2
Operating profit before results of associates, impairment, and other provisions		**76.4**	**202.7**	77.7	206.1
Share of profits from associates, net	10	**1.1**	**2.9**	1.0	2.7
Loans, placements and securities impairment, net	18	**(15.5)**	**(41.1)**	(27.6)	(73.2)
Other impairment and provisions, net	18	**(7.0)**	**(18.6)**	(0.4)	(1.1)
Profit for the year		**55.0**	**145.9**	50.7	134.5
Attributable to:					
Shareholders of the bank		**53.9**	**143.0**	53.3	141.4
Non-controlling interest		**1.1**	**2.9**	(2.6)	(6.9)
Profit for the year		**55.0**	**145.9**	50.7	134.5
Basic and diluted earnings per share attributable to the shareholders of the Bank	42	**29 fils**	**8 cents**	29 fils	8 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Esam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 47 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2021		2020	
	BHD millions	USD millions	BHD millions	USD millions
Profit for the year	**55.0**	**145.9**	50.7	134.5
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	**(2.3)**	**(6.1)**	(2.2)	(5.8)
Net amount transferred to profit or loss	**(3.2)**	**(8.5)**	(3.5)	(9.3)
Items that will not be reclassified to profit or loss:				
Net change in fair value of equity FVOCI investments	**(3.3)**	**(8.8)**	2.5	6.6
Total other comprehensive loss for the year	**(8.8)**	**(23.4)**	(3.2)	(8.5)
Total comprehensive income for the year	**46.2**	**122.5**	47.5	126.0
Attributable to:				
Shareholders of the bank	**45.1**	**119.6**	50.1	132.9
Non-controlling interest	**1.1**	**2.9**	(2.6)	(6.9)
Total comprehensive income for the year	**46.2**	**122.5**	47.5	126.0

The accompanying notes 1 to 47 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December

						Other reserves and retained earnings					Total equity	
For the year ended 31 December 2021	**Share capital**	**Unallocated shares**	**Share premium**	**Statutory reserve**	**General reserve**	**Fair value reserve**	**Donation and charity reserve**	**Retained earnings**	**Total owners' equity**	**Non-controlling interest**	**BHD millions**	**USD millions**
Balance at 31 December 2020	**170.3**	**(1.3)**	**10.5**	**85.1**	**32.4**	**24.1**	**15.2**	**183.4**	**519.7**	**6.6**	**526.3**	**1,396.0**
2020 appropriations:												
Cash dividend at 20%	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(33.8)**	**(33.8)**	**-**	**(33.8)**	**(89.6)**
Bonus shares issued at 10%	**17.0**	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**(16.9)**	**-**	**-**	**-**	**-**
Transfer to donations and charity reserve	**-**	**-**	**-**	**-**	**-**	**-**	**2.7**	**(2.7)**	**-**	**-**	**-**	**-**
Transfer to statutory reserve	**-**	**-**	**-**	**8.5**	**-**	**-**	**-**	**(8.5)**	**-**	**-**	**-**	**-**
Balance after 2020 appropriations	**187.3**	**(1.4)**	**10.5**	**93.6**	**32.4**	**24.1**	**17.9**	**121.5**	**485.9**	**6.6**	**492.5**	**1,306.4**
Employee shares allocated	**-**	**0.2**	**0.9**	**-**	**-**	**-**	**-**	**-**	**1.1**	**-**	**1.1**	**2.9**
Comprehensive income for the year:												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53.9**	**53.9**	**1.1**	**55.0**	**145.9**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(8.8)**	**-**	**-**	**(8.8)**	**-**	**(8.8)**	**(23.4)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(8.8)**	**-**	**53.9**	**45.1**	**1.1**	**46.2**	**122.5**
Utilisation of donation and charity reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(4.1)**	**-**	**(4.1)**	**-**	**(4.1)**	**(10.9)**
Disposal of equity securities	**-**	**-**	**-**	**-**	**-**	**2.9**	**-**	**(2.9)**	**-**	**-**	**-**	**-**
Other movements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.4)**	**(1.0)**
Balance at 31 December 2021 (notes 21-23)	**187.3**	**(1.2)**	**11.4**	**93.6**	**32.4**	**18.2**	**13.8**	**172.3**	**527.8**	**7.5**	**535.3**	**1,419.9**

The appropriations for the year 2021 will be submitted to the shareholders at the annual general meeting. These appropriations include BHD 37.5 million for cash dividend at 20% (2020: 20%) and BHD 2.7 million for donations and contributions. The Board of Directors has also proposed a one for ten bonus issue through utilisation of BHD 18.7 million from retained earnings and the transfer of BHD 9.4 million from retained earnings to the statutory reserve.

						Other reserves and retained earnings					Total equity	
For the year ended 31 December 2020	Share capital	Unallocated shares	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total owners' equity	Non-controlling interest	BHD millions	USD millions
Balance at 31 December 2019	154.3	(1.4)	6.3	77.1	32.4	26.8	19.7	217.1	532.3	-	532.3	1,411.9
2019 appropriations:												
Cash dividend at 25%	-	-	-	-	-	-	-	(38.4)	(38.4)	-	(38.4)	(101.8)
Bonus shares issued at 10%	15.5	(0.1)	-	-	-	-	-	(15.4)	-	-	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.7	(3.7)	-	-	-	-
Transfer to statutory reserve	-	-	-	8.0	-	-	-	(8.0)	-	-	-	-
Balance after 2019 appropriations	169.8	(1.5)	6.3	85.1	32.4	26.8	23.4	151.6	493.9	-	493.9	1,310.1
Employee shares allocated	-	0.2	1.6	-	-	-	-	-	1.8	-	1.8	4.8
Acquisition of subsidiary (note 13)	0.5	-	2.6	-	-	-	-	-	3.1	12.0	15.1	40.0
Comprehensive income for the year:												
Profit for the year	-	-	-	-	-	-	-	53.3	53.3	(2.6)	50.7	134.5
Other comprehensive income	-	-	-	-	-	(3.2)	-	-	(3.2)	-	(3.2)	(8.5)
Total comprehensive income for the year	-	-	-	-	-	(3.2)	-	53.3	50.1	(2.6)	47.5	126.0
Utilisation of donation and charity reserve	-	-	-	-	-	-	(8.2)	-	(8.2)	-	(8.2)	(21.8)
Transfer to retained earnings	-	-	-	-	-	0.5	-	(0.5)	-	-	-	-
Modification loss, net of government grant (note 4)	-	-	-	-	-	-	-	(20.6)	(20.6)	(2.7)	(23.3)	(61.8)
Other movements	-	-	-	-	-	-	-	(0.4)	(0.4)	(0.1)	(0.5)	(1.3)
Balance at 31 December 2020 (notes 21-23)	170.3	(1.3)	10.5	85.1	32.4	24.1	15.2	183.4	519.7	6.6	526.3	1,396.0

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

The accompanying notes 1 to 47 are an integral part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December

	Note	2021 BHD millions	2021 USD millions	2020 BHD millions	2020 USD millions
Cash flows from operating activities					
Profit for the year		**55.0**	**145.9**	50.7	134.5
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation and amortisation		**6.7**	**17.8**	4.8	12.7
Amortisation of right-of-use leased property		**2.2**	**5.8**	1.5	4.0
Net impairment and other provisions	18	**22.5**	**59.7**	28.0	74.3
Share of profits from associates, net		**(1.1)**	**(2.9)**	(1.0)	(2.7)
Profit for the year after adjustments		**85.3**	**226.3**	84.0	222.8
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		**(4.9)**	**(13.0)**	37.4	99.2
Treasury bills		**(26.7)**	**(70.8)**	154.0	408.5
Placements with banks and other financial institutions		**29.7**	**78.7**	(51.2)	(135.8)
Loans and advances		**(234.8)**	**(622.8)**	(290.3)	(770.0)
Investment securities		**(50.7)**	**(134.5)**	92.8	246.1
Interest receivable and other assets		**17.0**	**45.1**	(28.3)	(75.1)
Due to banks and other financial institutions		**(26.5)**	**(70.3)**	(70.2)	(186.2)
Borrowings under repurchase agreements		**108.7**	**288.3**	4.5	11.9
Customer deposits		**99.9**	**265.0**	127.3	337.7
Interest payable and other liabilities		**(6.1)**	**(16.2)**	(2.5)	(6.6)
Net cash (used in) / from operating activities		**(9.1)**	**(24.2)**	57.5	152.5
Cash flows from investing activities					
Dividend received from associates		**1.1**	**2.9**	0.8	2.1
Cash flow arising on acquisition of subsidiary		**-**	**-**	99.7	264.5
Disposal of associate		**9.3**	**24.7**	-	-
Purchase of property and equipment, net		**(13.3)**	**(35.3)**	(13.9)	(36.9)
Net cash (used in) / from investing activities		**(2.9)**	**(7.7)**	86.6	229.7
Cash flows from financing activities					
Dividends paid		**(34.0)**	**(90.2)**	(40.7)	(108.0)
Purchase of subsidiary	13	**-**	**-**	(58.8)	(156.0)
Government grants received	4	**-**	**-**	4.6	12.2
Donations and charities paid		**(4.5)**	**(11.9)**	(8.8)	(23.3)
Payment of lease liabilities		**(2.2)**	**(5.8)**	(2.8)	(7.4)
Net cash used in financing activities		**(40.7)**	**(107.9)**	(106.5)	(282.5)
Net (decrease) / increase in cash and cash equivalents		**(52.7)**	**(139.8)**	37.6	99.7
Cash and cash equivalents at 1 January	5	**373.2**	**989.9**	335.6	890.2
Cash and cash equivalents at 31 December	5	**320.5**	**850.1**	373.2	989.9

The accompanying notes 1 to 47 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2021

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 (CBB) as a conventional retail bank.

The overseas branches in United Arab Emirates and Kingdom of Saudi Arabia operate under the laws of those respective countries.

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.

The consolidated financial statements include the results of the Bank and its subsidiary (together the Group). The Bank holds 78.8% of the share capital of Bahrain Islamic Bank B.S.C. (BisB) which operates under an Islamic retail banking license issued by the CBB. The Group is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law 2006, along with applicable rules and regulations issued by the CBB, including the circulars on regulatory concessionary measures in response to the coronavirus pandemic (COVID-19). The basis of preparation is hereinafter referred to as 'IFRS as modified by the CBB'.

The CBB rules and regulations require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

- The retrospective recognition of modification losses arising from the deferral of loans, without additional interest charges, to qualifying Bahraini individuals and companies. The losses are recognised directly in equity, instead of the statement of profit or loss as required by IFRS. Any other modification gains or losses on financial assets are recognised in accordance with the applicable IFRS requirements.
- The retrospective recognition of financial assistance received from the government and regulator in response to COVID-19. The grants are recognised in equity against the modification loss discussed above, instead of the statement of profit or loss as required by IAS 20. Any other financial assistance is recognised in accordance with the requirements of IAS 20.

b. Basis of preparation

The consolidated financial statements of the Group are presented in Bahraini Dinar (BHD) being the functional currency of the Group. 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 0.377 to USD 1 (2020: BHD 0.377 to USD 1).

The consolidated 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) Adoption of new accounting policies

No new issued standards have been adopted by the Group with effect from 1 January 2021.

ii) Amendmends to standards

A. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform – Phase 2

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of the existing interest rate benchmark with a risk-free rate (RFR). The amendments provide practical relief from certain requirements of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is effective for annual reporting periods beginning on or after 1 January 2021. The changes did not result in any material impact on the Group's consolidated financial information.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating interest rate, provided that certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

The Group has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative risk-free rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, assessing whether contracts need to be amended as a result of these reforms, and managing IBOR reform communication with counterparties. The new contracts to be entered by the Group on or after 1 January 2022 will be based on using various alternative benchmark interest rates including certain "risk-free" rates.

Non-derivative financial assets and liabilities

The Group's exposure to its floating non-derivative financial assets and liabilities is predominantly linked to USD LIBOR. The Group will transition these contracts to RFRs through bilateral agreements ahead of June 2023. The Group's exposure to financial assets that are based on USD LIBOR maturing after June 2023 is BHD 347.1 million (USD 920.7 million) as at 31 December 2021. The Group's exposure to LIBOR linked financial liabilities and non-USD floating exposures is insignificant. The Group is in discussion with the counterparties to effect an orderly transition of USD exposures to the relevant RFR.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Basis of preparation (continued)

Derivatives

The Group's interest rate derivative instruments have floating legs predominantly linked to USD LIBOR. Such instruments are governed by the International Swaps and Derivatives Association (ISDA) Master Agreements. ISDA has defined a fall-back logic (ISDA protocol) to replace the LIBOR fixings following the transition. These fall-back rates are published by Bloomberg Index Securities Limited for use in legacy derivatives contracts. The existing contracts can be transitioned to these alternatives.

The Group is required to transition USD LIBOR based derivatives not later than June 2023. The notional value of USD LIBOR derivatives maturing after June 2023 is BHD 2,818.5 million (USD 7,476.1 million) as at 31 December 2021.

The Group has applied the hedging relief available under the amendments to IFRS 9 Financial Instruments relating to interest rate benchmark reforms and assessment of economic relationship between hedged items and hedging instruments.

iii) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2022 where earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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.

d. Use of estimates and management judgement

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

The Group 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 Group 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 Group 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and 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 Group 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 Group. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group 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 Group 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 Group has a voluntary employees saving scheme. The Group 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 Group. The Group'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.

f. Financial assets and liabilities

i. Recognition and initial measurement

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, 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 Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

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

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group 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 Group 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 Group 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 Group changes its business model for managing financial assets.

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 Group 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 Group 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 Group in the management of its short term commitments.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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. For unlisted equity securities, the net asset value of the underlying entities is representative of the fair value given the nature of their balance sheet.

x. Identification and measurement of impairment

The Group 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.

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

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

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 Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group 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 Group 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 Group 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 Group 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 Group has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Group 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 Group include its share of the income and expenses and equity movements of associates,after adjustments to align the accounting policies with those of the Group, 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 Group'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 Group has an obligation or has made payments on behalf of the associate.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Leases

At the inception of the contract, the Group 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 Group 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 Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group 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 Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group 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 Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

The Group 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.

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 Group'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 residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group 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 Group 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 Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

j. 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.

k. Goodwill and intangibles

The Group accounts for business combinations using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Transaction costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, and the amount recognised for non-controlling interests and any previous interest held over the net identifiable tangible and intangible assets acquired and liabilities assumed.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Goodwill and intangibles (continued)

After initial recognition, goodwill and other intangibles are measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Further details on impairment of non-financial assets is included in note 2-g.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained. Intangibles with indefinite useful lives are subject to impairment testing at least on an annual basis, while those with definite useful lives are amortised.

l. Other provisions

A provision is recognised if, as a result of a past event, the Group 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.

m. 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 Group currently has a legally enforceable right to set-off the recognised amounts and the Group 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 Group's trading activity.

n. 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 Group 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 Group contracts to purchase or sell.

o. Proposed appropriations

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

p. 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 Group 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.

q. Segment reporting

An operating segment is a component of the Group 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 Group. 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.

r. Earnings per share

The Group 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 Group 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.

s. Income tax liability

The Group's operations in Bahrain and United Arab Emirates are not liable to income tax. The Group's Saudi Arabia 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.

t. 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.

u. Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially recorded at cost, being the fair value of the consideration given and acquisition charge. Subsequently, investment properties are measured at fair value and movements are recorded under other income in the statement of profit or loss.

v. Assets under management

The Group 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 Group's financial statements as they are not assets of the Group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

3. FINANCIAL RISK MANAGEMENT

The Group 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 Group 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 Group. The Group 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 division of the Group provides the necessary support to Senior Management and the business units in all areas of risk management. The Risk division 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 Group's current and future risk appetite, the Group's risk management framework as well as the Group's risk culture.

The Group's risk management policies are established to identify and analyse the risk faced by the Group, 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 Group's activities. The Group, 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 Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group.

The asset and liability management policies of the Group define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Group 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 Group. The Group'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 Group 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 Group 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 Group'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 Group 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

4. COVID-19 IMPACT

The outbreak of the coronavirus disease ("COVID-19") in 2020 has had multiple implications on the Group, from stressed market conditions to relief measures provided by the regulator and government.

The Central Bank of Bahrain ("CBB"), along with the Government of Bahrain, have provided numerous reliefs to Bahraini individuals, companies and banks. In March 2020, the CBB announced a six-month loan deferral to all qualifying Bahraini individuals and companies. Subsequently, the CBB instructed banks to take the present value of the shortfall in interest income (termed the "modification loss" under IFRS) arising from this deferral directly to equity, net of any government grants received. The modification loss recorded by the Group as at 31 December 2020 amounted to BHD 27.9 million. The CBB subsequently announced four additional loan deferral programmes effective September 2020 for a period of four months, January 2021 for a period of six months, July 2021 for a period of six months, and January 2022 for a period of six months. The latter four programmes permitted banks to charge interest, and as such, did not result in any additional modification losses to the Group.

During 2020, the Group had received grants totaling BHD 4.6 million (USD 12.2 million) in the form of salary subsidy, electricity and water bill reductions and repo facilities at preferential rates. The cash grants were immediately redirected to COVID-19 related charitable causes within the Kingdom of Bahrain.

To partially counteract the impact of the delayed loan settlements, the CBB provided banks with additional reliefs by reducing the minimum LCR and NSFR requirements from 100% to 80%, and by reducing the regulatory reserve requirements from 5% to 3%. NBB Group continued to meet the original minimum liquidity ratio requirements.

Further analysis of the COVID-19 impact on the Group results is provided in the supplementary disclosures section.

5. CASH AND CASH EQUIVALENTS

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Cash and balances at central banks	**123.0**	**326.3**	125.5	332.9
Less: mandatory cash reserves	**(78.6)**	**(208.5)**	(73.7)	(195.5)
	44.4	**117.8**	51.8	137.4
Treasury bills (less than 3 months)	**2.7**	**7.1**	40.4	107.1
Placements with banks (less than 3 months)	**273.4**	**725.2**	281.0	745.4
	320.5	**850.1**	373.2	989.9

6. TREASURY BILLS

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

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Government of Bahrain	**215.7**	**572.2**	226.6	601.1
Government of Saudi Arabia	**10.0**	**26.5**	10.1	26.8
	225.7	**598.7**	236.7	627.9

7. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Placements with banks	**251.0**	**665.8**	307.7	816.2
Placements with other financial institutions	**43.4**	**115.1**	27.7	73.5
	294.4	**780.9**	335.4	889.7

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Term placements	**141.7**	**375.9**	241.0	639.3
Current and call accounts	**91.1**	**241.6**	42.3	112.2
Reverse repos	**61.6**	**163.4**	52.1	138.2
	294.4	**780.9**	335.4	889.7

8. LOANS AND ADVANCES

	2021		2020	
a) As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Loans and advances to non-banks	**2,412.9**	**6,400.3**	2,211.8	5,866.8
Loans and advances to banks	**64.1**	**170.0**	43.3	114.9
Gross loans and advances	**2,477.0**	**6,570.3**	2,255.1	5,981.7
Less: provision for impairment	**(81.2)**	**(215.4)**	(82.0)	(217.5)
	2,395.8	**6,354.9**	2,173.1	5,764.2

b) As at 31 December 2021, the amount of floating rate loans for which interest was being reset by the Group on agreed dates and based on an agreed fixed margin over a benchmark interest rate amounted to BHD 734.8 million (USD 1,949.1 million) [31 December 2020: BHD 580.2 million (USD 1,539.0 million)].

c) In accordance with the Group'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:

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Up to 1 year	**62.1**	**164.7**	70.3	186.5
1 to 3 years	**8.8**	**23.4**	35.4	93.9
Over 3 years	**28.7**	**76.1**	10.3	27.3
Total	**99.6**	**264.2**	116.0	307.7
Fair market value of collateral	**94.5**	**250.7**	114.2	302.9
Stage 3 provisions	**53.1**	**140.8**	61.9	164.2

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

8. LOANS AND ADVANCES (continued)

In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling off period of not less than 1 year from the date of becoming performing. During 2020, a COVID-19 related concessionary measure was issued by the CBB reducing the cooling-off period to three months.

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 Group 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 Group. As at 31 December 2021, loans past due below 90 days but not impaired amounted to BHD 42.9 million (USD 113.8 million) [31 December 2020: BHD 47.8 million (USD 126.8 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 Group 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 2021, credit facilities amounting to BHD 33.9 million (USD 89.9 million) were restructured [2020: BHD 98.3 million (USD 260.7 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 Group'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 Group 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 2021, loans and advances amounting to BHD 631.9 million (USD 1,676.1 million) [31 December 2020: BHD 640.7 million (USD 1,699.5 million)] were fully collateralised and loans and advances amounting to BHD 211.3 million (USD 560.5 million) [31 December 2020: BHD 180.7 million (USD 479.3 million)] were partly collateralised with a collateral value of BHD 138.4 million (USD 367.1 million) [31 December 2020: BHD 101.8 million (USD 270.0 million)]. Therefore, fully or partially collateralised loans represented 34.0% of gross loans (31 December 2020: 36.4%). The majority of the remaining loans which are not collateralised are provided against salary deposits into the Group by their respective employers.

f) Exposure to credit risk

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
1. Impaired (stage 3)				
Substandard	82.6	219.1	88.9	235.8
Doubtful	5.0	13.3	13.9	36.9
Loss	12.0	31.8	13.2	35.0
Gross amount	99.6	264.2	116.0	307.7
Stage 3 provisions	(53.1)	(140.8)	(61.9)	(164.2)
Impaired (stage 3) carrying amount	46.5	123.4	54.1	143.5
2. Past due below 90 days but not impaired				
Gross amount	42.9	113.8	47.8	126.8
Stage 1 or 2 provision	(2.0)	(5.3)	(1.7)	(4.5)
Past due but not impaired carrying amount	40.9	108.5	46.1	122.3
3. Neither past due nor impaired by internal rating				
Stage 1				
Rating grades 1 to 3	64.5	171.1	219.9	583.3
Rating grades 4 to 6	269.0	713.5	196.2	520.4
Rating grades 7 to 10	438.5	1,163.1	389.7	1,033.7
Rating grades 11 to 13	174.1	461.8	100.3	266.1
Unrated	1,205.8	3,198.4	1,056.5	2,802.4
Gross amount	2,151.9	5,707.9	1,962.6	5,205.9
Stage 1 provisions	(12.7)	(33.7)	(9.4)	(24.9)
Carrying amount of stage 1	2,139.2	5,674.2	1,953.2	5,181.0
Stage 2				
Rating grades 1 to 3	-	-	-	-
Rating grades 4 to 6	9.5	25.2	33.0	87.5
Rating grades 7 to 10	18.6	49.3	8.3	22.0
Rating grades 11 to 13	105.9	280.9	41.5	110.1
Unrated	9.0	23.9	7.2	19.1
Gross amount	143.0	379.3	90.0	238.7
Stage 2 provisions	(12.6)	(33.4)	(8.8)	(23.4)
Carrying amount of stage 2	130.4	345.9	81.2	215.3
Neither past due nor impaired carrying amount	2,269.6	6,020.1	2,034.4	5,396.3
Total carrying amount (excluding POCI)	2,357.0	6,252.0	2,134.6	5,662.1

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 Consolidated Financial Statements (continued)

For the year ended 31 December 2021

8. LOANS AND ADVANCES (continued)

f) Exposure to credit risk (continued)

By staging

As at 31 December 2021	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Loans and advances	2,181.1	156.7	99.6	39.6	2,477.0	6,570.3
Less: impairment provision	(13.3)	(14.0)	(53.1)	(0.8)	(81.2)	(215.4)
Net loans and advances	**2,167.8**	**142.7**	**46.5**	**38.8**	**2,395.8**	**6,354.9**

As at 31 December 2020	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Loans and advances	1,984.5	115.9	116.0	38.7	2,255.1	5,981.7
Less: impairment provision	(10.0)	(9.9)	(61.9)	(0.2)	(82.0)	(217.5)
Net loans and advances	1,974.5	106.0	54.1	38.5	2,173.1	5,764.2

Purchased or originated credit impaired ("POCI") financial assets were acquired as part of the business combination at fair value and reflect the credit losses on which a lifetime ECL is already recognised.

g) Impairment provisions on loans and advances

2021	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2021	10.0	9.9	61.9	0.2	82.0	217.5
Net transfer between stages	3.0	(3.4)	0.4	-	-	-
Write off during the year	-	-	(13.6)	-	(13.6)	(36.1)
Charge for the year (net)	0.3	6.9	4.3	0.6	12.1	32.1
Other movement	-	0.6	0.1	-	0.7	1.9
Impairment at 31 December 2021	**13.3**	**14.0**	**53.1**	**0.8**	**81.2**	**215.4**

Other movements relate to the recognition of provisions that have been initially netted off against gross volumes at the subsidiary acquisition date.

2020	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2020	7.5	4.3	36.3	-	48.1	127.6
Net transfer between stages	2.8	(1.0)	(1.8)	-	-	-
Write off during the year	-	-	(13.6)	-	(13.6)	(36.1)
Charge for the year (net)	(2.1)	5.5	23.7	0.2	27.3	72.4
ECL reserves from acquisition	1.8	1.1	17.3	-	20.2	53.6
Impairment at 31 December 2020	10.0	9.9	61.9	0.2	82.0	217.5

Acquisition of stage 3 ECL reserves relates to acquired expected credit losses ("ECL") on the retail portfolio.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

9. INVESTMENT SECURITIES

i. Composition

Investment securities comprise the following:

As at 31 December 2021	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	244.1	217.4	461.5	1,224.1
Equity instruments	-	59.4	-	59.4	157.6
Total quoted investments	-	303.5	217.4	520.9	1,381.7
Unquoted investments:					
Debt instruments	23.5	63.4	616.8	703.7	1,866.6
Equity instruments	3.0	31.0	-	34.0	90.2
Total unquoted investments	26.5	94.4	616.8	737.7	1,956.8
Total investment securities	26.5	397.9	834.2	1,258.6	3,338.5

As at 31 December 2020	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	245.7	212.0	457.7	1,214.0
Equity instruments	-	56.3	-	56.3	149.4
Total quoted investments	-	302.0	212.0	514.0	1,363.4
Unquoted investments:					
Debt instruments	-	-	681.2	681.2	1,806.9
Equity instruments	1.7	34.5	-	36.2	96.0
Total unquoted investments	1.7	34.5	681.2	717.4	1,902.9
Total investment securities	1.7	336.5	893.2	1,231.4	3,266.3

ii. Breakdown between repricing nature of debt instruments

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Fixed rate debt instruments	592.8	1,572.4	573.0	1,519.8
Floating rate debt instruments	572.4	1,518.3	565.9	1,501.1
	1,165.2	3,090.7	1,138.9	3,020.9

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
AA+	1.9	5.0	1.9	5.0
A	3.9	10.3	4.0	10.6
BBB	11.6	30.8	-	-
BB	7.2	19.1	8.7	23.1
B	1,116.3	2,961.0	1,092.7	2,898.4
Unrated	24.3	64.5	31.6	83.8
	1,165.2	3,090.7	1,138.9	3,020.9

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

As at 31 December 2021, all debt instruments were classified as stage 1.

iv. Investments designated as fair value through profit or loss

The Group holds investment in managed funds designated as fair value through profit or loss amounting to BHD 3.0 million (USD 8.0 million) [2020: BHD 1.7 million (USD 4.5 million)].

10. INVESTMENT IN ASSOCIATES

The Group has a 39.7% (2020: 39.7%) 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 Group has a 36.8% (2020: 37.0%) interest in LS Real Estate Company W.L.L. which was incorporated in the Kingdom of Bahrain in 2019. The company focuses on real estate activities including the development and overall management of owned or leased properties.

The Group has no interest (2020: 29.4%) in Al Dur Energy Investment Company following the redemption in 2021. Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.

The Group has a 25.0% (2020: 25.0%) interest in Liquidity Management Centre B.S.C. (c) which was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.

The Group has a 24.3% (2020: 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

10. INVESTMENT IN ASSOCIATES (continued)

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

	2021		2020	
	BHD millions	USD millions	BHD millions	USD millions
Opening balance	**36.7**	**97.3**	53.6	142.2
Transfer of Bahrain Islamic Bank to a subsidiary	**-**	**-**	(37.6)	(99.8)
Fair value of associates from subsidiary acquisition	**-**	**-**	15.0	39.8
Share of profit	**1.1**	**2.9**	1.0	2.7
Dividends received	**(1.1)**	**(2.9)**	(0.8)	(2.1)
Disposal of associate	**(9.3)**	**(24.7)**	-	-
Other movements	**(0.2)**	**(0.5)**	5.5	14.5
At 31 December	**27.2**	**72.1**	36.7	97.3

During 2020, the Bank's shareholding in BisB increased from 29.1% as reported at 31 December 2019 to 78.8% and hence has been consolidated in these financial statements.

11. INTEREST RECEIVABLE AND OTHER ASSETS

	2021		2020	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Interest receivable	**36.9**	**97.9**	27.2	72.2
Accounts receivable and prepayments	**13.4**	**35.6**	11.3	30.0
Positive fair value of derivatives	**11.7**	**31.0**	46.7	123.8
Others	**31.3**	**83.0**	27.3	72.4
	93.3	**247.5**	112.5	298.4

Others include BHD 7.2 million (USD 19.1 million) [31 December 2020: BHD 8.5 million (USD 22.5 million)] in respect of land and buildings acquired from customers and now held for disposal, and BHD 14.7 million (USD 39.0 million) [31 December 2020: BHD 16.2 million (USD 43.0 million)] of investment properties. The repossessed land and buildings are stated at lower of their carrying value and fair value less costs to sell, while the investment properties are accounted for at fair value based on independent valuations by a third party.

12. PROPERTY AND EQUIPMENT

In BHD millions	Leased property right-of-use	Land	Buildings	Furniture and equipment	Total BHD millions	Total USD millions
Cost	**8.5**	**8.0**	**37.7**	**69.4**	**123.6**	**327.9**
Accumulated depreciation / amortisation	**(5.3)**	**-**	**(24.6)**	**(29.7)**	**(59.6)**	**(158.1)**
Net book value at 31 December 2021	**3.2**	**8.0**	**13.1**	**39.7**	**64.0**	**169.8**
Net book value at 31 December 2020	1.9	8.0	11.8	34.0	55.7	147.7

The depreciation charge for 2021 amounted to BHD 5.9 million (USD 15.6 million) [2020: BHD 4.8 million (USD 12.7 million)]. The above includes capital work in progress at cost, amounting to BHD 20.1 million (USD 53.3 million) [2020: BHD 20.5 million (USD 54.4 million)].

The amortisation related to the right-of-use of leased property in 2021 amounted to BHD 2.2 million (USD 5.8 million) [2020: BHD 1.5 million (USD 4.0 million)].

13. GOODWILL AND OTHER INTANGIBLE ASSETS

On 22 January 2020, the Bank's stake in BisB increased from 29.1% as reported at 31 December 2019 to 78.8%, resulting in a transition from an investment in associate to an investment in a subsidiary, with the acquisition being accounted for using the acquisition method. The acquisition will enable the Group to position itself at the forefront of the regional Shariah-compliant banking sector in addition to its current leading conventional role. The two brands will continue to operate independently but asset, revenue, cost, technology and other operational synergies will provide customers and shareholders with enhanced services and returns.

Goodwill of BHD 41.8 million (USD 110.9 million) and intangibles of BHD 12.6 million (USD 33.4 million) arose from the acquisition of BisB. The intangibles comprises the value assigned to the expected benefits arising from the Islamic banking license and BisB brand being the oldest and predominant Islamic bank in the Kingdom of Bahrain. BHD 5.0 million (USD 13.3 million) of the intangibles were assigned a useful life of six years, with a remaining unamortised balance of BHD 4.2 million (USD 11.1 million) as of 31 December 2021.

Goodwill impairment analysis

The recoverable amount of goodwill is based on value-in-use, calculated by discounting cash flow projections from Board approved financial forecasts, projected for five years to arrive at the terminal value. A growth rate of 2% (2020: 2%) and discount rate of 13% (2020: 13%) have been applied to the estimated cash flows.

The Bank assesses on an annual basis whether there is an indication, based on either internal or external sources of information, that goodwill may be impaired. As at 31 December 2021, there were no indications of impairment of the cash generating unit (CGU) associated with the goodwill (2020: nil).

A sensitivity analysis was conducted by increasing the discount rate by 0.5% and reducing earnings by 10% to assess the impact on the recoverable amount as compared to the carrying value of the CGU. The carrying value of goodwill is lower than the reduced recoverable amount in the sensitivity analysis, further confirming no indications of impairment.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

14. 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.

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Term deposits	**453.2**	**1,202.1**	506.4	1,343.2
Current and call accounts	**64.8**	**171.9**	38.1	101.1
	518.0	**1,374.0**	544.5	1,444.3

As at 31 December 2021 and 31 December 2020, the Group was a net contributor into the treasury bill and interbank money markets.

15. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounted to BHD 221.6 million (USD 587.8 million) [31 December 2020: BHD 112.9 million (USD 299.5 million)] and the fair value of the investment securities pledged as collateral amounted to BHD 274.6 million (USD 728.4 million) [31 December 2020: BHD 113.9 million (USD 302.1 million)].

16. CUSTOMER DEPOSITS

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Repayable on demand or at short notice	**1,885.0**	**5,000.0**	1,743.5	4,624.7
Term deposits and call accounts	**1,299.2**	**3,446.2**	1,340.8	3,556.5
	3,184.2	**8,446.2**	3,084.3	8,181.2

17. INTEREST PAYABLE AND OTHER LIABILITIES

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Creditors and account payables	**22.8**	**60.5**	20.5	54.4
Interest payable	**19.2**	**50.9**	30.3	80.4
Negative fair value of derivatives	**8.4**	**22.3**	28.6	75.9
Employee benefits	**6.9**	**18.3**	7.0	18.6
Deferred income	**5.8**	**15.4**	2.7	7.1
Lease liability	**3.1**	**8.2**	1.9	5.0
Others	**10.3**	**27.3**	2.4	6.3
	76.5	**202.9**	93.4	247.7

Others include provisions against contingent liabilities.

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

	2021		2020	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Less than 1 year	**1.7**	**4.5**	1.3	3.4
1 to 3 years	**1.8**	**4.8**	1.5	4.0
3 to 5 years	**0.2**	**0.5**	0.4	1.1
Total undiscounted lease liabilities	**3.7**	**9.8**	3.2	8.5
Lease liabilities included in the statement of financial position	**3.1**	**8.2**	1.9	5.0

18. NET IMPAIRMENT AND OTHER PROVISIONS

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Loans and advances (note 8g)	**12.1**	**32.1**	27.3	72.4
Placements with banks and other financial institutions	**3.7**	**9.8**	-	-
Investment securities	**(0.3)**	**(0.8)**	0.3	0.8
	15.5	**41.1**	27.6	73.2
Loan commitments and guarantees	**3.6**	**9.6**	(0.5)	(1.3)
Contingent liabilities – litigation claims	**3.2**	**8.5**	-	-
Associates	**0.2**	**0.5**	-	-
Other assets	**-**	**-**	0.9	2.4
	7.0	**18.6**	0.4	1.1
	22.5	**59.7**	28.0	74.3

The Group's subsidiary is defending a claim from the Official Committee of Unsecured Creditors of Arcapita Bank B.S.C. (c) against it based on a preliminary judgement. The subsidiary has filed an appeal against this judgement and a provision of BHD 6.9 million (USD 18.3 million) has been made, which consists of BHD 3.7 million (USD 9.8 million) for the principal amount and BHD 3.2 million (USD 8.5 million) towards the estimated profit that may be imposed by the court.

19. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Group 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 Group.

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 Group has determined that the fair value excess or shortage of contingent liabilities and undrawn loan commitments is not material.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

19. CONTINGENT LIABILITIES AND BANKING COMMITMENTS (continued)

As at 31 December	2021 BHD millions	2021 USD millions	2020 BHD millions	2020 USD millions
Contingent liabilities				
Liabilities on confirmed documentary credits	101.9	270.3	53.6	142.2
Guarantees:				
Counter guaranteed by banks	36.4	96.5	40.2	106.6
Others	163.8	434.5	184.5	489.4
	302.1	801.3	278.3	738.2
Banking commitments				
Undrawn loan commitments	244.1	647.5	207.6	550.7
Forward commitments:				
Securities purchased	10.1	26.8	15.0	39.8
	254.2	674.3	222.6	590.5
	556.3	1,475.6	500.9	1,328.7

20. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Group 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 Group had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Group. 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 Group 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.

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 As at 31 December	Notional principal amount 2021	Notional principal amount 2020	Replacement cost 2021	Replacement cost 2020	Fair value 2021	Fair value 2020
Interest rate contracts						
Interest rate swaps	3,038.2	1,517.9	31.7	37.1	31.7	37.1
Foreign exchange contracts						
Outright spot and forward contracts	141.9	141.0	0.5	0.6	0.3	0.1
Swap agreements	1,042.6	1,709.2	1.9	4.1	1.5	3.2
	1,184.5	1,850.2	2.4	4.7	1.8	3.3
Total	4,222.7	3,368.1	34.1	41.8	33.5	40.4
Total in USD millions	11,200.8	8,934.0	90.5	110.9	88.9	107.2

Replacement costs by industry and geographical region are presented in note 34.

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 As at 31 December	2021 Up to 1 year	2021 Over 1 year	2021 Total	2020 Up to 1 year	2020 Over 1 year	2020 Total
Interest rate contracts						
Interest rate swaps	215.9	2,822.3	3,038.2	216.0	1,301.9	1,517.9
Foreign exchange contracts						
Outright spot and forward contracts	141.9	-	141.9	111.0	30.0	141.0
Swap agreements	963.0	79.6	1,042.6	1,576.6	132.6	1,709.2
	1,104.9	79.6	1,184.5	1,687.6	162.6	1,850.2
Total	1,320.8	2,901.9	4,222.7	1,903.6	1,464.5	3,368.1
Total in USD millions	3,503.5	7,697.3	11,200.8	5,049.4	3,884.6	8,934.0

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21. SHARE CAPITAL

	2021 BHD millions	2021 USD millions	2020 BHD millions	2020 USD millions
Authorised share capital				
2,500,000,000 (2020: 2,500,000,000) ordinary shares of 100 fils each	**250.0**	**663.1**	250.0	663.1
Issued and fully paid share capital				
At 1 January 2021: 1,702,535,732 ordinary shares of 100 fils each (at 1 January 2020: 1,543,292,583 shares of 100 fils each)	**170.3**	**451.7**	154.3	409.3
Subsidiary purchase consideration (4,467,173 shares of 100 fils each)	**-**	**-**	0.5	1.3
Bonus issue (one for ten shares held)	**17.0**	**45.1**	15.5	41.1
At 31 December 2021: 1,872,789,305 ordinary shares of 100 fils each (at 31 December 2020: 1,702,535,732 shares of 100 fils each)	**187.3**	**496.8**	170.3	451.7

The shareholders annual general ordinary and extra ordinary meetings for the year 2020 held on 24 March 2021 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 17.0 million.

The Board of Directors have proposed to increase the issued and fully paid capital of the Group to BHD 206.0 million by the issue of bonus shares at the rate of one additional share for every ten shares held. These shares will rank pari passu with all other shares for future dividends and distribution. The bonus issue amounting to BHD 18.7 million is proposed to be made through utilisation from retained earnings.

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 2021			31 December 2020		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**594,649,426**	**1,696**	**31.7%**	515,774,995	1,599	30.2%
1% up to less than 5%	**249,848,093**	**7**	**13.3%**	251,950,021	8	14.8%
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**203,198,733**	**1**	**10.9%**	184,726,122	1	10.9%
20% up to less than 50%	**825,093,053**	**1**	**44.1%**	750,084,594	1	44.1%
	1,872,789,305	**1,705**	**100.0%**	1,702,535,732	1,609	100.0%

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

	31 December 2021			31 December 2020		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**1,754,051,428**	**1,546**	**93.6%**	1,609,854,153	1,517	94.6%
Other GCC countries	**115,475,261**	**105**	**6.2%**	92,402,032	81	5.4%
Others	**3,262,616**	**54**	**0.2%**	279,547	11	-
	1,872,789,305	**1,705**	**100.0%**	1,702,535,732	1,609	100.0%

44.1% (2020: 44.1%) 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% (2020: 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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2021

21. SHARE CAPITAL (continued)

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 eligible employees under the scheme and the shares are entitled to cash and stock dividend and subject to malus and clawback provisions of the scheme. As at 31 December 2021, there are 11,361,961 (2020: 12,300,394) shares unallocated. These unallocated shares under the scheme are deducted from equity.

22. RESERVES

a) Statutory reserve

In accordance with the Commercial Companies Law, 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 9.4 million from retained earnings to the statutory reserve to achieve the 50 percent threshold.

b) General reserve

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

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of instruments classified as FVOCI. The fair value reserve also includes the Group'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 Group allocated shares at market rates which resulted in increasing the share premium by BHD 0.9 million (USD 2.4 million) [2020: BHD 1.6 million (USD 4.2 million)].

23. APPROPRIATIONS

The appropriations relating to the year 2020 were approved at the annual general meeting held on 24 March 2021.

24. INTEREST INCOME / INTEREST EXPENSE

a) Interest income

	2021		2020	
For the year ended 31 December	BHD millions	USD millions	BHD millions	USD millions
Loans and advances to non-banks	**98.4**	**261.0**	95.5	253.3
Loans and advances to banks	**1.5**	**4.0**	2.6	6.9
Treasury bills	**5.0**	**13.3**	8.9	23.6
Placements with banks and other financial institutions	**3.9**	**10.3**	3.5	9.3
Investment securities	**44.5**	**118.0**	53.9	143.0
	153.3	**406.6**	164.4	436.1

b) Interest expense

	2021		2020	
For the year ended 31 December	BHD millions	USD millions	BHD millions	USD millions
Customer deposits	**26.7**	**70.8**	37.0	98.2
Due to banks and other financial institutions	**5.1**	**13.5**	9.5	25.2
Borrowings under repurchase agreements	**1.0**	**2.7**	1.9	5.0
	32.8	**87.0**	48.4	128.4

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25. NET FEE AND COMMISSION INCOME

	2021		2020	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Net fees and commission on loans and advances	**6.3**	**16.7**	4.2	11.1
Net fees and commission on trade finance related activities	**2.5**	**6.6**	2.4	6.4
Net fees and commission on cards	**1.3**	**3.5**	0.3	0.8
Other fees and commission income	**4.6**	**12.2**	3.6	9.6
Less: other fees and commission expenses	**(0.9)**	**(2.4)**	(0.1)	(0.3)
	13.8	**36.6**	10.4	27.6

26. OTHER INCOME

	2021		2020	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Profit on trading securities, foreign exchange and derivatives	**7.6**	**20.2**	6.2	16.4
Profit on sale of FVOCI investments	**4.2**	**11.1**	3.5	9.3
Gain on fair value through profit or loss investments	**1.1**	**2.9**	-	-
Other income from core activities	**12.9**	**34.2**	9.7	25.7
Dividend income	**2.4**	**6.4**	3.2	8.5
Other income	**1.3**	**3.5**	8.6	22.8
Other income from non-core activities	**3.7**	**9.9**	11.8	31.3
	16.6	**44.1**	21.5	57.0

27. STAFF EXPENSES

	2021		2020	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Salaries, allowances and bonuses	**28.6**	**75.9**	29.6	78.5
Social security and gratuity	**2.8**	**7.4**	2.7	7.2
Housing and other benefits	**6.3**	**16.7**	6.6	17.5
Others	**0.8**	**2.1**	0.6	1.6
	38.5	**102.1**	39.5	104.8

28. OTHER OPERATING EXPENSES

	2021		2020	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Depreciation and amortisation	**6.7**	**17.8**	4.8	12.7
Equipment expenses	**6.0**	**15.9**	4.2	11.2
Depreciation, amortisation and equipment expenses	**12.7**	**33.7**	9.0	23.9
Communication expenses	**4.4**	**11.7**	3.5	9.3
Professional fees	**4.4**	**11.7**	3.1	8.2
Premises expenses	**4.2**	**11.1**	4.8	12.7
Regulatory licenses, deposit protection and VAT expenses	**3.8**	**10.1**	4.1	10.9
Advertising and public relations expenses	**2.0**	**5.3**	1.8	4.8
Other expenses	**4.5**	**11.9**	4.4	11.6
Other operating expenses	**23.3**	**61.8**	21.7	57.5
	36.0	**95.5**	30.7	81.4

29. NET OPEN FOREIGN CURRENCY POSITIONS

	2021		2020	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
US Dollar (long position) - unhedged	**91.3**	**242.2**	362.7	962.0
UAE Dirhams (long position) - unhedged	**30.3**	**80.4**	14.9	39.6
Saudi Riyal (long position) - unhedged	**15.5**	**41.1**	(24.8)	(65.8)

All of the above currencies have a fixed rate of exchange against the Bahraini Dinar. The Group did not have any significant net open positions as at 31 December 2021 or 31 December 2020.

30. RELATED PARTIES

Certain related parties (major shareholders, directors of the Group and families and companies of which they are principal owners, key management personnel and associates) were customers of the Group 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 Group. 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 Group qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholders are government owned. In addition to the government exposures reported below, in its normal course of business, the Group 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

30. RELATED PARTIES (continued)

	Major shareholder and related entities		Directors and key management personnel		Associates	
As at 31 December	2021 BHD millions	2020 BHD millions	2021 BHD millions	2020 BHD millions	2021 BHD millions	2020 BHD millions
Loans and advances	**236.3**	232.0	**4.3**	5.7	**-**	-
Treasury bills and investment securities	**1,370.4**	1,339.0	**-**	-	**27.2**	36.7
Customer deposits	**187.9**	235.2	**22.5**	28.7	**5.7**	6.0
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**46.0**	91.6	**26.0**	26.6	**-**	-

For the year ended 31 December	2021 BHD millions	2020 BHD millions	2021 BHD millions	2020 BHD millions	2021 BHD millions	2020 BHD millions
Loans advanced	**113.3**	286.4	**3.4**	0.9	**-**	-
Loans repaid	**114.8**	277.8	**1.3**	0.9	**-**	-
Net increase / (decrease) in overdrafts	**5.8**	(67.2)	**(3.5)**	(1.1)	**-**	-
Treasury bills, bonds and equities purchased	**870.4**	803.0	**-**	-	**-**	-
Treasury bills, bonds and equities matured / sold	**839.0**	1,049.0	**-**	-	**-**	-
Capital expenditures	**-**	-	**1.0**	2.5	**-**	0.1
Interest income	**62.1**	72.4	**0.3**	0.4	**-**	-
Interest expense	**0.9**	3.0	**0.2**	0.4	**-**	-
Share of profit of associates	**-**	-	**-**	-	**1.1**	1.0
Dividend income	**1.9**	0.9	**-**	-	**-**	-
Directors remuneration and sitting fees	**0.2**	0.2	**0.4**	0.3	**-**	-
Short term employee benefits	**-**	-	**3.5**	3.8	**-**	-
Post employment retirement benefits	**-**	-	**0.3**	0.3	**-**	-
Other operating expenses	**2.2**	1.9	**2.3**	2.4	**0.6**	0.3

During the year, no net provision charge [2020: BHD 6.9 million provision charge (USD 18.3 million)] had 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 2021 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions.

31. ASSETS UNDER MANAGEMENT

Assets managed on behalf of customers to which the Group does not have legal title are not included in the statement of financial position. At 31 December 2021, assets under management amounted to BHD 134.2 million (USD 356.0 million) [31 December 2020: BHD 104.4 million (USD 276.9 million)].

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

32. GEOGRAPHICAL DISTRIBUTION

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2021	2020	2021	2020	2021	2020
GCC	4,367.7	4,213.8	3,905.9	3,681.3	2,841.5	2,918.1
USA	133.5	84.2	24.2	27.0	58.9	196.6
Europe	7.9	62.9	43.7	73.7	1,874.3	727.0
Rest of the World	26.5	0.5	26.5	53.1	4.3	27.3
	4,535.6	4,361.4	4,000.3	3,835.1	4,779.0	3,869.0

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

33. DISTRIBUTION BY SECTOR

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2021	2020	2021	2020	2021	2020
Government / sovereign	1,667.8	1,520.6	339.8	308.6	366.2	110.7
Manufacturing / trading	376.6	338.2	211.8	174.3	188.8	167.6
Banks / financial institutions	579.2	608.8	728.5	585.1	3,965.0	3,385.6
Construction	220.7	166.4	107.6	217.8	86.6	122.1
Personal	1,316.6	1,166.5	2,157.3	2,141.0	97.7	59.3
Others	374.7	560.9	455.3	408.3	74.7	23.7
	4,535.6	4,361.4	4,000.3	3,835.1	4,779.0	3,869.0

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

Notes to the Consolidated Financial Statements (continued)

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34. CONCENTRATION OF CREDIT RISK

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

a) By industry

In BHD millions As at 31 December 2021	Government / sovereign Bahrain	Government / sovereign Other countries	Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	79.3	-	-	-	79.3
Treasury bills	215.7	10.0	-	-	-	-	-	225.7
Placements with banks and other financial institutions	-	12.3	-	282.1	-	-	-	294.4
Loans and advances	229.1	50.2	363.3	97.8	197.2	1,245.0	213.2	2,395.8
Investment securities - debt instruments	1,114.6	23.5	-	17.0	-	-	10.1	1,165.2
Interest receivable and other assets	12.0	0.4	1.9	4.2	0.3	19.6	38.5	76.9
Total assets	1,571.4	96.4	365.2	480.4	197.5	1,264.6	261.8	4,237.3
Contingent liabilities and banking commitments	107.6	-	175.3	72.1	86.6	40.0	74.7	556.3
Derivatives (replacement cost)	0.7	-	-	33.4	-	-	-	34.1

In BHD millions As at 31 December 2020	Government / sovereign Bahrain	Government / sovereign Other countries	Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	77.9	-	-	-	77.9
Treasury bills	226.6	10.1	-	-	-	-	-	236.7
Placements with banks and other financial institutions	-	-	-	335.4	-	-	-	335.4
Loans and advances	159.2	-	329.7	73.3	165.3	1,106.5	339.1	2,173.1
Investment securities - debt instruments	1,075.4	34.6	-	17.2	-	-	11.7	1,138.9
Interest receivable and other assets	14.4	0.3	1.3	3.6	0.3	7.3	68.0	95.2
Total assets	1,475.6	45.0	331.0	507.4	165.6	1,113.8	418.8	4,057.2
Contingent liabilities and banking commitments	110.9	-	136.2	67.3	122.2	40.5	23.8	500.9
Derivatives (replacement cost)	2.5	-	-	39.3	-	-	-	41.8

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 Group'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 2021.

In BHD millions

Counterparty	Counterparty type	Total exposure
Counterparty A	Sovereign	1,317.1
Counterparty B	Government related entity	171.1
Counterparty C	Government related entity	130.2
Counterparty D	Central Bank	110.8

Notes to the Consolidated Financial Statements (continued)

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34. CONCENTRATION OF CREDIT RISK (continued)

(b) By geographical regions

In BHD millions As at 31 December 2021	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	**79.3**	**-**	**-**	**-**	**79.3**
Treasury bills	**225.7**	**-**	**-**	**-**	**225.7**
Placements with banks and other financial institutions	**224.1**	**65.8**	**4.2**	**0.3**	**294.4**
Loans and advances	**2,311.8**	**57.5**	**0.7**	**25.8**	**2,395.8**
Investment securities	**1,163.3**	**1.9**	**-**	**-**	**1,165.2**
Interest receivable and other assets	**65.5**	**8.3**	**2.8**	**0.3**	**76.9**
Total assets	**4,069.7**	**133.5**	**7.7**	**26.4**	**4,237.3**
Contingent liabilities and banking commitments	**543.3**	**-**	**8.7**	**4.3**	**556.3**
Derivatives (replacement cost)	**2.4**	**-**	**31.7**	**-**	**34.1**

In BHD millions As at 31 December 2020	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	77.9	-	-	-	77.9
Treasury bills	236.7	-	-	-	236.7
Placements with banks and other financial institutions	290.3	10.4	34.3	0.4	335.4
Loans and advances	2,079.5	66.9	26.6	0.1	2,173.1
Investment securities	1,133.1	5.8	-	-	1,138.9
Interest receivable and other assets	92.3	1.1	1.8	-	95.2
Total assets	3,909.8	84.2	62.7	0.5	4,057.2
Contingent liabilities and banking commitments	464.4	0.1	31.5	4.9	500.9
Derivatives (replacement cost)	4.1	-	37.6	0.1	41.8

Notes to the Consolidated Financial Statements (continued)

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35. 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 Group'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 Group'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 Group'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 Group 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 Group 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 Group'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 2021	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	-	-	-	-	-	-	123.0	123.0
Treasury bills	2.0%	67.1	59.5	99.1	-	-	-	225.7
Placements with banks and other financial institutions	0.8%	215.6	-	-	-	-	78.8	294.4
Loans and advances	4.6%	633.7	220.3	134.4	847.0	560.4	-	2,395.8
Investment securities	4.1%	27.4	5.8	123.6	759.7	248.7	93.4	1,258.6
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	120.5	120.5
Property and equipment	-	-	-	-	-	-	64.0	64.0
Goodwill and other intangible assets	-	-	-	-	-	-	53.6	53.6
Total assets		943.8	285.6	357.1	1,606.7	809.1	533.3	4,535.6
Liabilities and equity								
Due to banks and other financial institutions	1.2%	400.5	12.4	10.9	33.7	-	60.5	518.0
Borrowings under repurchase agreements	0.7%	64.2	27.7	129.7	-	-	-	221.6
Customer deposits	1.0%	1,130.3	304.0	206.9	29.3	-	1,513.7	3,184.2
Interest payable and other liabilities	-	-	-	-	-	-	76.5	76.5
Equity	-	-	-	-	-	-	535.3	535.3
Total liabilities and equity		1,595.0	344.1	347.5	63.0	-	2,186.0	4,535.6
On-balance sheet interest rate sensitivity gap		(651.2)	(58.5)	9.6	1,543.7	809.1	(1,652.7)	-
Off-balance sheet interest rate gap		1,206.0	(184.7)	62.3	(698.1)	(385.5)	-	-
Cumulative interest rate sensitivity gap		554.8	311.6	383.5	1,229.1	1,652.7	-	-

Notes to the Consolidated Financial Statements (continued)

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35. INTEREST RATE RISK (continued)

In BHD millions As at 31 December 2020	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	-	-	-	-	-	-	125.5	125.5
Treasury bills	2.7%	187.7	49.0	-	-	-	-	236.7
Placements with banks and other financial institutions	1.1%	308.0	-	-	-	-	27.4	335.4
Loans and advances	4.8%	604.3	146.4	144.5	843.2	434.7	-	2,173.1
Investment securities	4.5%	274.0	43.8	20.1	635.8	165.2	92.5	1,231.4
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	149.2	149.2
Property and equipment	-	-	-	-	-	-	55.7	55.7
Goodwill and other intangible assets	-	-	-	-	-	-	54.4	54.4
Total assets		1,374.0	239.2	164.6	1,479.0	599.9	504.7	4,361.4
Liabilities and equity								
Due to banks and other financial institutions	2.0%	439.2	33.3	22.1	11.8	-	38.1	544.5
Borrowings under repurchase agreements	1.2%	75.1	-	37.8	-	-	-	112.9
Customer deposits	1.4%	1,469.7	135.6	129.8	45.2	-	1,304.0	3,084.3
Interest payable and other liabilities	-	-	-	-	-	-	93.4	93.4
Equity	-	-	-	-	-	-	526.3	526.3
Total liabilities and equity		1,984.0	168.9	189.7	57.0	-	1,961.8	4,361.4
On-balance sheet interest rate sensitivity gap		(610.0)	70.3	(25.1)	1,422.0	599.9	(1,457.1)	-
Off-balance sheet interest rate gap		1,316.2	(14.3)	-	(565.9)	(736.0)	-	-
Cumulative interest rate sensitivity gap		706.2	762.2	737.1	1,593.2	1,457.1	-	-

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2021

36. MARKET RISK

a) The Group 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	2021	2020
Interest rate risk	2.1	1.8
Foreign exchange risk	0.1	0.1
Total minimum capital required for market risk	2.2	1.9
Multiplier	12.5	12.5
Market risk weighted exposure under the standardised method	27.5	23.8

b) The principal risk to which the Group 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 Group's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Group's sensitivity to an increase or decrease in market interest rates on the Group's balance sheet (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2021		2020	
In BHD millions	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	(0.2)	0.2	(6.6)	6.6
Average for the year	(1.8)	1.8	(4.6)	4.6
Minimum for the year	(0.2)	0.2	(1.9)	1.9
Maximum for the year	(7.5)	7.5	(7.0)	7.0

c) The Group 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 Group 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 Group's non-trading activities. The use of derivatives to manage interest rate risk is described in note 20.

37. SEGMENT INFORMATION

For management purposes, the Group 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 Group reports its operating segment information.

The consumer banking and business banking related SBUs in Bahrain provide various banking products and services to the Group's customers. 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, Wealth Management and Investments SBU has the overall responsibility of managing the Group's liquidity, interest rate, foreign exchange, market risk and investments and the Overseas Branches SBU provide various banking products and services to the Group's customers outside Bahrain.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

37. SEGMENT INFORMATION (continued)

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, Wealth Management and Investments		Total	
For the year ended 31 December	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Interest income	**79.3**	75.7	**19.2**	20.9	**1.7**	1.6	**53.1**	66.2	**153.3**	164.4
Interest expense	**(25.0)**	(35.8)	**(3.4)**	(5.2)	**(0.6)**	(0.4)	**(3.8)**	(7.0)	**(32.8)**	(48.4)
Inter-segment interest income / (expense)	**23.1**	29.0	**2.5**	1.2	**0.2**	0.1	**(25.8)**	(30.3)	**-**	-
Net interest income	**77.4**	68.9	**18.3**	16.9	**1.3**	1.3	**23.5**	28.9	**120.5**	116.0
Net fee and commission and other income	**8.6**	8.2	**8.0**	7.5	**1.7**	1.6	**12.1**	14.6	**30.4**	31.9
Operating income	**86.0**	77.1	**26.3**	24.4	**3.0**	2.9	**35.6**	43.5	**150.9**	147.9
Result	**35.3**	33.5	**16.4**	4.0	**(5.7)**	(10.9)	**20.0**	35.6	**66.0**	62.2
Unallocated corporate expenses									**(11.0)**	(11.5)
Profit for the year									**55.0**	50.7
Other information										
As at 31 December										
Segment assets	**1,584.9**	1,434.2	**1,177.2**	1,059.9	**132.7**	100.6	**1,640.8**	1,766.7	**4,535.6**	4,361.4
Segment liabilities and equity	**2,687.4**	2,742.2	**1,177.4**	1,010.0	**102.9**	49.2	**567.9**	560.0	**4,535.6**	4,361.4
For the year ended 31 December										
Depreciation and amortisation for the year	**4.1**	2.9	**1.0**	0.6	**0.7**	0.4	**0.9**	0.9	**6.7**	4.8
Provision for impaired assets	**3.5**	3.7	**9.5**	14.6	**2.8**	8.6	**6.7**	1.1	**22.5**	28.0

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Group'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.

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38. 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 2021	**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	**123.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**123.0**
Treasury bills	**67.1**	**59.5**	**99.1**	**-**	**-**	**-**	**-**	**-**	**225.7**
Placements with banks and other financial institutions	**294.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**294.4**
Loans and advances	**511.3**	**230.3**	**154.9**	**538.7**	**370.3**	**344.4**	**202.9**	**43.0**	**2,395.8**
Investment securities	**27.4**	**5.8**	**123.6**	**475.6**	**284.1**	**177.2**	**39.0**	**125.9**	**1,258.6**
Investment in associates and other assets	**67.3**	**1.4**	**0.2**	**0.5**	**0.6**	**-**	**-**	**168.1**	**238.1**
Total assets	**1,090.5**	**297.0**	**377.8**	**1,014.8**	**655.0**	**521.6**	**241.9**	**337.0**	**4,535.6**
Liabilities and equity									
Due to banks and other financial institutions	**461.0**	**12.4**	**10.9**	**33.7**	**-**	**-**	**-**	**-**	**518.0**
Borrowings under repurchase agreements	**64.2**	**27.7**	**129.7**	**-**	**-**	**-**	**-**	**-**	**221.6**
Customer deposits	**2,644.0**	**304.0**	**206.9**	**29.3**	**-**	**-**	**-**	**-**	**3,184.2**
Interest payable & other liabilities	**76.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76.5**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**535.3**	**535.3**
Total liabilities and equity	**3,245.7**	**344.1**	**347.5**	**63.0**	**-**	**-**	**-**	**535.3**	**4,535.6**

In BHD millions As at 31 December 2020	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	125.5	-	-	-	-	-	-	-	125.5
Treasury bills	187.7	36.8	12.2	-	-	-	-	-	236.7
Placements with banks and other financial institutions	335.4	-	-	-	-	-	-	-	335.4
Loans and advances	405.5	149.5	164.5	566.6	429.5	300.0	130.3	27.2	2,173.1
Investment securities	274.0	43.8	20.1	367.3	268.5	124.2	4.0	129.5	1,231.4
Investment in associates and other assets	92.4	0.8	0.1	0.5	0.7	-	-	164.8	259.3
Total assets	1,420.5	230.9	196.9	934.4	698.7	424.2	134.3	321.5	4,361.4
Liabilities and equity									
Due to banks and other financial institutions	477.3	33.3	22.1	11.8	-	-	-	-	544.5
Borrowings under repurchase agreements	75.1	-	37.8	-	-	-	-	-	112.9
Customer deposits	2,773.7	135.6	129.8	45.2	-	-	-	-	3,084.3
Interest payable & other liabilities	93.4	-	-	-	-	-	-	-	93.4
Equity	-	-	-	-	-	-	-	526.3	526.3
Total liabilities and equity	3,419.5	168.9	189.7	57.0	-	-	-	526.3	4,361.4

Notes to the Consolidated Financial Statements (continued)

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38. MATURITY PROFILE AND LIQUIDITY RISK (continued)

b) Liquidity risk

The table below shows the undiscounted cash flows of the Group's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Group'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 2021	**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	**518.0**	**537.7**	**479.7**	**12.4**	**10.9**	**34.7**	**-**
Borrowings under repurchase agreements	**221.6**	**241.6**	**83.5**	**27.8**	**130.3**	**-**	**-**
Customer deposits	**3,184.2**	**3,186.4**	**2,658.8**	**290.2**	**208.0**	**29.4**	**-**
Total non derivative liabilities	**3,923.8**	**3,965.7**	**3,222.0**	**330.4**	**349.2**	**64.1**	**-**
Derivative liabilities							
Trading: outflow	**-**	**1,140.2**	**841.0**	**89.8**	**129.8**	**79.6**	**-**
Trading: inflow	**1.8**	**1,136.6**	**838.7**	**89.6**	**129.3**	**79.0**	**-**
Total derivative liabilities	**1.8**	**2,276.8**	**1,679.7**	**179.4**	**259.1**	**158.6**	**-**
Banking commitments	**-**	**-**	**(185.6)**	**(4.5)**	**(6.1)**	**(27.0)**	**223.2**
Financial guarantees	**-**	**(36.4)**	**(21.1)**	**(1.9)**	**(7.2)**	**(6.2)**	**-**

The Group's consolidated net stable funding ratio (NSFR) as at 31 December 2021 was 136% (31 December 2020: 145%), while the average LCR for the fourth quarter of the year stood at 308% (31 December 2020: 295%). The Group continues to meet minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio ("CAR"). Further details on NSFR are disclosed in note 39.

In BHD millions As 31 December 2020	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	544.5	545.6	477.8	33.3	22.3	12.2	-
Borrowings under repurchase agreements	112.9	113.8	75.2	0.1	38.5	-	-
Customer deposits	3,084.3	3,098.1	2,784.5	136.7	131.6	45.3	-
Total non derivative liabilities	3,741.7	3,757.5	3,337.5	170.1	192.4	57.5	-
Derivative liabilities							
Trading: outflow	-	1,850.3	1,495.2	139.3	53.2	162.6	-
Trading: inflow	3.3	1,850.2	1,489.3	146.0	53.0	161.9	-
Total derivative liabilities	3.3	3,700.5	2,984.5	285.3	106.2	324.5	-
Banking commitments	-	-	(222.6)	-	-	-	222.6
Financial guarantees	-	(40.2)	(17.6)	(5.4)	(7.3)	(9.7)	(0.2)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

39. NET STABLE FUNDING RATIO

The main objective of the NSFR is to promote resilience in the banking system by improving the funding profile of banks by ensuring sufficient level of stable funding in relation to assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position.

Banks are required to meet a minimum NSFR of 100% on a continuous basis. This ratio was relaxed to 80% due to the pressures within the banking sector following the COVID pandemic, However, NBB Group still seeks to maintain the original higher 100% requirement.

The main drivers behind the Group's strong available stable funding (ASF) are the healthy capital base (18% of the Group's ASF), large deposits portfolio with strong contributions from the retail and small business sectors (67% of the Group's ASF) and the sizable corporate and sovereign deposits (15% of the Group's ASF).

The majority of the Group's investment security portfolio is classified as high-quality liquid assets (HQLA). The Group's HQLA securities accounted for 28% of the Group's required stable funding (RSF) before applying the relevant weights. Lending provided to financial institutions in the form of loans or placements was predominantly short-term in nature, which required a lower level of required funding, with 86% of total lending provided to financial institutions being in the 0-6 months maturity bucket.

The NSFR ratio of 136% at 31 December 2021 is 9% lower than the 31 December 2020 ratio. A 2% increase in ASF resulting from a 10% increase in wholesale funding, was offset by a 9% increase in RSF following a 17% increase in loans and placements with financial institutions and a 8% increase in lending to corporates, SMEs, retails, and sovereigns.

Further details on the calculation of the NSFR is presented in the following tables.

In BHD millions As at 31 December 2021 Item	Unweighted values (before applying factors) No specified maturity	 Less than 6 months	 More than 6 months and less than one year	 Over one year	Total weighted value
Available stable funding (ASF):					
Capital:					
Regulatory capital	563.4	-	-	26.3	589.7
Retail deposits and deposits from small business customers:					
Stable deposits	-	588.8	8.1	1.7	568.8
Less stable deposits	-	1,603.7	113.9	22.2	1,568.0
Wholesale funding:					
Other wholesale funding	-	1,305.7	228.8	29.2	473.0
Other liabilities:					
All other liabilities not included in the above categories	-	96.8	-	7.5	7.5
Total ASF					3,207.0

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2021

39. NET STABLE FUNDING RATIO (continued)

In BHD millions
As at 31 December 2021

Item	Unweighted values (before applying factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	76.2
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	287.5	4.8	41.8	87.3
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs:	-	428.3	94.0	1,493.3	1,530.6
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	220.3	143.2
Performing residential mortgages, of which:					
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	51.0	33.1
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	6.8	146.4	37.6	110.1
Other assets:					
NSFR derivative assets	-	2.2	-	-	2.2
All other assets not included in the above categories	319.1	-	-	-	319.1
OBS items	-	-	-	-	51.5
Total RSF					2,353.3
NSFR %					136%

In BHD millions
As at 31 December 2020

Item	Unweighted Values (before applying factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory capital	555.3	-	-	21.1	576.3
Retail deposits and deposits from small business customers:					
Stable deposits	-	595.4	7.1	4.4	576.8
Less stable deposits	-	1,562.7	109.7	40.7	1,545.9
Wholesale funding:					
Wholesale funding	-	1,276.3	116.0	3.4	431.8
Other liabilities:					
NSFR derivative liabilities	3.6	-	-	-	-
All other liabilities not included in the above categories	-	119.3	-	6.5	6.5
Total ASF					3,137.3

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

39. NET STABLE FUNDING RATIO (continued)

In BHD millions
As at 31 December 2020

Item	Unweighted values (before applying factors) No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	81.5
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	223.5	2.3	39.7	74.4
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs:	-	348.4	120.4	1,396.8	1,421.6
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	180.9	117.6
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	3.8	47.9	41.1	63.3
Other assets:		-	-	-	0.7
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	-	-	-	-	360.4
OBS items	360.4	-	-	-	45.0
Total RSF	-	-	-	-	2,164.5
NSFR %					145%

40. RETIREMENT BENEFIT COSTS

The Group'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 Group's contribution for 2021 amounted to BHD 2.2 million (USD 5.8 million) [2020: BHD 2.1 million (USD 5.6 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	**2021**		**2020**	
Movements during the year	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
At 1 January	**2.6**	**6.9**	2.3	6.1
Movement from subsidiary acquisition	**-**	**-**	0.5	1.3
Charge for the year	**0.7**	**1.9**	0.7	1.9
Paid during the year	**(0.6)**	**(1.6)**	(0.9)	(2.4)
At 31 December	**2.7**	**7.2**	2.6	6.9

41. LEGAL CLAIMS

As at 31 December 2021, legal claims pending against the Group aggregated to BHD 20.4 million (USD 54.1 million) [31 December 2020: BHD 5.5 million (USD 14.6 million)]. Based on the opinion of the Group's legal advisors about final judgement on these claims, adequate provision as assessed by management is maintained.

42. EARNINGS AND DIVIDEND PER SHARE

	2021		**2020**	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Profit attributable to the shareholders of the Bank	**53.9**	**143.0**	53.3	141.4
Dividend proposed at 20% (2020: 20%)	**37.5**	**99.5**	34.1	90.5
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2021	**1,702.5**	**1,702.5**	1,702.5	1,702.5
Effect of bonus shares issued during 2021 for 2020	**170.3**	**170.3**	170.3	170.3
Less unallocated employee shares	**(11.4)**	**(11.4)**	(12.3)	(12.3)
Weighted average number of ordinary shares (millions) as at 31 December	**1,861.4**	**1,861.4**	1,860.5	1,860.5
Earnings per share	**29 fils**	**8 cents**	29 fils	8 cents
Dividend per share	**20 fils**	**5 cents**	20 fils	5 cents
Bonus / stock dividend per share	**10 fils**	**3 cents**	10 fils	3 cents

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

43. ACCOUNTING CLASSIFICATION

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

In BHD millions As at 31 December 2021	**Fair value through profit or loss**	**Amortised cost**	**Fair value through other comprehensive income**	**Total carrying amount**
Cash and balances at central banks	-	123.0	-	123.0
Treasury bills	-	225.7	-	225.7
Placements with banks and other financial institutions	-	294.4	-	294.4
Loans and advances	-	2,395.8	-	2,395.8
Investment securities	26.5	834.2	397.9	1,258.6
Interest receivable & other assets	14.7	223.4	-	238.1
Total assets	**41.2**	**4,096.5**	**397.9**	**4,535.6**
Due to banks and other financial institutions	-	518.0	-	518.0
Borrowings under repurchase agreements	-	221.6	-	221.6
Customer deposits	-	3,184.2	-	3,184.2
Interest payable & other liabilities	-	76.5	-	76.5
Total liabilities	**-**	**4,000.3**	**-**	**4,000.3**

In BHD millions As at 31 December 2020				
Cash and balances at central banks	-	125.5	-	125.5
Treasury bills	-	236.7	-	236.7
Placements with banks and other financial institutions	-	335.4	-	335.4
Loans and advances	-	2,173.1	-	2,173.1
Investment securities	1.7	893.2	336.5	1,231.4
Interest receivable & other assets	16.2	243.1	-	259.3
Total assets	17.9	4,007.0	336.5	4,361.4
Due to banks and other financial institutions	-	544.5	-	544.5
Borrowings under repurchase agreements	-	112.9	-	112.9
Customer deposits	-	3,084.3	-	3,084.3
Interest payable & other liabilities	-	93.4	-	93.4
Total liabilities	-	3,835.1	-	3,835.1

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

43. ACCOUNTING CLASSIFICATION (continued)

b) Fair value hierarchy

The Group 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 of floating rate loans which have been disbursed at market rates approximate carrying value. The fair value of fixed rate loans, estimated by discounting future cash flows expected to be received and taking into account expected credit losses based on historical trends, also approximated the carrying value.

(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 Group 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	2021				2020			
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	**-**	**3.0**	**-**	**3.0**	-	1.7	-	1.7
Debt instruments	**-**	**23.5**	**-**	**23.5**	-	-	-	-
Fair value through other comprehensive income:								
Debt instruments	**244.1**	**63.4**	**-**	**307.5**	245.7	-	-	245.7
Equity instruments	**59.4**	**-**	**31.0**	**90.4**	56.3	-	34.5	90.8
Derivative financial assets	**-**	**34.1**	**-**	**34.1**	-	41.8	-	41.8
Other assets - investment properties	**-**	**14.7**	**-**	**14.7**	-	16.2	-	16.2
Total	**303.5**	**138.7**	**31.0**	**473.2**	302.0	59.7	34.5	396.2
Derivative financial liabilities	**-**	**0.6**	**-**	**0.6**	-	1.4	-	1.4

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

	Investment securities	
In BHD millions	**2021**	**2020**
At 1 January	**34.5**	11.1
Acquisition of assets within the subsidiary	**-**	27.2
Sale / write-off of asset	**-**	(2.1)
Total losses in other comprehensive income	**(3.5)**	(1.7)
At 31 December	**31.0**	34.5

Total gain for the year included in the statement of profit or loss for assets / liabilities classified as level 3 at 31 December 2021 is nil (2020: 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2021

44. AVERAGE BALANCES

The following are average daily balances for the year:

	2021		2020	
	BHD millions	USD millions	BHD millions	USD millions
Total assets	4,472.5	11,863.4	4,397.5	11,664.5
Total liabilities	3,957.8	10,498.1	3,892.2	10,324.1
Total equity	514.7	1,365.3	505.3	1,340.4
Contingent liabilities and undrawn loan commitments	589.5	1,563.7	531.0	1,408.5

45. SHARIAH-COMPLIANT ASSETS AND LIABILITIES

The Group's interests in Shariah-compliant financial instruments are aggregated and included in the consolidated balance sheet of the Group:

	2021		2020	
	BHD millions	USD millions	BHD millions	USD millions
Assets				
Placement with banks and other financial institutions	77.6	205.8	85.2	226.0
Loans and advances, net	1,092.6	2,898.1	958.9	2,543.5
Investment securities	318.2	844.0	355.1	941.9
Liabilities				
Due to banks and other financial institutions	245.7	651.7	207.3	549.9
Customer deposits	965.4	2,560.7	894.9	2,373.9

Liabilities are inclusive of equity of investment accountholders.

46. CAPITAL ADEQUACY

The Group operates as an independent banking institution with headquarters in Bahrain, subsidiary 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 Group 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 Group's capital adequacy calculations are shown below:

	2021		2020	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Common equity (CET1)	509.8	1,352.3	500.8	1,328.4
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	509.8	1,352.3	500.8	1,328.4
Tier 2	26.3	69.8	21.1	56.0
Total capital base	536.1	1,422.1	521.9	1,384.4
Risk weighted exposure:				
Credit risk	2,103.5	5,579.6	2,005.7	5,320.2
Market risk	27.5	72.9	23.8	63.1
Operational risk	293.2	777.7	313.7	832.1
Total risk weighted exposure	2,424.2	6,430.2	2,343.2	6,215.4
CET 1 ratio	21.0%		21.4%	
Total capital adequacy ratio	22.1%		22.3%	

Conventional banks are required to maintain a minimum total capital adequacy ratio of 12.5%. Additionally, 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% of the total risk weighted assets, as calculated for the purposes of capital adequacy.

47. DEPOSIT PROTECTION SCHEME

Deposits held with the Group'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 Group subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Supplementary disclosures (not audited)
for the year ended 31 December 2021

IMPACT OF COVID-19

The outbreak of the coronavirus disease ("COVID-19") in early 2020 has had multiple implications on the Group, from stressed market conditions to relief measures provided by the regulator and government.

The Central Bank of Bahrain ("CBB"), along with the Government of Bahrain, provided numerous reliefs to Bahraini individuals, companies and banks. In March 2020, the CBB announced a six-month loan deferral to all qualifying Bahraini individuals and companies. Subsequently, the CBB instructed banks to take the present value of the shortfall in interest income (termed the "modification loss" under IFRS) arising from this deferral directly to equity, net of any government grants received. The Group had received grants during 2020 in the form of salary subsidy, electricity and water bill reductions and repo facilities at preferential rates. The Bank immediately redirected the cash grants to COVID-19 related charitable causes within the Kingdom of Bahrain and took no profit benefit from the grants. The CBB subsequently announced four additional loan deferral programmes effective September 2020 for a period of four months, January 2021 for a period of six months, July 2021 for a period of six months, and January 2022 for a period of six months. The latter four programmes permitted banks to charge interest, and as such, did not result in any additional modification losses to the Group.

To partially counteract the impact of the delayed loan settlements, the CBB provided banks with additional reliefs by reducing the minimum LCR and NSFR requirements from 100% to 80%, and by reducing the regulatory reserve requirements. NBB Group continued to meet the original minimum liquidity ratio requirements, as shown in notes 38-b and 39 of the consolidated financial statements.

The table below summarises the impact of the various measures and market conditions on the Group as at 31 December 2021 and is inclusive of a BHD 6.3 million provision in excess of the base ECL model as a precaution toward future currently unidentified risks that the Group may face:

In BHD millions	Net profit	Total equity	Total assets
Closing balances as per the financial statements	**55.0**	**535.3**	**4,535.6**
CBB and Government measures			
Loan deferral modification loss	-	27.9	-
Preferential rate repo	-	(0.6)	-
Other government grants	-	(4.0)	-
	-	**23.3**	**-**
Market conditions			
Additional precautionary provisions following adjustments to base ECL model	2.6	6.3	6.3
Lower dividend income as payouts reduced	1.5	1.5	-
Negative investment properties revaluation	1.5	1.5	-
Additional cost of funding due to scarcity of USD	0.4	0.4	-
Reduction in market interest rates	8.8	8.8	-
Lower credit card income	0.4	0.4	-
	15.2	**18.9**	**6.3**
Estimated balances excluding COVID-19 impact	**70.2**	**577.5**	**4,541.9**

Risk and Capital Management Disclosures

For the year ended 31 December 2021

Risk and Capital Management Disclosures

For the year ended 31 December 2021

INTRODUCTION

This document presents the Pillar 3 disclosures on a consolidated basis as at 31 December 2021. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the Group's capital, risk exposures and risk assessment process. The Group is regulated by the Central Bank of Bahrain (CBB) and follows the Pillar 3 disclosure requirements as stated under the CBB guidelines.

The Group 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 Group's stakeholders and market participants. The Pillar 3 disclosures are to be read in conjunction with the audited consolidated financial statements as of 31 December 2021.

REGULATORY FRAMEWORK

The Group 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 goodwill and intangibles, 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.

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%, furthermore, banks designated by the CBB as DSIBs (domestic systematically important banks) are required to maintain an additional 1.5% buffer compromising of CET1 above the minimum capital plus CCB. 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 2021, the Group's total risk weighted assets amounted to BHD 2,424.2 million; common equity tier 1 (CET1) and total capital base amounted to BHD 509.8 million and BHD 536.1 million respectively. Accordingly, the CET1 capital adequacy ratio and the total capital adequacy ratio were 21.0% percent and 22.1% percent respectively. Meanwhile, NBB's subsidiary Bahrain Islamic Bank B.S.C. reported a CET1 capital adequacy ratio and a total capital adequacy ratio of 17.8% percent and 19.1% percent respectively. These ratios exceed the minimum capital requirements under the CBB's Basel III framework.

RISK AND CAPITAL MANAGEMENT

The Group 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 Group 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 Group 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 Group 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.

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 Group's board of directors. This includes reviewing and reporting its conclusions and recommendations to the board on:

- The Group'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 Group to bear);
- The Group's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures and people); and
- The Group's risk culture to ensure that it supports the Group's risk appetite. In this regard, the committee will take a forward-looking perspective, seeking to anticipate changes in business conditions.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

RISK AND CAPITAL MANAGEMENT (continued)

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 Group 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 Group evaluates risk in terms of the impact on income and asset values, and the evaluation reflects the Group'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 Group has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

The Group 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 Group's income generation and capital strength is limited. Similarly, prudent norms have been implemented to govern the Group's investment activities, which specify to the Group's treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Group 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 Group 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 Group'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 Group 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 Group 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 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 Group.

The asset / liability management policies of the Group define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Group 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 Group'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 Group has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Group'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 Group is able to ensure that sufficient liquidity is always available. The Group Asset Liability Committee (GALCO) 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 Group. The Group'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 Group 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 Group'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 Group'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, GALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Group'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 Group 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 Group 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.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

RISK AND CAPITAL MANAGEMENT (continued)

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 Group 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.

In 2021, ongoing work to strengthen controls that manage the most material risks has continued. Among other measures, the Group 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 Group.

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 Group'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 Group 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 Group's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Group's business activities and to maintain a well-capitalised status under regulatory requirements. The Group 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 Group'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 Group'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 Group's capital adequacy to determine the capital requirement and planning to ensure that the Group is adequately capitalised in line with the overall risk profile.

The Group 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 Group has branches. The Group has complied with regulatory capital requirements throughout the year.

Prior approval of the Central Bank of Bahrain is obtained by the Group before submitting any proposal for distribution of profits for shareholders' approval.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Capital structure, minimum capital and capital adequacy

The Group's paid up capital consists only of ordinary shares, which have proportionate voting rights. The Group does not have any other type of capital instruments.

All amounts are presented at 31 December 2021 unless specified otherwise.

	In BHD millions
Common equity tier 1 (CET1)	
Share capital	187.3
Shares unallocated under share incentive scheme	(1.2)
Share premium	11.4
Statutory reserve	93.6
General reserves	32.4
Other reserves and retained earnings	231.1
Total equity	**554.6**
Addition: unrealised loss in cash flow hedge reserve not eligible for regulatory capital	-
Total CET1 capital before minority interest	**554.6**
Total minority interest in banking subsidiaries given recognition in CET1 capital	8.8
Total regulatory capital	**563.4**
Deduction from CET 1 (Goodwill and other intangible assets)	(53.6)
Total common equity tier 1 (CET1)	**509.8**
Additional tier 1	-
Total tier 1	**509.8**
Tier 2 capital	
Expected credit loss subject to 1.25% of credit risk weighted assets	26.3
Total tier 2	**26.3**
Total capital base (tier 1 + tier 2)	**536.1**

Based on recent circulars issued by the CBB on regulatory concessionary measures in response to the coronavirus disease ("COVID-19"), the Group has excluded the modification loss resulting from loan deferrals from the regulatory capital. The losses were reduced by any COVID-19 related government grants. The CBB has also instructed banks to exclude any losses resulting from COVID-19 related provisions from the regulatory capital for the purpose of capital adequacy calculations. Retained earnings in the above table has been adjusted to reflect these regulatory concessions.

CREDIT RISK

The Group 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 zero 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 zero 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 zero percent risk weight by their respective country regulator, which are risk weighted at zero 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. Social housing or Mazaya loans, however, are risk weighted at 35 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.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CREDIT RISK (continued)

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.

External credit assessment institutions (ECAI)

The Group 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	1,565.3	-	1,565.3	1%	9.4	1.2
PSEs portfolio	0.2	-	0.2	0%	-	-
Banks portfolio	295.1	32.2	262.9	48%	126.2	15.8
Corporates portfolio	1,260.7	61.9	1,198.8	60%	713.7	89.1
Regulatory retail portfolio	882.9	3.0	879.9	75%	659.9	82.5
Residential mortgages portfolio	331.1	-	331.1	57%	187.9	23.5
Equities / funds portfolio	97.3	-	97.3	160%	155.2	19.4
Past due exposures portfolio	46.7	1.2	45.5	107%	48.7	6.1
Others assets	200.6	-	200.6	101%	202.5	25.3
Total credit risk exposure	**4,679.9**	**98.3**	**4,581.6**		**2,103.5**	**262.9**
Market risk					**27.5**	**3.4**
Operational risk					**293.2**	**36.7**
Total risk weighted assets					**2,424.2**	**303.0**
CET1 capital adequacy ratio					**21.0%**	
Capital adequacy ratio					**22.1%**	

CRM is credit risk mitigants such as lien over deposits, mortgage over properties and/or shares and financial instruments. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel III is taken into consideration.

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 2021, the Group's common equity tier 1 capital ratio was 21.0% 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 2021	2021 Daily average
Balances at central banks	79.3	79.6
Treasury bills	225.7	240.3
Placements with banks and other financial institutions	294.4	485.1
Loans and advances	2,395.8	2,216.1
Investment securities	1,165.2	1,063.4
Interest receivable and other assets	76.9	89.8
Total assets	**4,237.3**	**4,174.3**
Non-derivative banking commitments and contingent liabilities	556.3	589.5
Derivatives (replacement cost)	34.1	32.7
	4,827.7	**4,796.5**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CREDIT RISK (continued)

Credit risk exposures (continued)

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	-	-	-	79.3	-	-	-	79.3
Treasury bills	215.7	10.0	-	-	-	-	-	225.7
Placements with banks and other financial institutions	-	12.3	-	282.1	-	-	-	294.4
Loans and advances	229.1	50.2	363.3	97.8	197.2	1,245.0	213.2	2,395.8
Investment securities - debt instruments	1,114.6	23.5	-	17.0	-	-	10.1	1,165.2
Interest receivable and other assets	12.0	0.4	1.9	4.2	0.3	19.6	38.5	76.9
Total assets	**1,571.4**	**96.4**	**365.2**	**480.4**	**197.5**	**1,264.6**	**261.8**	**4,237.3**
Contingent liabilities and banking commitments	107.6	-	175.3	72.1	86.6	40.0	74.7	556.3
Derivatives (replacement cost)	0.7	-	-	33.4	-	-	-	34.1
	1,679.7	**96.4**	**540.5**	**585.9**	**284.1**	**1,304.6**	**336.5**	**4,827.7**

The above includes certain exposures to customers / counter-parties, which are in excess of 15 percent of the Group'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	1,317.1
Counterparty B	Government related entity	171.1
Counterparty C	Government related entity	130.2
Counterparty D	Central Bank	110.8

Geographic distribution of exposure

In BHD millions	**GCC**	**USA**	**Europe**	**Rest of the world**	**Total**
Assets					
Balances at central banks	79.3	-	-	-	79.3
Treasury bills	225.7	-	-	-	225.7
Placements with banks and other financial institutions	224.1	65.8	4.2	0.3	294.4
Loans and advances	2,311.8	57.5	0.7	25.8	2,395.8
Investment securities	1,163.3	1.9	-	-	1,165.2
Interest receivable and other assets	65.5	8.3	2.8	0.3	76.9
Total assets	**4,069.7**	**133.5**	**7.7**	**26.4**	**4,237.3**
Contingent liabilities and banking commitments	543.3	-	8.7	4.3	556.3
Derivatives (replacement cost)	2.4	-	31.7	-	34.1
	4,615.4	**133.5**	**48.1**	**30.7**	**4,827.7**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CREDIT RISK (continued)

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	79.3	-	-	-	-	-	-	-	79.3
Treasury bills	67.1	59.5	99.1	-	-	-	-	-	225.7
Placements with banks and other financial institutions	294.4	-	-	-	-	-	-	-	294.4
Loans and advances	511.3	230.3	154.9	538.7	370.3	344.4	202.9	43.0	2,395.8
Investment securities	27.4	5.8	123.6	475.6	284.1	177.2	39.0	32.5	1,165.2
Interest receivable and other assets	65.6	1.4	0.2	0.5	0.6	-	-	8.6	76.9
Total assets	**1,045.1**	**297.0**	**377.8**	**1,014.8**	**655.0**	**521.6**	**241.9**	**84.1**	**4,237.3**
Contingent liabilities and banking commitments	239.9	23.3	47.5	62.5	7.7	1.2	20.1	154.1	556.3
Derivative (replacement cost)	2.1	0.4	2.2	1.8	12.2	15.4	-	-	34.1
	1,287.1	**320.7**	**427.5**	**1,079.1**	**674.9**	**538.2**	**262.0**	**238.2**	**4,827.7**

Shariah compliant credit facilities

As at 31 December 2021, the Group held Shariah compliant facilities amounting to BHD 1,488.4 million.

Past due exposures

In accordance with the Group'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 Group 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 Group 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 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.

Impaired and past due loans and advances

The analysis below excludes purchased or originated credit impaired ("POCI") financial assets which were acquired as part of the business combination at fair value and reflect the credit losses on which a lifetime ECL is already recognised.

Ageing analysis of impaired and past due loans and advances

In BHD millions	Total
Up to 1 year	62.1
1 to 3 years	8.8
Over 3 years	28.7
	99.6
Fair market value of collateral	**94.5**
Stage 3 impairment provision	**53.1**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CREDIT RISK (continued)

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 1 year	-	0.8	-	46.5	13.3	1.5	62.1
1 to 3 years	-	0.8	-	0.1	7.3	0.6	8.8
Over 3 years	-	25.2	-	-	3.2	0.3	28.7
	-	**26.8**	**-**	**46.6**	**23.8**	**2.4**	**99.6**

Geographical location 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
Bahrain	99.3	52.9	94.5	24.6
Other GCC countries	0.3	0.2	-	2.3
Other countries	-	-	-	0.4
	99.6	**53.1**	**94.5**	**27.3**

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	26.8	18.3	4.6	9.9
Construction	46.6	18.5	56.6	1.8
Personal	23.8	15.5	29.2	10.9
Banks / financial institutions	-	-	-	0.6
Government	-	-	-	1.7
Others	2.4	0.8	4.1	2.4
	99.6	**53.1**	**94.5**	**27.3**

Collateral market value is applicable to the impaired loans only.

Movement in impairment provision for loans and advances

In BHD millions	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment at 1 January 2021	10.0	9.9	61.9	0.2	82.0
Net transfer between stages	3.0	(3.4)	0.4	-	-
Write off during the year	-	-	(13.6)	-	(13.6)
Net charge for the year	0.3	6.9	4.3	0.6	12.1
Other movement	-	0.6	0.1	-	0.7
Impairment at 31 December 2021	**13.3**	**14.0**	**53.1**	**0.8**	**81.2**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

CREDIT RISK (continued)

Restructuring

During 2021, credit facilities amounting to BHD 33.9 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 Group'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 Group 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 Group's credit policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Group 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 Group'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	1,565.3	-	1,565.3
PSEs portfolio	0.2	-	0.2
Banks portfolio	295.1	32.2	262.9
Corporates portfolio	1,260.7	61.9	1,198.8
Regulatory retail portfolio	882.9	3.0	879.9
Residential mortgages portfolio	331.1	-	331.1
Equities/funds portfolio	97.3	-	97.3
Past due exposures portfolio	46.7	1.2	45.5
Others assets	200.6	-	200.6
	4,679.9	**98.3**	**4,581.6**

On and off-balance sheet netting

The Group enters into netting agreements during the normal course of business, the agreements provide the Group 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 29.7 million at 31 December 2021.

MARKET RISK

The Group applies the standardised method for allocating market risk capital. The Group 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	2.1	5.0	1.5	3.2
Foreign exchange risk	0.1	0.2	-	0.1
Total minimum capital required for market risk	**2.2**			
Multiplier	12.5			
Market risk weighted exposure under the standardised method	**27.5**			

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

OPERATIONAL RISK

Whilst the Group recognises that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Group'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 Group applies the basic indicator approach for assessing the capital requirement for operational risk. The capital requirement of BHD 293.2 million is based on the NBB standalone 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. As BisB was acquired in 2020, the Bank adjusted the historical balances by adding the subsidiary's gross income. The average of the figures for these 3 years is then multiplied by 12.5 to arrive at the operational risk-weighted exposure.

EQUITY POSITION IN THE BANKING BOOK

The Group 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	47.4	47.4	5.9
Unlisted equities	4.6	4.6	0.6
Significant investment in the common shares of financial entities >10%	32.9	32.9	4.1
	84.9	**84.9**	**10.6**
Unrealised gains from equities fair value	(3.3)		
Deduction from CET 1 (significant investments in common stock of financial entities)	-		

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, GALCO 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 Group's unhedged fixed income portfolio was 0.43 percent on 31 December 2021 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 0.1 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Group 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 Group 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 2021

INTEREST RATE RISK IN THE BANKING BOOK (continued)

The Group 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 2020	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	-	-	-	-	-	123.0	123.0
Treasury bills	67.1	59.5	99.1	-	-	-	225.7
Placements with banks and other financial institutions	215.6	-	-	-	-	78.8	294.4
Loans and advances	633.7	220.3	134.4	847.0	560.4	-	2,395.8
Investment securities	27.4	5.8	123.6	759.7	248.7	93.4	1,258.6
Investment in associates, interest receivable and other assets	-	-	-	-	-	120.5	120.5
Property and equipment	-	-	-	-	-	64.0	64.0
Goodwill and other intangible assets	-	-	-	-	-	53.6	53.6
Total assets	**943.8**	**285.6**	**357.1**	**1,606.7**	**809.1**	**533.3**	**4,535.6**
Liabilities and equity							
Due to banks and other financial institutions	400.5	12.4	10.9	33.7	-	60.5	518.0
Borrowings under repurchase agreements	64.2	27.7	129.7	-	-	-	221.6
Customer deposits	1,130.3	304.0	206.9	29.3	-	1,513.7	3,184.2
Interest payable and other liabilities	-	-	-	-	-	76.5	76.5
Equity	-	-	-	-	-	535.3	535.3
Total liabilities and equity	**1,595.0**	**344.1**	**347.5**	**63.0**	**-**	**2,186.0**	**4,535.6**
On-balance sheet interest rate sensitivity gap	(651.2)	(58.5)	9.6	1,543.7	809.1	(1,652.7)	-
Off-balance sheet interest rate gap	1,206.0	(184.7)	62.3	(698.1)	(385.5)	-	-
Cumulative interest rate sensitivity gap	**554.8**	**311.6**	**383.5**	**1,229.1**	**1,652.7**	**-**	**-**

The interest rate risk management process is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to an interest rate shock of 200 bps increase / decrease on the balance sheet. An analysis of the Group'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 2021	(0.2)	0.2
Average for the year	(1.8)	1.8
Minimum for the year	(0.2)	0.2
Maximum for the year	(7.5)	7.5

Impact of the interest rate benchmark reform on risk measurement

The transition from Libor to the risk-free rate is a significant change to the financial industry. The Group has prepared for this transition through strategic planning and identification and update of impacted contracts, system infrastructures and functions.

The risk-free rate (RFR) is transaction based and excludes credit spread. Therefore, a credit spread adjustment is added to the risk-free rate to equate to its predecessor benchmark rate.

As Libor cessation takes place globally, existing contracts should no longer reference a Libor fixing for coupon payments, barriers, and other related contract parameters. The International Swaps and Derivatives Association (ISDA) has defined a fall-back logic (ISDA protocol) to replace the Libor fixings following the transition. These fall-back rates – RFR and spread – are published by Bloomberg Index Securities Limited for use in legacy derivatives contracts. The existing contracts can be transitioned to these alternatives.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

Impact of the interest rate benchmark reform on risk measurement (continued)

- All GBP, JPY, EUR and CHF Libor indexes and selected USD Libor indexes (1 week and 2 months) already ceased on 31 December 2021.
- Other USD Libor indexes (overnight, 1 month, 3 months, 6 months and 1 year) will cease on 30 June 2023.
- Some Libor indexes may be continued on a synthetic basis; however, the United Kingdom's Financial Conduct Authority (FCA) announced that these fixings would not be representative of the underlying market effective 31 December 2021.

The Group has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative risk-free rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, assessing whether contracts need to be amended as a result of these reforms, and managing IBOR reform communication with counterparties. The new contracts to be entered by the Group on or after 1 January 2022 will be based on using various alternative benchmark interest rates including certain "risk-free" rates.

RELATED PARTIES

Certain related parties (major shareholders, directors of the Group and families and companies of which they are principal owners, key management personnel and associates) were customers of the Group 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 Group. 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 Group qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholder is government owned. In addition to the government exposures reported below, in its normal course of business, the Group 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 As at 31 December 2021	Major shareholder and related entities	Directors and key management personnel	Associates
Loans and advances	236.3	4.3	-
Treasury bills and investment securities	1,370.4	-	27.2
Customers' deposits	187.9	22.5	5.7
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	46.0	26.0	-
For the year ended 31 December 2021			
Loans advanced	113.3	3.4	-
Loans repaid	114.8	1.3	-
Net increase / (decrease) in overdrafts	5.8	(3.5)	-
Treasury bills, bonds and equities purchased	870.4	-	-
Treasury bills, bonds and equities matured / sold	839.0	-	-
Capital expenditures	-	1.0	-
Interest income	62.1	0.3	-
Interest expense	0.9	0.2	-
Share of profit of associates	-	-	1.1
Dividend income	1.9	-	-
Directors remuneration and sitting fees	0.2	0.4	-
Short term employee benefits	-	3.5	-
Post employment retirement benefits	-	0.3	-
Other operating expenses	2.2	2.3	0.6

During the year, no provision charge has been recorded against outstanding balances with related parties.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2021

NET OPEN FOREIGN CURRENCY POSITIONS

In BHD millions	
US Dollar (long position) - unhedged	91.3
Saudi Riyal (long position) - unhedged	30.3
UAE Dirhams (long position) - unhedged	15.5

All of the above currencies have a fixed rate of exchange against the Bahraini Dinar. The Group did not have any significant net open positions as at 31 December 2021.

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	3,038.2	31.7	31.7
	3,038.2	**31.7**	**31.7**
Foreign exchange contracts			
Outright spot and forward contracts	141.9	0.5	0.3
Swap agreements	1,042.6	1.9	1.5
	1,184.5	**2.4**	**1.8**
	4,222.7	**34.1**	**33.5**

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 1 year	Total
Interest rate contracts			
Interest rate swaps	215.9	2,822.3	3,038.2
	215.9	**2,822.3**	**3,038.2**
Foreign exchange contracts			
Outright spot and forward contracts	141.9	-	141.9
Swap agreements	963.0	79.6	1,042.6
	1,104.9	**79.6**	**1,184.5**
	1,320.8	**2,901.9**	**4,222.7**

LEGAL CLAIMS

As at 31 December 2021, legal claims pending against the Group aggregated to BHD 20.4 million. Based on the opinion of the Group's legal advisors and pending final judgement on these claims, adequate provision as assessed by management is maintained.

Appendix 1- GRI Content Index

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	Organizational profile		
	102-1 Name of the organization	5	
	102-2 Activities, brands, products, and services	5, 48-61	
	102-3 Location of headquarters	5, 6	
	102-4 Location of operations	5	
	102-5 Ownership and legal form	5	
	102-6 Markets served	4, 49	
	102-7 Scale of the organization	6-9,37,48-62	
	102-8 Information about your workforce	65-74	
	102-9 Supply chain	7, 41,42,44,46,76	
	102-10 Significant changes to the organization and its supply chain	17, 20-21, 33, 37, 76	
	102-11 Precautionary Principle or approach	92-95, 153-166	
	102-12 External initiatives	14,43,50,59-60,70,72,74-75	
	102-13 Membership of associations	33, 51, 56, 59-61, 70, 74	
	Strategy		
	102-14 Statement from senior decision-maker	24-27, 32- 34	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behavior	5	
	102-17 Mechanisms for advice and concerns about ethics	95-96	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	**Governance**		
	102-18 Governance structure	8,9, 22,23,30,31,86-95	
	102-19 Delegating authority	8-9	
	102-20 Executive-level responsibility for economic, environmental, and social topics	8-9, 28-31	
	102-22 Composition of the highest governance body and its committees	8,9, 22,23,30,31,86-95	
	102-23 Chair of the highest governance body	8-9, 20-21, 28-29	
	102-24 Nominating and selecting the highest governance body	85-86	
	102-25 Conflicts of interest	95,98	
	102-26 Role of highest governance body in setting purpose, values, and strategy	85-86	
	102-27 Collective knowledge of highest governance body	22,23,30,31	
	102-28 Evaluating the highest governance body's performance	95	
	102-29 Identifying and managing economic, environmental, and social impacts	43, 45-46	
	102-30 Effectiveness of risk management processes	106-108	
	102-31 Review of economic, environmental, and social topics	38-46	
	102-32 Highest governance body's role in sustainability reporting	24-27, 32-34	
	102-33 Communicating critical concerns	14-15	
	102-34 Nature and total number of critical concerns	96,97	
	102-35 Remuneration policies	98-101,124	
	102-36 Process for determining remuneration	26-27, 84, 86, 98-104	
	102-37 Stakeholders' involvement in remuneration	26-24, 84, 86, 98-104	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	**Stakeholder engagement**		
	102-40 List of stakeholder groups	43,44	
	102-41 Collective bargaining agreements	No Collective Bargaining approach	
	102-42 Identifying and selecting stakeholders	43,44	
	102-43 Approach to stakeholder engagement	43,44	
	102-44 Key topics and concerns raised	38-46	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	118 -151	
	102-46 Defining report content and topic Boundaries	1, 2	
	102-47 List of material topics	45,46	
	102-48 Restatements of information	136	
	102-49 Changes in reporting	none	
	102-50 Reporting period	2	
	102-51 Date of most recent report	2	
	102-52 Reporting cycle	2	
	102-53 Contact point for questions regarding the report	2	
	102-54 Claims of reporting in accordance with the GRI Standards	2	
	102-55 GRI content index	169 - 177	
	102-56 External Assurance	178 - 180	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
Material Topics			
200 series (Economic topics)			
Economic Performance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,48 - 52	
	103-2 The management approach and its components	45,46,48 - 52	
	103-3 Evaluation of the management approach	48 - 52, 118 - 151	
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	48 - 52, 118 - 151	
	201-3 Defined benefit plan obligations and other retirement plans	69,98	
	201-4 Financial assistance received from government	118-151	
Market Presence			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,63-64	
	103-2 The management approach and its components	45,46,63-64	
	103-3 Evaluation of the management approach	63-65	
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	69	
Indirect Economic Impacts			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46, 82- 83	
	103-2 The management approach and its components	45,46, 82- 83	
	103-3 Evaluation of the management approach	82- 83	
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	82,83	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
Procurement Practices			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45-46, 76	
	103-2 The management approach and its components	45-46, 76	
	103-3 Evaluation of the management approach	76	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	76	
Anti-corruption			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	106	
	103-2 The management approach and its components	106	
	103-3 Evaluation of the management approach	106	
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	106, 108	
	205-2 Communication and training about anti-corruption policies and procedures	73, 84, 104-105	
	205-3 Confirmed incidents of corruption and actions taken	No confirmed incidents of corruptions	
300 series (Environmental topics)			
Energy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45-46,77-79	
	103-2 The management approach and its components	45-46,77-79	
	103-3 Evaluation of the management approach	77-79	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
GRI 302: Energy 2016	302-1 Energy consumption within the organization	77-79	
	302-3 Energy intensity	79	
	302-4 Reduction of energy consumption	79	
Water and Effluents			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45-46,77,80	
	103-2 The management approach and its components	45-46,77,80	
	103-3 Evaluation of the management approach	80	
GRI 303: Water and Effluents 2018	303-5 Water consumption	80	
Waste			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45-46,77,81,82,83	
	103-2 The management approach and its components	45-46,77,81,82,83	
	103-3 Evaluation of the management approach	81-83	
GRI 306: Waste 2020	306-4 Waste diverted from disposal	81	
400 series (Social topics)			
Employment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45-46,65-72	
	103-2 The management approach and its components	45-46,65-72	
	103-3 Evaluation of the management approach	65-72	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	66	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	67, 131, 136, 165,	
	401-3 Parental leave	67,69	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,70	
	103-2 The management approach and its components	45,46,70	
	103-3 Evaluation of the management approach	70	
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	70	
	403-3 Occupational health services	70	
	403-4 Worker participation, consultation, and communication on occupational health and safety	70	
	403-5 Worker training on occupational health and safety	70	
	403-6 Promotion of worker health	70	
	403-9 Work-related injuries	70	
	403-10 Work-related ill health	70	
Training and Education			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,71-73	
	103-2 The management approach and its components	45,46,71-73	
	103-3 Evaluation of the management approach	71-73	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	72	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	71-73	
	404-3 Percentage of employees receiving regular performance and career development reviews	67	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,68,69	
	103-2 The management approach and its components	45,46,68,69	
	103-3 Evaluation of the management approach	69	
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	69	
Non-discrimination			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,68-69	
	103-2 The management approach and its components	45,46,68-69	
	103-3 Evaluation of the management approach	68-69	
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	68	
Security Practices			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46	
	103-2 The management approach and its components	45,46,68-69	
	103-3 Evaluation of the management approach	67,69	
GRI 410: Security Practices 2016	410-1 Security personnel trained in human rights policies or procedures	73	
Local Communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,75,76	
	103-2 The management approach and its components	45,46,75,76	
	103-3 Evaluation of the management approach	75	
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	75,76	

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions
Customer Privacy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	45,46,64-65,108	
	103-2 The management approach and its components	45,46,64-65,108	
	103-3 Evaluation of the management approach	64,108	
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	64,108	

Sustainability Knowledge Group

Independent Assurance Statement

Engagement agreement
National Bank of Bahrain B.S.C. ("NBB" or "the Bank") engaged SK Sustainability Knowledge Group Ltd ("Sustainability Knowledge Group") to conduct an independent third-party assurance over selected sustainability content within the Annual Financial and Sustainability Report 2021 (the "Report"), covering the activities that occurred in the 2021 financial year which ended on December 31st, 2021 (01.01.2021-31.12.2021).

Sustainability Knowledge Group Competencies, Independence, and Impartiality
Sustainability Knowledge Group is an international provider of sustainability advisory and training solutions. Sustainability Knowledge Group complies and abides by the ISSP Code of Ethical Practice and Values, a set of standards that are a fundamental part of sustainability and for making sustainability a standard practice.

Sustainability Knowledge Group has not been responsible for the preparation of any part of the Report, nor has undertaken any commissions that would conflict with our independence. Sustainability Knowledge Group was not involved in the preparation of any internal reports, information, or data included in the Report, except for this assurance statement.

Responsibilities
NBB
The Report has been prepared by NBB in partnership with an external consultant. NBB is responsible for the completeness and accuracy of the selected data and for maintaining records and adequate internal controls that are designed to support the reporting process.

Sustainability Knowledge Group
Our main responsibilities were to:

- Plan and conduct the External Assurance process based on the AccountAbility standards
- Check the Bank's adherence to the AccountAbility Principles
- Provide moderate level assurance over the accuracy, reliability, and objectivity of the selected information contained within the Report
- Form an independent conclusion based on the assurance procedures performed and evidence obtained
- Report our conclusions and recommendations in an internal letter to the management.

Sustainability Knowledge Group is, and remains, an independent assurer over the content and processes pertaining to the Report.

Assurance Scope, Type and Level
We performed our engagement in accordance with the AA1000 Assurance Standard (AA1000 AS v3[1]) and the AA1000 Principles Standard (AA1000AP, 2018[2]). The scope of our assurance engagement and level of assurance was agreed with NBB.

We were engaged to provide Type 2 moderate level assurance. The procedures we carried out were designed to provide moderate level assurance, as specified in the AA1000 Assurance Standard (AA1000 AS v3), based on which we shaped our conclusions. The process conducted and the evidence obtained should reduce the risk of possible errors. These processes are not as extensive as those required for providing reasonable assurance; consequently, a lower level of assurance is obtained.

We planned and performed our work in order to obtain the evidence we considered necessary to provide a basis for our assurance valuation and provide recommendations for improvement, regarding:

- NBB's adherence to the AA1000 AccountAbility Principles of Inclusivity, Materiality, Responsiveness, and Impact

A sample of 8 disclosures was selected for evaluation, in order to cover different material topics, relevant to all pillars of the Report and therefore provide balanced conclusions on the disclosed information regarding:

- Employment
- Employee development, training, and education
- Procurement practices
- Energy
- Community investments
- Paper consumption and recycling
- Small Medium Enterprise (SME) lending portfolio
- Corporate digital transactions

Methodology of work performed
Sustainability Knowledge Group performed its work in accordance with the AA1000 Assurance Standard (AA1000 AS v3), Type 2 requirements. As part of a Type 2 assurance engagement, we assessed the adherence to all four AA1000 AccountAbility Principles.

We assessed and evidenced the reliability and quality of specified sustainability performance and disclosed information underlying systems, processes, and data, and provided relevant findings and conclusions.

The following assessment criteria were used when undertaking the work:

- AA1000 Assurance Standard (AA1000 AS v3),

All communications between Sustainability Knowledge Group and NBB were conducted via e-mail and conference calls. For the scope of the Assurance process, we performed the following:

1. Interviews with NBB representatives to understand the reporting process, the methodologies, approach, and procedures followed for data collection, monitoring, and calculations.
2. Interviews with NBB representatives to review the steps followed for extracting and collecting data.
3. Interviews with Sustainability Committee representatives to understand the processes behind the Materiality Assessment and Stakeholder Engagement process conducted for the purpose of this Report.
4. Review the Bank's approach on the materiality process, stakeholder engagement, and subsequent results.
5. Recalculation of a sample of disclosures, based on the evidence reports and documents received, to check for consistency and accuracy of the calculations performed.
6. Feedback and review of the final content of the selected 8 disclosures included in the Report, as per the scope of the Assurance process.
7. Examination of internal systems, in order to validate the integrity of the statements made in the Report.
8. Collection and review of the evidence for each disclosure, in order to check for accuracy and consistency with the information disclosed in the Report.
9. Assessment of the sustainability reporting procedures, to check consistency with the Global Reporting Initiative (GRI) Standards reporting requirements.

10. Assessment of documentation and evidence that supported and substantiated claims made in the Report, including internal policies, procedures, guidance documents, guidelines, reference documents, announcements, and calculations.

Considering the Bank's sector of activity, the following disclosures were selected for review as part of the sampling:

- Proportion of senior management hired from the local community (GRI 202-2)
- Average hours of training per year per employee (GRI 404-1)
- Proportion of spending on local suppliers (GRI 204-1)
- Energy consumption within the organization (GRI 302-1)
- Value of community investments
- Paper consumption and recycling
- SME Lending portfolio
- Percentage of annual increase of corporate digital transactions

Intended users

The intended users of this assurance statement are the stakeholders of NBB

Limitations

The reliability of the reported sustainability information and data is subject to inherent uncertainty, given the available methods for determining, calculating, or estimating the underlying information. It is important to understand our assurance conclusions in this context.

- Our assurance does not include assurance over claims made by NBB that are statements of opinion, belief, aspiration, or future intent.
- Any information, statements, assumptions, or data covering previous reporting cycles included in the Report, were not the subject of this Assurance process.
- With the exception of selected interviews with targeted NBB employees, including the Sustainability Committee, our process did not involve other stakeholders.
- Our review included interviews, online communication, and the review of selected documentation. Wdid not perform any visit to NBB headquarters, local offices, or premises.
- We relied exclusively on the information provided to us by NBB, which we accepted in good faith as being complete, accurate, real, and not misleading. Therefore, we did not submit it to any verification procedures, apart from the procedures explicitly stated in our Report and which arise from our mutually agreed methodology.
- The sampling, testing, and review of the evidence documents provided by the Bank were conducted remotely, via e-mail, conference, and telephone calls.
- No other topics and disclosures have been taken into consideration, except for those described in the Assurance Scope, Type and Level section and the Methodology of work performed section of this Statement.
- We did not review any activities and performance of third parties, entities, or stakeholders mentioned in the Report.
- Our engagement was limited to the English version of the Report. Therefore, in the event of any inconsistency regarding the translation between the Arabic and English versions, as far as our conclusions are concerned, the English version of the Report prevails.

Adherence to the AA1000 AccountAbility Principles: findings and conclusions

- In relation to the Inclusivity Principle[3]:

  The Bank has identified and presented six categories of stakeholders in its Report: Customers, Employees, Government and regulators, Suppliers, Communities, Shareholders, and investors. A table presents the key concerns that NBB has identified for each stakeholder category and its approach in engaging with them. According to NBB, the Bank has taken into account customer, employee, shareholder, and other stakeholder priorities for the assessment of material topics included in the Report. The stakeholder engagement methodologies for sustainability-related topics presented in the Report do not directly reference methodologies of a high level of engagement, such as consultations or active, formal, and consistent involvement in the identification of material topics. However, as NBB aims to raise awareness of ESG issues among its clients, it carried out an online sustainability survey to measure and examine client understanding of sustainability and their ESG initiatives and plans. NBB does not clearly communicate in its Report tools, engagement mechanisms, or platforms dedicated to sustainability which are utilised to facilitate relationship building and to strengthen engagement with internal and external stakeholders.
- In relation to the Materiality Principle[4]:

  The Annual Financial and Sustainability Report 2021 presents a materiality matrix. The materiality matrix is reader-friendly and in alignment with best practices. According to the information presented in the Report, NBB has identified 14 material topics. The topics are grouped into three categories according to the significance of their impacts and the influence on stakeholder assessments and decisions. These topics are presented in detail throughout the Report. The Report refers to a materiality survey which identified issues that reflect economic, environmental, and social impact or any matters that significantly influence the assessments and decisions of stakeholders. The Report does not provide additional information and does not make an explicit reference of the materiality assessment process or the contribution of each stakeholder in the process.
- In relation to the Responsiveness Principle[5]:

  The material topics identified and presented in the materiality matrix are described in detail throughout the Report. NBB presents how it responds to the material topics raised by stakeholders, and in line with its commitments towards Sustainability, as presented in its sustainability framework. The Report presents performance information from previous years, enabling interested stakeholders to compare data and thus make informed decisions based on the results presented in the Report. NBB has set specific objectives for all seven pillars of its sustainability framework.
- In relation to the Impact Principle[6]:

  The Annual Financial and Sustainability Report 2021 acts as a platform for NBB to disclose the economic, social, and environmental impacts of its activities. NBB describes how it addresses its topics, presents qualitative information and quantitative results where such information is available. In the Report, NBB also presents the specific initiatives it implemented to achieve its objectives per pillar. The Report does not present impact boundaries per material topic and the impact of the topic across the value chain of the Bank. NBB has identified only one climate-related topic as material, and the presentation of climate-related impacts in the Report is somewhat limited.

Independent Assurance Statement continued

Given the assessment and evaluation of internal processes, policies, and procedures, as per the Assurance Engagement, it can be stated that NBB reasonably meets the required adherence criteria of the AccountAbility Principles.

Key observations

Based on our review of the Report, and related processes employed to collect and collate the information and data reported, we conclude:

- The Bank demonstrates its commitment to sustainability by forming a Sustainability Committee in 2021.
- The Sustainability Committee is entrusted with formulating the Strategic Direction of NBB, increasing awareness internally and assisting on ESG related topics, monitoring progress, providing market intelligence when required, and reporting on ESG integration. The committee is also responsible for engaging with internal and external stakeholders on sustainability-related topics, and is responsible for the content of the sustainability part of the Annual Financial and Sustainability Report 2021. A Sustainability Committee charter defines the roles of the Committee.
- NBB follows international standards, including the GRI Standards, for the development of its Annual Financial and Sustainability Report 2021. The Report references the United Nations Sustainable Development Goals (SDGs) and the Bahrain 2030 vision.
- The 2021 Report is the second Report of NBB that includes a distinct section dedicated to sustainability strategy, performance, and future direction. This new process for disclosing sustainability performance enables NBB to continuously improve sustainability management and monitoring mechanisms, innovation, and performance across social, environmental, and governance areas, which enhance relationships with internal and external stakeholders.
- The Report includes a presentation of the sustainability framework of NBB. The framework has seven distinct pillars: Economic Growth, Responsible Banking; Serving our Customers; Nurturing our Workforce; Community Investment; Preserving Natural Resources; and Governance and Ethical Behaviour.
- The Report includes a materiality matrix, with 14 topics. The topics are prioritized according to their level of significance as very, somewhat, and least material. An explanation of the topics and contribution of NBB per topic is presented
- The Report includes a list of stakeholders and information related to their key concerns and ways NBB engages with them.
- As part of the reporting process, the Report was reviewed and approved by the Board of Directors.

Recommendations

The following recommendations have been issued to improve future sustainability reporting:

1. Taking into consideration the business and social implications following the COVID-19 pandemic, we recommend NBB to conduct a new materiality assessment and reach out to all its stakeholder groups for their inputs. NBB to ensure all the input received from stakeholders is used to inform its strategy, sustainability framework, objectives, and targets.
2. NBB to continue to invest in target setting across all pillars and communicating its progress towards achieving them.
3. NBB to continue to invest in the development of solid systems and procedures for reporting and streamlining the annual reporting process for the financial and sustainability information.
4. NBB to further integrate the United Nations Sustainable Development Goals into its strategy, across all sustainability framework pillars, operations, initiatives, its decision making, and goal-setting process.
5. NBB to develop additional indicators to measure the impacts of responsible financing practices, products, and services to clients and the economy.
6. NBB to take into account the recent developments in the financial sector regarding reporting of non-financial information through global frameworks and international standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) framework and the SASB standards.
7. NBB to continue reporting in accordance with the GRI Standards and procced to adopting the new version of the GRI Standards, issued in October 2021.
8. NBB to continue improving primary data sources and collection systems for its environmental disclosures. This will enable NBB to better track, manage and communicate its direct and indirect impacts.
9. NBB to continue improving the quantitative information disclosed, with emphasis on sustainable finance and goal setting.
10. NBB to streamline interdepartmental communication in order to facilitate the reporting process for certain information.
11. NBB to further utilize digital systems in place to streamline and strengthen the data collection and monitoring systems for environmental metrics.
12. NBB to further communicate its commitments, frameworks, approach, impacts, goals, and targets through its website.
13. NBB to further embed the process of sustainability reporting within its business and sustainability strategy NBB to continue supporting the Sustainability Committee and its role in integrating sustainability across operations, services, and products.

A comprehensive feedback report with specific findings and recommendations addressing sustainability reporting process improvements and adherence to AA1000 principles and the GRI Standards was developed by Sustainability Knowledge Group and has been submitted to NBB management.

Based on the review of the NBB Annual Financial and Sustainability Report 2021, it can be concluded that a fair representation of data and information has been included in the Report. The selected sustainability performance and data statements are accurate, reliable, and materially correct.

Aglaia Ntili
SK Sustainability Knowledge Group Ltd

Limassol, Cyprus
March 15th, 2022

sustainability knowledge group

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- [1]The AA1000 Assurance Standard (AA1000AS v3) is the leading methodology used by sustainability professionals worldwide for sustainability-related assurance engagements, to assess the nature and extent to which an organization adheres to the AccountAbility Principles. The document can be consulted here: https://www.accountability.org/standards/
- [2]AA1000 Accountability Principles (AccountAbility, 2018) describes a framework for applying the four Principles of accountability when measuring sustainability performance. The four Principles are detailed below.
- [3]Inclusivity is actively identifying stakeholders and enabling their participation in establishing an organisation's material sustainability topics and developing a strategic response to them.
- [4]Materiality relates to identifying and prioritising the most relevant sustainability topics, taking into account the effect each topic has on the organisation and its stakeholders.
- [5]Responsiveness is an organisation's timely and relevant reaction to material sustainability topics and their related impacts.
- [6]Impact is the effect of behaviour, performance and/or outcomes, on the part of individuals or an organisation, on the economy, the environment, society, stakeholders or the organisation itself. For further information on the AccountAbility Principles, access: https://www.accountability.org/standards/