NBB

Standing together

Annual Financial and Sustainability Report 2020

#TeamBahrain

About this report

Welcome to NBB's Annual Financial and Sustainability Report covering the year 2020. 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 practices.

Reporting Scope and Parameters

This Annual Financial and Sustainability Report highlights our goal to embed sustainability in the core of our business and considers fundamental reporting principles, including accuracy, completeness, and balance. It covers some of the more obvious sustainability activities and performance data. Our reporting goal is to 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 in order to shape the content of this report.

Unless stated otherwise, financial information covers the financial year starting 1 January to 31 December of NBB Group. The rest of the report covers NBB Bank (standalone) activities and remuneration report for the same period.

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, and per Central Bank of Bahrain Guidelines. Our GRI Standards Content Index can be found in Appendix.

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: nbb@nbbonline.com
Phone: (+973) 17 228 800
LinkedIn: https://www.linkedin.com/company/nationalbankofbahrain/
YouTube: https: //www.youtube.com/user/NationalBankofBahrain
Instagram, Facebook, Twitter: @NBBonline

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* NBB Bank (stand-alone)

Designed and Produced by The Bridge Partnership

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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.

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This document is printed using Sappi Magno paper.
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Licensed by CBB as a conventional retail bank

His Majesty
King Hamad bin Isa
Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince and Prime Minister of the Kingdom of Bahrain

› Corporate Profile

The National Bank of Bahrain B.S.C., is a public shareholding company, incorporated into the Kingdom of Bahrain by Amiri decree in January 1957. Licensed by the Central Bank of Bahrain (CBB) as a conventional retail bank, NBB has overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operating under the laws of each respective country. The Bank's shares are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain, with a strong local stakeholder profile.

NBB holds a 78.8% share capital in Bahrain Islamic Bank B.S.C. (BisB), which operates under an Islamic retail banking license issued by the CBB. The Group is primarily engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

NBB is the country's first locally owned bank and has been supporting the Kingdom's economy for over 60 years, spearheading financial presence across Bahrain and expanding to key GCC markets by building a regional portfolio to better connect with its customers in line with its brand promise 'Closer to You'.

The year 2020 has been a challenging year, with a global large-scale public health emergency creating a major impact on economies worldwide. Businesses in general, and banks in particular, have been facing a number of operational challenges, in addition to the added effects of ensuring the health and well-being of their employees and customers. NBB has remained resilient throughout this year, responding rapidly to the challenging market conditions. A year on, and we still strive towards a comprehensive approach that aligns our business with the needs of the community and the country's social, economic and environmental efforts.

A major part of our strategy remains our commitment to the economy in alignment with the 2030 vision, and our continued dedication to the well-being of the financial sector in Bahrain. We became the first Bank in the MENA region to launch open banking solutions as a first step on our journey towards a digital and internal transformation. Digitalisation is at the core of our transformation strategy. It has allowed us to simplify banking transactions and make them more efficient, giving us a leading edge in competitive offerings and digital innovation through significant infrastructure upgrades. NBB has elevated our customer experience by improving accessibility and enhancing branch capability through state-of-the-art technologies.

In 2021, we will continue to build NBB's presence across the GCC and build our regional portfolio to ensure the Group's sustainable growth. We look towards further growth opportunities through a careful analysis of the market to capture all non-organic growth opportunities, in line with our diversification efforts. We aim to develop initiatives and mechanisms that will allow us to respond to the increasingly complex and dynamic economic environment and become an active member of the new financial ecosystem, contributing positively to the growth of the banking and finance sector across the region.

Our Purpose

"Enriching the lives of generations"

Our Mission

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

Our Promise

"Closer to you"

Our Values

Pride
Work with heart

Respect
Connect with respect

Teamwork
Collaborate for success

Responsibility
Own it and embrace it s

Ethics
Always do the right thing

Transparency
Be fearlessly transparent

› Milestones of NBB during 2020

2020

2021

Jan 2020:
Acquired majority stake in BisB.

فينا_خير
#Feena_Khair

Pledged
BHD 2.5 Million
to the National Campaign to Combat the Coronavirus.

Launched an Enhanced Virtual Training Programme for Employees, which was recognised internationally by Forbes.

First Bank to receive 'Approved Employer' status by the Association of Chartered Certified Accountants (ACCA).

Ranked first in the Banking Sector in Bahrain for Environment, Social & Governance (ESG) ratings list by ESG Invest.

Launched Kingdom-wide 'Tap & Go' services on all NBB cards, POS Machines and entire ATM network.

Awarded 'The Middle East's Best Bank Transformation' and 'Bahrain's Best Bank' Award (for the second consecutive year) by the Euromoney Awards for Excellence 2020.

Awarded our first hedge coordination mandate from a Bank's strategic client to assist with capital markets risk management.

Strengthened the existing partnership with the Ministry of Housing to launch multiple Social Housing projects under the Mazaya Scheme.

Cemented itself as a top Debt Capital Market (DCM) house in Bahrain, having led all Sovereign and Government Related Entities (GRE) issuances out of Bahrain in year 2020, as well as ranked amongst the top 10 DCM regional banks for GCC Sovereign and GRE issuances.

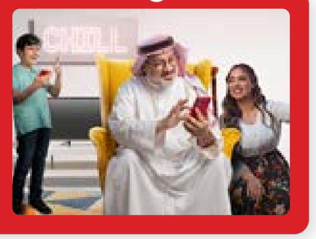
Enhanced its loan syndication platform having won several mandates to act as Lead Arranging, Book-running and Structuring Bank and managed end-to-end cycle of large, complex deals from origination to structuring to syndication.

Attained Information Security Certification
ISO 27001.

NBB treasury managed to automate the whole front office operation by migrating to a new booking and risk management systems.

Improved digital conversion of Commercial & SME clients by
45%.

Jan 2021:
NBB launched its new state-of-the-art competitive Mobile App "NBB Digital Banking".

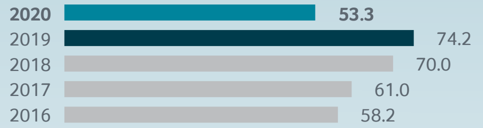


Financial Highlights

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

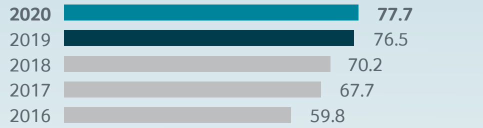
	2020	2019	2018	2017	2016
Earnings (BHD millions)					
Net interest income	**116.0**	93.3	87.2	73.1	66.0
Other income	**32.9**	28.4	24.8	27.6	27.9
Operating expenses	**71.2**	45.2	41.8	33.0	34.1
Operating profit	**77.7**	76.5	70.2	67.7	59.8
Profit attributable to the shareholders of the Bank	**53.3**	74.2	70.0	61.0	58.2
Cash dividend	**34.1**	38.4	34.8	31.5	28.7
Stock dividend	**17.0**	15.5	14.0	12.8	11.6
Financial Position (BHD millions)					
Total assets	**4,361.4**	3,194.5	3,195.5	3,101.5	2,977.1
Loans and advances	**2,173.1**	1,213.7	1,190.1	1,226.9	1,031.9
Investment securities	**1,231.4**	1,070.7	1,132.2	1,067.3	1,092.9
Earning assets	**4,013.3**	2,992.1	3,020.7	2,939.7	2,823.0
Total deposits	**3,741.7**	2,599.0	2,675.9	2,617.1	2,526.4
Customer deposits	**3,084.3**	2,094.0	2,190.6	2,165.2	2,088.4
Shareholders' equity	**526.3**	532.3	475.8	447.9	414.7
Ratios (%)					
Earnings					
Return on average equity	**10.6**	14.7	15.2	14.1	14.9
Return on average assets	**1.2**	2.3	2.2	2.0	2.0
Earnings per share (fils)	**32**	44	42	36	35
Cost-to-income ratio	**47.5**	35.9	35.6	31.6	35.2
Capital					
Shareholders' equity as % of total assets	**12.1**	16.7	14.9	14.4	13.9
Total liabilities to shareholders' equity (times)	**7.3**	5.0	5.7	5.9	6.2
Capital adequacy ratio	**22.3**	37.3	33.8	36.3	35.4

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



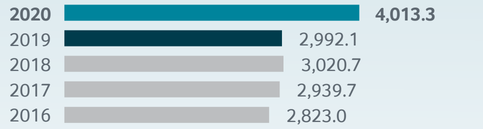
BHD53.3m

Operating profit
(BHD millions)



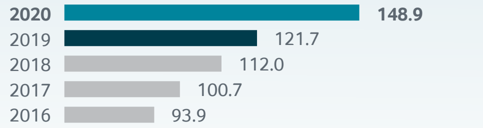
BHD77.7m

Earning assets
(BHD millions)



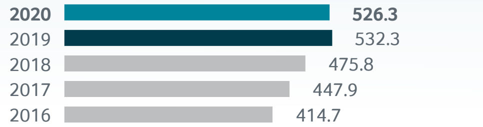
BHD4,013.3m

Total operating income
(BHD millions)



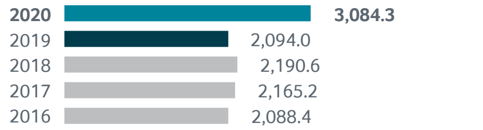
BHD148.9m

Equity
(BHD millions)



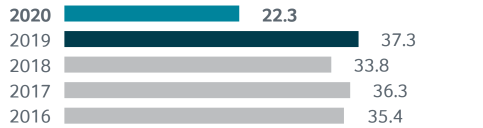
BHD526.3m

Customer deposits
(BHD millions)



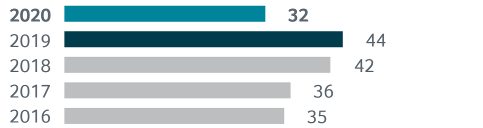
BHD3,084.3m

Capital adequacy
(%)



22.3%

Earnings per share
(Bahraini fils)



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Bahraini Fils

› Board of Directors

Board of Directors Profiles (continued)

FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

Non-executive
Appointed to the Board in 1997
Chairman: Nomination, Remuneration and Governance Committee; Donations and Contributions Committee.

Chairman: 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), Small & Medium Enterprises and Bahrain National Holding Company B.S.C.

Director: Economic Development Board (EDB)

DR. ESAM ABDULLA YOUSIF FAKHRO
Deputy Chairman

Non-executive
Appointed to the Board in 2008
Chairman: Executive Committee
Member: Nomination, Remuneration and Governance Committee, Donations and Contributions Committee.

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

FAWZI AHMED ALI KANOO
Deputy Chairman

Independent
Appointed to the Board in 2010
Member: Executive Committee; Donations and Contributions Committee.

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

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

KHALID YOUSIF ABDULRAHMAN
Director

Independent
Appointed to the Board in 2001
Chairman: Audit Committee.

Chairman: The Food Supply Co. Ltd. W.L.L.
Deputy Chairman: Awal Dairy Company W.L.L.

President and CEO of Yousif Abdulrahman Engineer Holding Co. W.L.L.

Deputy Chairman and CEO of National Transport Co. W.L.L.

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

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

HUSSAIN SULTAN SULTAN AL GHANEM
Director

Non-executive
Appointed to the Board in 2004.
Member: Executive Committee

Assistant Undersecretary for Human and Financial Resources at the Court of H.R.H. The Prime Minister.
Former Director of Training and Manpower Development Department in Gulf Air.

Former Vice President of the Higher Committee for Training – Arab Airlines Companies

Board Member in Muharraq Social Welfare Centre affiliated to the Ministry of Labor and Social development.

SH. RASHED BIN SALMAN MOHAMED AL KHALIFA
Director

Non-executive
Appointed to the Board in 2014.
Member: Executive Committee and Nomination, Remuneration and Governance Committee.

Former Board member at Bank ABC Jordan, Bank ABC Tunisia, ABC Islamic Bank, Capinnova Islamic Bank and Credimax.

Over 30 years of local and regional bannking experience with extensive knowledge of the Gulf's financial markets. A retired banker and independent consultant for investment and banking services. Shaikh Rashed holds a technical qualification as a Chemical Engineer with experience in oil exploration. He also holds an MBA with emphasis in International Finance.

HALA ALI HUSSAIN YATEEM
Director

Independent
Appointed to the Board in 2018
Member: Audit Committee, Donations and Contributions Committee.

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

Member of the Board of Trustees: American University of Bahrain, Al Rahma Society.

Over twenty years of experience in Private Business with a Bachelor's Degree in Entrepreneurship and Investments from Babson College.

RISHI KAPOOR
Director

Independent
Appointed to the Board in 2018
Chairman: Risk Committee.

Rishi Kapoor is Investcorp's Co-Chief Executive Officer. He oversees the Firm's Private Equity businesses in North America and India, as well as the Real Estate, Credit Management, Absolute Returns and Strategic Capital businesses globally. He is a member of Investcorp's Executive Committee, Operating Committee, Financial Risk Management Committee and various Investment Committees.

Rishi holds a Bachelor's degree in Electrical and Computer Engineering from the Indian Institute of Technology (IIT), and an MBA from Duke University's Fuqua School of Business.

Directorships: In addition to his positions on the board of directors of several Investcorp affiliates, including Investcorp S.A, Investcorp-Tages and Mercury Capital Advisors, Rishi is an independent member of the Board of Directors for Gulf Air Group, Bahrain Airport Company and Gulf Aviation Academy. He is also a member of Duke University's Middle East regional advisory board.

In 2019, Rishi was recognised by Forbes Middle East as one of the top 10 Indian executives making an impact in the Middle East, and Top CEO Middle East recognised Rishi as one of the top CEOs in the GCC financial services and investment sector.

YUSUF ABDULLA YUSUF AKBAR ALIREZA
Director

Independent
Appointed to the Board in 2018
Member: Executive Committee; Nomination, Remuneration and Governance Committee.

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

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

MOHAMED TAREQ MOHAMED SADEQ AKBAR
Director

Non-executive
Appointed to the Board in 2018
Member: Audit Committee and Risk Committee.

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

Director and Chairman of the Audit Committee: Ahli United Bank Kuwait K.S.C.P., Al Baraka Bank (Pakistan) Limited

Directors and Member of the Audit Committee of Ahli United Bank (SAE), Cairo, Egypt

Director: Al Zayani Investments B.S.C. and Bahrain International Golf Course Company B.S.C. (c), First Motors W.L.L., A.M. Yateem Bros W.L.L. and Yateem Air Conditioning Company W.L.L.

Managing Director: Keystone Consulting Inc. W.L.L.

AMIN AHMED ALARRAYED
Director

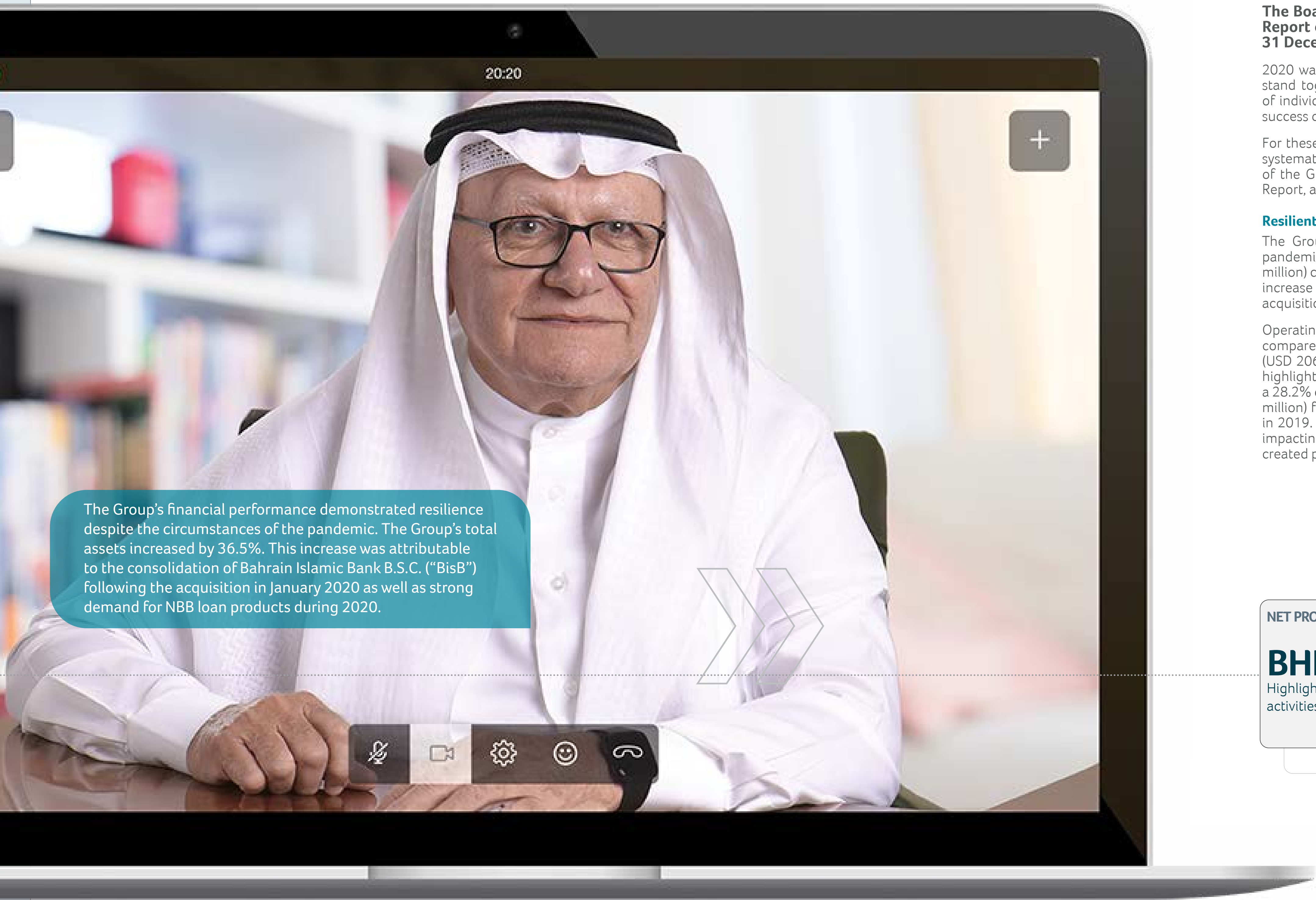
Non-executive
Appointed to the Board in 2020
Member: Audit Committee

Chairman: Bahrain Car Parks Company B.S.C, Edamah Property Management Company S.P.C, Edamah Hawar Real Estate Development S.P.C.

CEO: Bahrain Real Estate Investment Company (Edamah) B.S.C.

Director: 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., Al Sahel Resort B.S.C.

Board of Directors' Report



The Group's financial performance demonstrated resilience despite the circumstances of the pandemic. The Group's total assets increased by 36.5%. This increase was attributable to the consolidation of Bahrain Islamic Bank B.S.C. ("BisB") following the acquisition in January 2020 as well as strong demand for NBB loan products during 2020.

The Board of Directors is pleased to present this Annual Financial and Sustainability Report of the Bank, together with the Group financial statements for the year ended 31 December 2020.

2020 was an unprecedented year with the coronavirus pandemic challenging all stakeholders to stand together for our common good. It forcefully reminded us that the health and well-being of individuals, society and our environment are essential for a vibrant economy and the financial success of the Bank and the Group as a whole.

For these reasons, we have renewed our commitment to corporate sustainability, embedding and systematically managing environmental, social and governance risks and opportunities in all aspects of the Group's business. We are proud to reflect this in this Annual Financial and Sustainability Report, as another important step in our ongoing transformation.

Resilient Financial Performance

The Group's financial performance demonstrated resilience despite the circumstances of the pandemic. The Group's total assets increased by 36.5% to BHD 4,361.4 million (USD 11,568.7 million) compared to BHD 3,194.5 million (USD 8,473.5 million) recorded on 31 December 2019. The increase was attributable to the consolidation of Bahrain Islamic Bank B.S.C. ("BisB") following the acquisition in January 2020 as well as strong demand for NBB loan products during 2020.

Operating income for the year increased by 22.4% to BHD 148.9 million (USD 395.0 million) compared with BHD 121.7 million (USD 322.8 million) in 2019. Operating profit at BHD 77.7 million (USD 206.1 million) was up by 1.6% from the 2019 level of BHD 76.5 million (USD 202.9 million), highlighting the resilience of NBB's core activities during the COVID-19 pandemic. NBB has reported a 28.2% decrease in its net profit attributable to equity shareholders of BHD 53.3 million (USD 141.4 million) for the year ending 31 December 2020, compared to BHD 74.2 million (USD 196.8 million) in 2019. Lower business levels, reduced margins and impact of support measures were all factors impacting the net profit in 2020. Moreover, NBB was extremely prudent in its provisions policy and created precautionary provisions to anticipate any further downturn in 2021.

NET PROFIT

BHD 53.3 million

Highlights the resilience of NBB's core activities.

Board of Directors' Report (continued)

Recommended Appropriations

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

	BHD millions
Cash dividend (20%)	34.1
Bonus shares (10%)	17.0
Donations and contributions	2.7
Transfer to statutory reserve	8.5

Progress on Sustainability Performance

NBB's sustainability framework, introduced in last year's Annual Report, captures the Bank's broader commitments to our key stakeholders and society, and the related impact on the success of the Bank.

In the pillars of "Serving our Customers" and "Responsible Banking", the Group made every effort to work more closely than ever with its clients to offer relief and solutions to the financial challenges brought on by the pandemic, to manage a loan/asset book, protecting shareholders' interests while reinforcing its customers, across a wide variety of sectors. The Group continued to support the Government's Liquidity Support Fund (LSF) for local corporate entities facing temporary liquidity constraints by providing low-cost funding and facilitating processes. The Group took many steps to meet the increasing needs of its retail and corporate customers, while enhancing digital solutions, offering innovative products and services, and supporting programmes such as the Voluntary Retirement Scheme (VRS).

In the pillar of "Nurturing our Workforce", the Group emphasised the health and safety of its staff, while managing to enhance and expand its internal virtual training programme. The Group also significantly increased the number of women in management.

In the "Community Investment" pillar, the Group has continued to provide donations and contributions, such as its support for the national "Feena Khair" (There is Good in Us) programme, the Capital Governorate's "Together We Care" campaign and other initiatives targeted towards under-privileged communities in these times of need. The Board recommends the allocation of BHD 2.7 million to the Donations and Contributions Fund, representing 5% of the Bank's 2020 profits.

The Group continued on its journey towards digital transformation to better serve its customers, carrying the mantle of responsibility and technological advancement.

Enhanced Corporate Governance

The Board recognises that good governance is essential to the success of any organisation, and is fully committed to protecting the interests of all stakeholders through robust and international standard governance policies.

The Group is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the Central Bank of Bahrain's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is provided in the Corporate Governance Report section of this Annual Financial and Sustainability Report. The report also contains disclosures on the number of shares held as of 31 December 2020 by Directors and trading during the year in the Bank's shares by Directors, executive management, Approved Persons and related parties.

The current circumstances remind us that the health and well-being of individuals, society and our environment are essential for a vibrant economy, and the overall financial success of the Bank and the Group as a whole.

As emphasised, the pandemic has demonstrated that 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 ESG and sustainability guidelines are embedded in the Group's governance model. And as such, the Board undertook specialised ESG training in 2020.

Acknowledgements

On behalf of the shareholders, the Directors would like to 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 Prime Minister.

We would also like to take this opportunity to pay tribute to the late Royal Highness Prince Khalifa bin Salman Al Khalifa, who played a central role in the development of Bahrain's Banking industry.

We acknowledge the excellent ongoing support and guidance extended to us by the Ministry of Finance and National Economy, and the Central Bank of Bahrain, and many other government ministries and institutions with which we interact, particularly at this time of unprecedented challenges that require exceptional dialogue and cooperation.

The Directors would also like to thank our loyal customers, and welcome our new customers. We hope the Bank has lived up to its promise to be 'Closer to You', particularly at this time that has caused uncertainty for so many, and pushed us to new levels of solution development and engagement.

The Directors would also like to extend our thanks to our business partners, whose reliability and shared commitment towards serving our customers and society has played a key role in our success.

Finally, the Directors would like to offer our deepest thanks and gratitude to the Group's outstanding staff and management team. Your dedication towards taking care of our customers, and your recognition and commitment to our role as an essential institution for the well-being of society amidst these extraordinary circumstances, has been tremendously appreciated, and truly inspiring.

Farouk Yousuf Khalil Almoayyed
Chairman of the Board

17 February 2021

› Executive Management Profiles

Jean-Christophe Durand
Chief Executive Officer

Mr. Jean-Christophe Durand joined the National Bank of Bahrain (NBB) as the CEO in December 2016 with a focus on reinforcing and expanding the Bank's role as a driver for economic growth and development. Mr. Durand brings over 39 years of international and regional banking and finance experience gained from senior leadership roles at leading global banking institutions, 32 years of which were in the GCC. Mr. Durand graduated from ESSEC Business School (Ecole Superieure des Sciences Economiques et Commerciales) in Paris. Prior to taking on the role of CEO of NBB, he was the regional CEO of BNP Paribas for Middle East and Africa, and was responsible for Corporate and Institutional Banking and Asset Management, and served on the board of a retail bank owned by the BNP Paribas group. He holds several Board positions locally and regionally, including sitting on the boards of Gulf Air, Bahrain Telecommunications Company (Batelco) and Bahrain Islamic Bank. 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. Additionally, he is the Chairman for Umniah Telecommunication Company in Jordan, Director of the Bahrain Institute of Banking and Finance (BIBF) and Chairman of the French Chamber of Commerce and Industry in Bahrain (FCCIB). Mr. Durand was awarded the 'Legion d' Honneur' by the Government of France.

Abdul Aziz Al Ahmed
Chief Executive – Strategic Accounts

Mr. Abdul Aziz Al Ahmed joined NBB in 1974. He assumed his role as Chief Executive – Strategic Accounts in 2019, with a mandate to manage, service and grow the Bank's Strategic Accounts and ultra-high net worth individuals. Over the last 45 years, Mr. Al Ahmed has gained extensive experience in almost all the functional areas of Retail, Commercial, SMEs and Corporate Banking. Prior to his current position, he held successive senior leadership roles across the organisation including Chief Executive of Retail, Commercial and SMEs and Corporate Businesses and General Manager of Retail Banking, Commercial Banking and Corporate Banking segments. He brings to the role his vast experience and also the benefit and the strong relationships he has nurtured over the years with high-profile clients, senior government functionaries and other key players in the Bahrain economy. Mr. Abdul Aziz is a Member of the Board of Directors of Bahrain Commercial Facilities Co. (BCFC) and Vice Chairman of the Remunerations Committee. He is also the Vice Chairman of the Automotive Board and Member of Board of Directors of National Motor Company (NMC), Tas'heelat Automotive Co S.P.C and Tas'heelat Car Leasing Co W.L.L. He is also a Board Member of Trustees of Primary Healthcare of Supreme Council of Health and a Member of the Board of Infonas W.L.L. Mr. Al Ahmed holds an Executive Diploma from University of Virginia, USA.

Isa Maseeh
Group Chief Risk Officer and Acting Chief Compliance Officer

Mr. Isa Maseeh joined NBB in 2017 as Deputy Chief Risk Officer and took over as Chief Risk Officer in July 2019 to focus on reinforcing and further developing the risk management framework in support of the Bank's future growth and transformation. He has since assumed the position of Group Chief Risk Officer. Moreover, he was appointed as Acting Chief Compliance Officer in 2020. Mr. Maseeh carries with him over 23 years of banking experience spanning commercial and investment banking in the Kingdom of Bahrain in the areas of risk management, credit and compliance. Prior to joining NBB, Mr. Maseeh was the Group Chief Risk Officer of Al Salam Bank Bahrain where he was focused on the integration and management of the risk function post the acquisition of BMI Bank. He has also held various other senior risk management positions with Islamic and conventional banks including BMI Bank, United Gulf Bank, and Gulf Finance House. Additionally, Mr. Maseeh is a Board Member representing NBB on Bahrain Islamic Bank B.S.C., and RE Property S.P.C. Mr. Maseeh holds an MBA (Hons) from DePaul University, USA and a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

Yaser Alsharifi
Group Chief Strategy Officer

Mr. Yaser Alsharifi joined NBB in 2017 as the Chief Strategy Officer, leading the Bank's transformation and innovation efforts, heading NBB's project management office and business development arm, as well as the Bank's operations in Saudi Arabia and the United Arab Emirates. Mr. Alsharifi was appointed as the Group Chief Strategy Officer in 2020. He boasts over 25 years of experience in investment management and corporate finance across the GCC, Europe and the US, with past roles in Al Rajhi Holdings, and Partner at Ernst & Young. Additionally, Mr. Alsharifi serves as the Chairman of the Bahrain Institute for Pearls and Gemstones (Danat). He is also a Board Member of Bahrain Real Estate Investment Company (Edamah), Bahrain Bourse, Bahrain Clear and Bahrain Car Parks Company B.S.C. Mr. Alsharifi represents NBB on the Board of Bahrain Islamic Bank, and is part of the Limited Partners Advisory Committee of the Al Waha Fund of Funds. Furthermore, he is a Member of the Young Presidents Organisation (YPO) and holds a Bachelors in Business Administration from the University of Massachusetts at Amherst, USA.

Dana Buheji
Group Chief Human Resources & Sustainability Officer

Ms. Dana Buheji joined NBB in 2017 and now operates as the Group Chief Human Resources & Sustainability Officer overseeing the integration and provision of human resources and talent management services to both NBB and BisB.
Ms. Buheji is tasked with professionalising our people services, empowering our employees to reach their full potential and creating sustainable, excellent, Human Resources and Talent Management practices that support the transformation of the Group.
Prior to joining NBB, Ms. Buheji held roles with, the Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, the Ministry of Finance and National Economy, and Ahli United Bank.
Ms Buheji also represents NBB on the Board of Bahrain Islamic Bank and serves as a Board Member for Injaz Bahrain a member of Consultative Committee for Bahrain International Federation for Business and Professional Women (BPW) and as a member of the Human Resources and Remuneration Committee of Bahrain Association of Banks (BAB). Ms. Buheji has a B.A. in Commerce from Concordia University, Canada and a professional certification in human resources (CPP) from London, UK.

Hisham Al Kurdi
Group Chief Executive - Corporate & Institutional Investment Banking

Mr. Hisham Al Kurdi joined NBB in 2018. He is the Group Chief Executive – Corporate & Institutional Investment Banking, and also manages Treasury & Capital Markets. He defines and implements the department's business strategy to ensure that revenue and profitability targets are met. With more than 22 years of local and international experience in Global Markets and Institutional Coverage, Mr. Al Kurdi brings a wealth of knowledge to the Bank. Previously, Mr. Al Kurdi assumed the role of Head of Global Markets for the MEA region at BNP Paribas and was a Member of the CIB Regional Board and Executive Committee, having previously assumed position at Bank of Bahrain and Kuwait. He holds a Bachelor in Engineering in Systems Control from the University of Huddersfield, UK.

Executive Management Profiles (continued)

Gaby El Hakim
Group Chief Legal Officer and Corporate Secretary

Mr. Gaby El Hakim joined NBB in 2017, and was appointed the Group Chief Legal Officer and Corporate Secretary in 2020. He is responsible for handling all legal matters and advising management and the Board with respect to all aspects of the business. He previously worked with GFH Financial Group and BNP Paribas and has over 19 years of experience practicing law in areas including corporate and investment banking, Islamic finance, structured finance, capital markets, private equity, regulatory investigation and dispute resolutions. Mr. El Hakim is a Member of the Lawyer's Committee of ICC Bahrain, Chamber of Industry and Commerce, a Member of ICC Paris Commission on Arbitration and ADR and serves as a Board Member of ICC Bahrain and Esterad Investment Company B.S.C. He holds an LLM in Banking and Finance from Osgood Hall Law School, York University, Canada and an LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon and several postgraduate qualifications. Mr. El Hakim is a regular contributor to articles that are published in newspapers and law journals. Other achievements include receiving the 'MEA General Counsel Power List 2016" award from the Legal 500.

Russell Bennett
Group Chief Financial Officer

Mr. Russell Bennett joined NBB as Chief Financial Officer in 2018 and was appointed Group Chief Financial Officer in 2020. Boasting over 20 years of banking and finance expertise, he joined with the mandate to strengthen the Bank's financial and analytical credentials. His role includes introducing enhanced data analytics and ensuring the adoption of the latest technologies to provide business insight. Mr. Bennett is a UK qualified Chartered Accountant with previous roles in Gulf International Bank, the National Bank of Kuwait and Ernst & Young. Beyond being the CFO at NBB, he is a Member of, and secretary for, the Bahrain Association of Banks' International Standards Committee, and is a founding Member of the Bahrain Chapter of the Middle East Investor Relations Association. Mr. Bennett holds a BSc (Hons) in Mathematics and Economics from the University of Essex in the United Kingdom.

Bruce Wade
Group Chief Executive – Financial Restructuring

Mr. Bruce Wade joined NBB in 2014 and currently holds the position of Group Chief Executive-Financial Restructuring, having set up this new division mid-2019 to support local and regional markets by acting as an independent advisor to companies facing challenges. In this newly established role, he has been Chair of coordinating credit committees for the restructure of various companies, and performed the role of advisor to companies, and has successfully completed restructures of various organisations. Mr. Wade brings more than 36 years of banking experience with previous positions in 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 and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. He is also a Fellow Australian Institute of Company Directors, a Fellow Financial Services Institute of Australasia, a Member of Finance and Treasury Association Limited and a Senior Certified Treasury Professional.

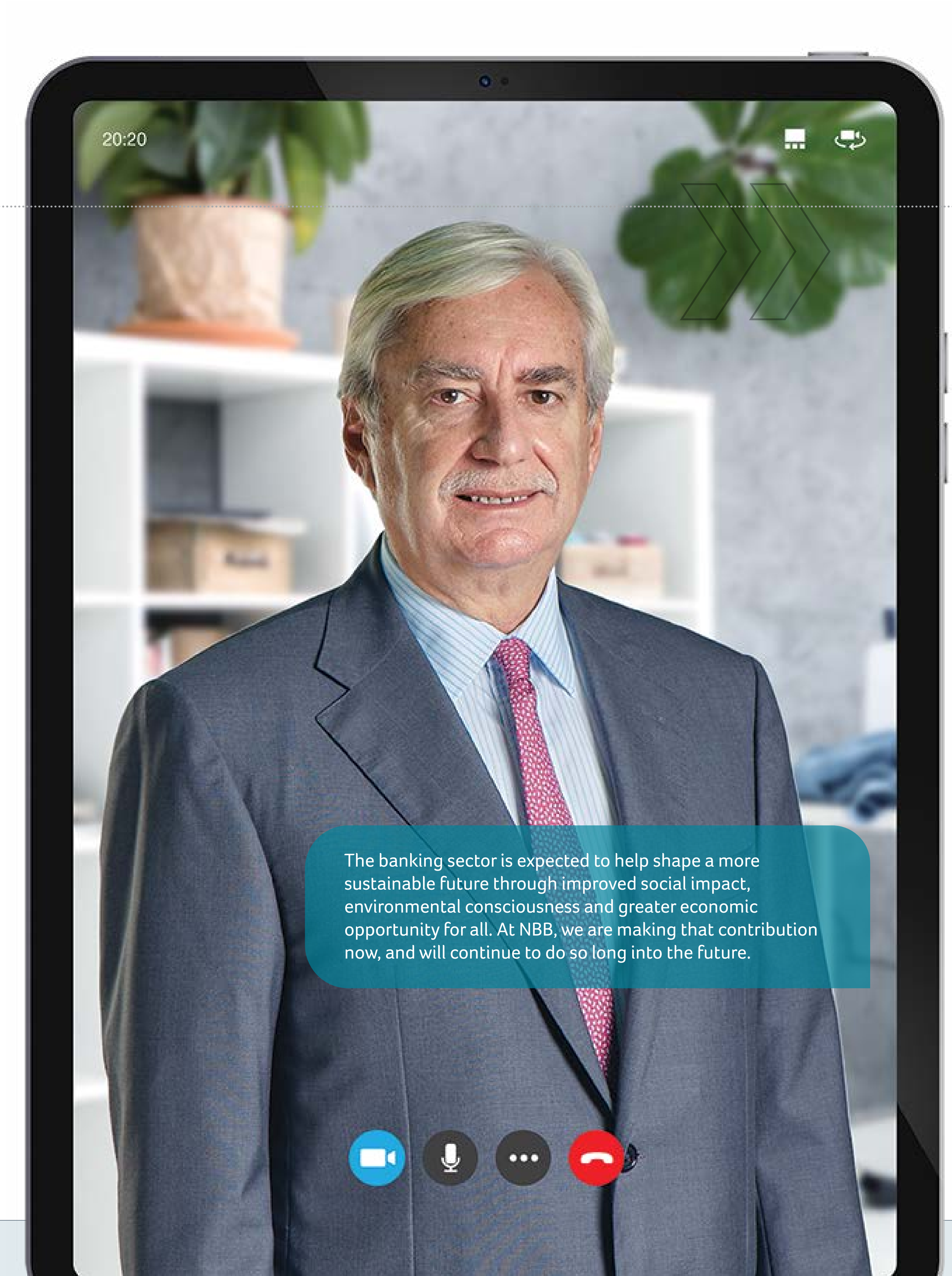
Subah Abdullatif Al Zayani
Chief Executive- Retail Banking

Mr. Subah Abdullatif Al Zayani joined NBB in 2019 as Head of Retail Banking and took over as Chief Executive of Retail Banking in 2020. He leads NBB's ongoing efforts to innovate its retail operations and increase the Bank's market share via enhanced financial products and services that work to further elevate the customer journey across NBB's digital platforms, branch and ATM network, which remains the largest in Bahrain. He has over 13 years experience in banking, having held a number of senior positions at a few of Bahrain's largest local and regional banks. Most recently, he served as Deputy Head of Retail Banking at Kuwait Finance House- Bahrain in addition to his former experiences with Batelco and the Bahrain Defence Force. His innovative product and digital solutions received local and international recognition within the retail banking sector, driving growth with an efficient, customer-centric strategy. As a graduate of the US Army's ROTC Leadership Programme, he holds a B.S. in Business Administration from The Citadel, the Military College of South Carolina, an M.S. in Computer Information Systems, and an Executive Fintech accreditation from Georgetown University, USA.

Iain Blacklaw
Group Chief Operating Officer

Mr. Iain Blacklaw joined NBB in 2017 with a mandate to strengthen the Bank's structure and foundation to enhance the organisation's competitive advantage. His role focuses on identifying greater efficiencies and streamlining operations through optimised and modernised practices both on a brick-and-mortar level and through the adoption of the latest technologies. He has been recently appointed as the Group Chief Operating Officer in 2020. Mr. Blacklaw has over 30 years of experience as an international banking and finance executive. He has built and run large-scale operations across various sectors including banking and technology in complex organisations, requiring careful stakeholder management, and holds a successful track record of implementing major change initiatives including profit uplift programmes, cost reduction programmes, compliance and governance frameworks, customer experience programmes and outsourcing and management of major outsourcing contracts. Mr. Blacklaw was also a Board Member of EDS Australia and Cyberlynx. Having graduated from Aberdeen University with an Honours Degree in Economics, Mr. Blacklaw went on to qualify with the Institute of Costs Management Accountants, followed by the Stanford University Executive Management Programmes. He was also part of the London Business School Proteus Programme.

› Statement of the Chief Executive Officer



OPERATING PROFIT

BHD 77.7million

This was achieved without compromising on risk management

Our commitment to be a leader in sustainable banking is one of our continuous aspirations. We believe that we have made leading progress already - taking a rigorous and systematic approach towards integrating environmental, social and governance issues into our core business, underpinned by practical action. Our sustainability roadmap, now being embedded in the business, sets out a clear direction for the practical steps we will take over the next three years, and provides a foundation for further development thereafter.

This year, with the wide-ranging social and economic impacts of the coronavirus pandemic, the need to refocus our efforts on our responsibility in society and to contribute to sustainability in all aspects of the Bank's work has been especially clear. We have all experienced the need to demonstrate care for each other, and to offer support where needed, whether that be personal, financial or economic. A year like 2020 refocuses our energy into doing the best we can for our stakeholders, developing and adapting services and recognising that in order to build and consolidate a safe and secure society, the economy and the environment are fundamental to our collective success and well-being.

Last year, we introduced a sustainability framework to capture NBB's plans towards maximising its positive impact on our shareholders, our customers, and our society. It covers seven distinct, but interrelated areas: Economic Growth; responsible banking; serving our customers; nurturing our workforce; community investment; preserving natural resources; and governance and ethical behaviour.

Our ability to take action across each of these areas is founded on our continuing financial strength. Our performance in 2020 has been resilient, despite the unstable market conditions witnessed across the Kingdom, and throughout the world. Financial strength underpins our ability to develop our people, invest in the community, take action to develop innovative products and services, and to accomplish all this in a way that protects natural resources for future generations. We have taken positive action, and equally important, we have acted in a way that is consistent with our values, backed by our robust systems of governance. We are supporting Bahrain-based financial technology companies and pursuing other opportunities to maximize the Bank's alignment with the Bahrain's Economic Vision 2030. Similarly, our acquisition this year of a majority stake in BisB complements our strategy, with Shariah compliant banking incorporating a longstanding commitment to doing the right thing and avoiding harm.

Responsible banking lies at the heart of our efforts. We have set up a dedicated ESG team to review and integrate important aspects of international guidelines and standards alongside voluntary initiatives. We are currently exploring product and service development avenues that work to emphasise key sectors and opportunities, such as environmental innovation and health and education innovation, to support the creation of a start-up ecosystem to form and develop prosperous small and medium-sized businesses.

Our drive towards leadership in sustainability is an integral part of our ongoing transformation journey. We have begun modernising our infrastructure - in large part through digitalisation - and developing customer-centric products and services, as well as cultivating new partnerships. Our growing market share in the retail business unit has allowed us to provide enhanced assistance to our customers during these unusual times. We have established a web chat service, currently available on our website and on WhatsApp, to ensure all needs are instantly met in line with our brand promise of staying closer to our customers.

I'm proud to say that our efforts have been recognised externally: We were delighted to receive 'The Middle East's Best Bank Transformation' in the Euromoney Awards for Excellence 2020 – one of the global financial sector's most esteemed accolades. We intend to continue building on our achievements, and as part of the next stage of our transformation journey, our core focus lies in further embedding sustainability into our financial products and services and related processes.

The banking sector is expected to help shape a more sustainable future through improved social impact, environmental consciousness and greater economic opportunity for all. At NBB, we are making that contribution now, and will continue to do so long into the future.

Jean-Christophe Durand,
Chief Executive Officer

Standing together for economic growth

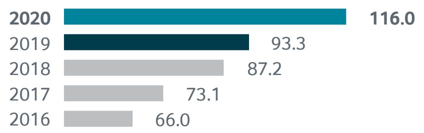
As a national bank, it is our duty to stand by the nation, and work diligently towards solidifying Bahrain's economic standing. The NBB name is associated with the Kingdom's success, and in 2020, we maintained our robust position as the national bank of choice, supporting local businesses and individuals by standing together as one. We faced the challenges together, and positively contributed towards enhancing the Bahraini economy.

Financial Review

NBB has reported a year-on-year increase of 1.6% in operating profits and a 22.4% increase in operating income, mainly due to 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.

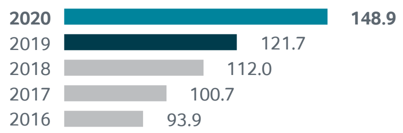
Net interest income
(BHD millions)

BHD116.0m



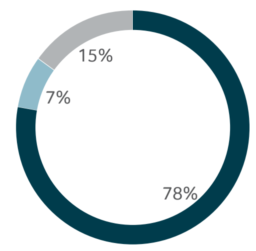
Total operating income
(BHD millions)

BHD148.9m



Composition of total income
(%)

- Net Interest Income including Treasury
- Fees & Commissions
- Capital Markets & Investment Income and Others



Overview

The outbreak of COVID-19 in 2020 has impacted the Group in many ways, 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 circumstances of the pandemic.

NBB has reported a year-on-year increase of 1.6% in operating profits and a 22.4% increase in operating income, mainly due to 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.

The Group reported a 28.2% decrease in its net profit attributable to equity shareholders to BHD 53.3 million for the year ending 31 December 2020, compared to BHD 74.2 million in 2019. This was mainly due to the precautionary provisions, lower margins, lower income from associate equity valuations and lower received dividends following the COVID-19 pandemic. Basic and diluted earnings per share during the year decreased by 27.3% to 32 fils (USD 8 cents) compared with 44 fils (USD 12 cents) in 2019.

At the end of 2020, the Group's total assets were BHD 4,361.4 million, compared to BHD 3,194.5 million recorded on 31 December 2019; displaying an increase of 36.5%, attributed to the consolidation of BisB results following the acquisition in January 2020, as well as the strong demand for NBB loan products during 2020. 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 3,084.3 million which represent 70.7% of total liabilities and equity, while shareholders' funds represent 12.1% of total liabilities and equity.

Key performance indicators continue to remain strong in relation to our regional peers and international benchmarks, with a return on average equity at 10.6% 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 44.9% to BHD 50.1 million compared with BHD 91.0 million in 2019. Other comprehensive income includes the mark-to-market movements during the year and as such include temporary fair value fluctuations on the Bahrain Sovereign bond and equity portfolios.

The Group presented a strong capital adequacy ratio of 22.3%, 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 of 31 December 2020 was 145%, while the average LCR for the fourth quarter of the year stood at 395%. The Group continues to exceed minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio ("CAR").

Net interest income

At the end of 2020, the net interest income of the Group was BHD 116.0 million compared to BHD 93.3 million for 2019, reflecting an increase of 24.3% attributed to the consolidation of BisB's result along with the active and effective internal rate management and re-pricings. Accordingly, the net interest income as a percentage of earning assets, was recorded at 3.0% in 2020 compared to 3.1% in 2019, a marginal decrease despite the challenging market environment.

Net fee and commission and other income

For 2020, the net fee and commission and other income were BHD 11.4 million and BHD 21.5 million, respectively compared to BHD 13.7 million and BHD 14.7 million recorded for the previous year. The reduction in the commission income was attributable to a fee cap introduced by the regulator in early 2020, while the increase in other income represents improved FX activities and recoveries from previously written-off assets. The overall increase is in line with a business diversification strategy to increase the contribution from non-interest related activities, which now represents a quarter of total income. Details of net fee and commission and other income, with comparative figures for the previous year, are set out in notes 25 and 26 of the consolidated financial statements.

Operating expenses

Operating expenses at BHD 71.2 million represent an increase of 57.5% over the 2019 level, resulting mainly from the consolidation of BisB expenses following the acquisition in January 2020. The Group also continues to investment in people, processes and digital infrastructure required to maintain the Group's competitive advantage within Bahrain and in the wider region. The Group's cost to income ratio stood at 47.5% following the subsidiary acquisition, which is expected to decline as cost synergies with BisB are realised.

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. During 2020, the CBB has provided COVID-19 relaxations by extending the stage 2 migration from 30 to 74 days past due. Based on the ongoing assessment of the provision requirement, an amount of BHD 28.0 million was provided towards impairment during the year compared to BHD 6.4 million in 2019, inclusive of BHD 7.0 million of additional precautionary buffers for future credit losses relating to COVID-19 based on multiple stressed scenarios.

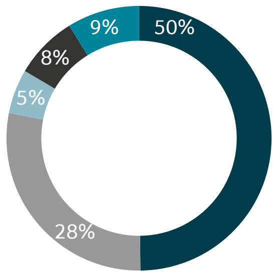
Loans are classified as part of the non-performing portfolio upon an impairment event. In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling-off period of not less than 1 year from the date of becoming performing. During 2020, however, a COVID-19 related concessionary measure was issued by the CBB reducing the cooling-off period to three months. The non-performing loan portfolio was BHD 116.0 million at the end of 2020 compared to BHD 95.8 million at the end of 2019. Details of the Group's non-performing loans, provisions and movements therein during the year are detailed in note 8 of the consolidated financial statements.

Assets

At the end of 2020, the Group's total assets were BHD 4,361.4 million, compared to BHD 3,194.5 million recorded on 31 December 2019, an increase of 36.5% following the acquisition of BisB. The Group has a well-diversified asset profile with loans and advances representing 49.8%, while treasury bills represent 5.4%, placements with banks and other financial institutions represent 7.7%, and investment securities represent 28.2% of total assets. The loan portfolio is diversified with widespread participation in the domestic market with a constant broadening of business

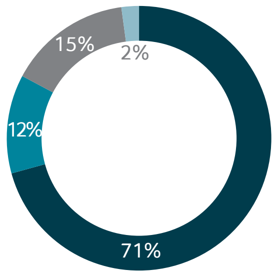
Financial Review (continued)

Composition of total assets
(%)



- Loans and advances
- Investment securities
- Treasury bills
- Placements
- Other assets

Composition of total liabilities and equity
(%)



- Customer deposits
- Equity
- Deposits from banks and other financial institutions & borrowings under repurchase agreements
- Other liabilities

relationships in Bahrain and the wider region. At the year-end, the Group's investment portfolio of BHD 1,231.4 million consisted mainly of debt securities. A major part of the debt securities comprised 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 3,084.3 million, compared to BHD 2,094.0 in 2019. The Group continues to be successful in generating core customer deposits via organic and inorganic growth means. The consolidation of BisB was a major contributor to the increase; however, the Bank continues to witness growth on a standalone basis 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 under repurchase agreements and due to banks and financial institutions stood at BHD 657.4 million as of 31 December 2020, compared to BHD 505.0 million at the 2019 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 80.4% at the year-end and representing the funding source for 90.6% of the combined loan and investment portfolios.

Capital strength

The Group's total equity attributable to owners decreased by 2.4% to BHD 519.7 million compared with BHD 532.3 million recorded as of 31 December 2019. The decrease was due to the 2019 cash dividend payout, the reduction in the mark-to-market on Bahrain Sovereign securities classified as fair value through other comprehensive income as well as due to absorbing the cost of deferring loan repayments in order to supporting our customers during the first six months of the pandemic.

The Group's capital adequacy ratio as of 31 December 2020 was 22.3%, and the common equity tier 1 (CET 1) ratio was 21.4% 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 45 to the financial statements and the risk and capital management disclosures provide further details on the Group's capital strengths.

NBB has reported a year-on-year increase of 1.6% in operating profits and a 22.4% increase in operating income, mainly due to the acquisition of a majority share (78.8%) of Bahrain Islamic Bank (BisB), a strategic move that will result in a stronger positioning for both banks through synergies in revenues and costs.

› The New NBB Group

BisB's integration within the NBB Group has served to reinforce both brand positions by drawing on their respective strengths and best practices to maximise their potential and deliver operational excellence. Both entities are benefitting from the delivery of significant 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 better the customer experience, sharing the same aspirations and sustainability framework.

A major part of our core strategy remains the commitment to the economy, alignment to the Bahrain's Economic Vision 2030 and continued leadership in Team Bahrain. The successful integration of the National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB) - two of the country's historic banks - into a robust banking Group, is a proud achievement that serves as a national benchmark and has contributed to strengthening the Kingdom's position as a regional financing hub.

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 reinforce the Group's presence in Shariah compliant businesses and geographies. The integration has enabled NBB to diversify its portfolio with a full spectrum of Shariah compliant services that complement NBB's conventional product offerings, enabling the capture of wider local and regional opportunities.

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 and fourth in the GCC. 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 integration has served to reinforce both brand positions by drawing on their respective strengths and best practices to maximise their potential and deliver operational excellence. Both entities are benefitting from the delivery of significant 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 better the customer experience, sharing the same aspirations and sustainability framework. Subsequently, BisB's vision to be a leading Islamic financial institution has been further strengthened with the widening of its business model and lines.

The liquidity position of BisB was also enhanced by NBB's Shariah-compliant risk participation in a portfolio of BisB's non-core assets during 2020, providing BisB with a cash position, reduced future funding requirements and a reduced non-performing asset profile and hence a reduced provisioning requirement into the future.

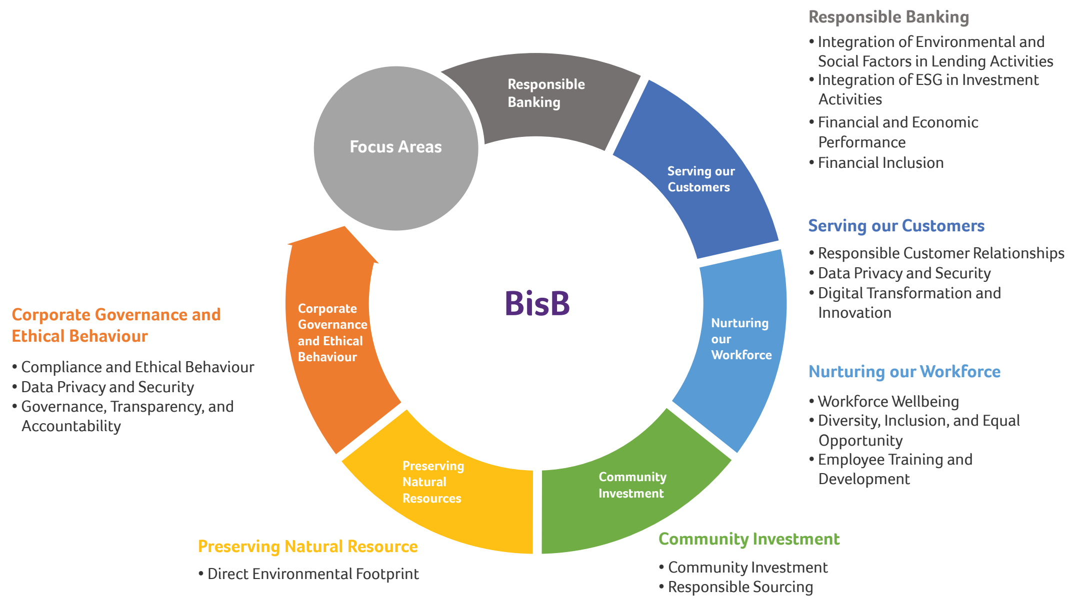
Having worked closely with our respective Boards of Directors, the Central Bank of Bahrain and the Shariah Supervisory Board of BisB, our strategic ambitions to consolidate the two establishments have culminated into a powerful banking group with strong appetite, resources, and capability to accelerate value creation and capitalize 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.

BisB

Bahrain Islamic Bank was founded in 1979 as the first Islamic Bank in the Kingdom of Bahrain. BisB operates under an Islamic retail bank license from the Central Bank of Bahrain and is listed on the Bahrain Bourse. BisB operates four branches, four innovative financial malls, one digital branch and 51 ATMs located throughout the Kingdom.

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

These six focus areas form the sustainability structure of BisB as illustrated in the table and diagram below.



BisB has a steady emphasis on sound corporate governance and risk management, employee growth, and the use of state-of-the-art technology to provide superior customer service. Innovation has always been at the core of BisB, both in its operations and its financial services. As part of this strategic drive for digitalisation, major achievements were recorded.

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. BisB introduced more ways for individuals and companies to access Banking services without having to leave their homes, or interact unnecessarily with others.

BisB also worked in a co-operative spirit with regulators, to reschedule or extend loan repayment terms for its customers in need.

BisB empowers the Human Resources function to play a strategic business partner role, as part of creating a sustainable and productive work environment. This necessitates flexibility in the way the department approaches its work, to respond to the rapidly changing operating environment. This need for flexibility extends to the need for its people management processes, to have a positive impact on the social, environmental and governance factors. During the pandemic, BisB implemented all the necessary safety precautions across its buildings and facilities.

	2019	2020
Total workforce (excluding trainees, students and outsourced)	361	350

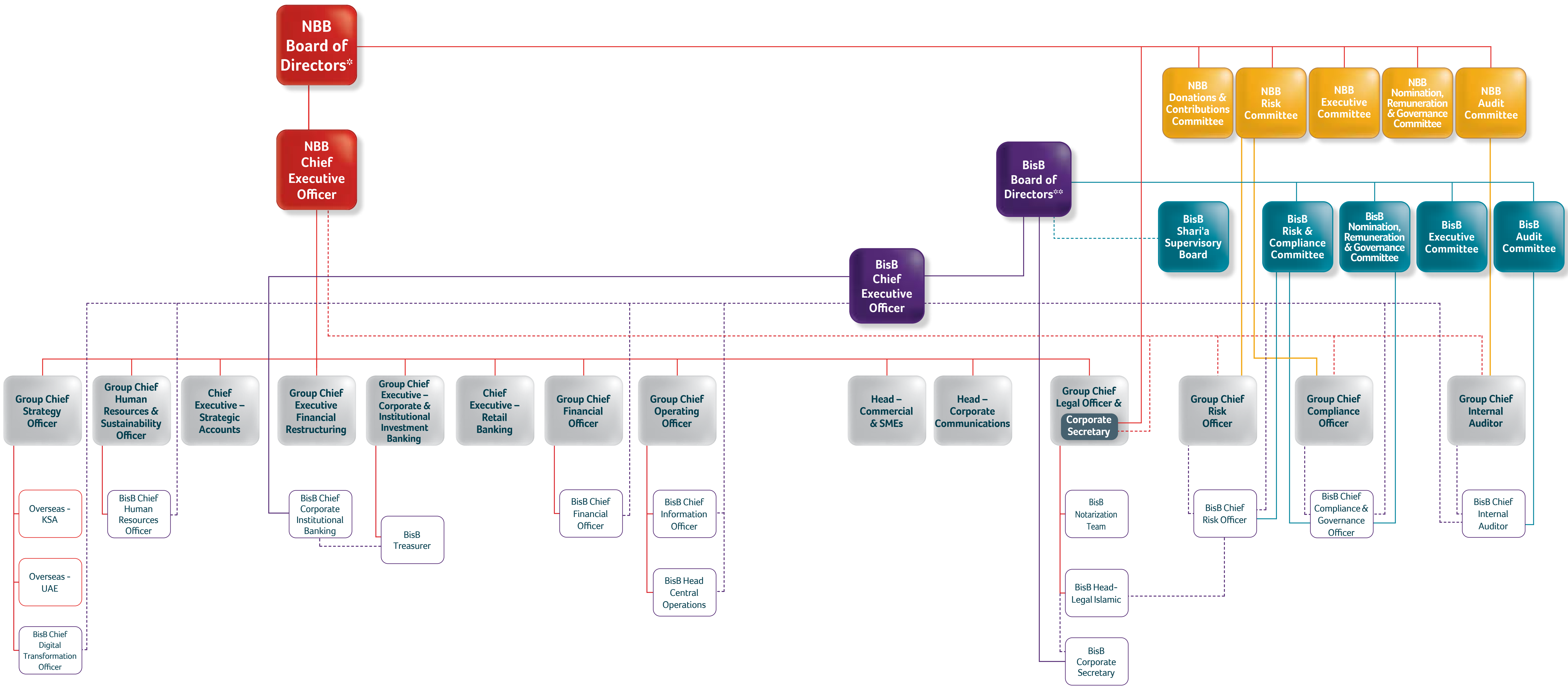
Bahrain-ness reflects BisBs' desire to instill Bahraini insights, which have grown from its Islamic roots. It is how BisB transcends its local values in daily tasks at work and in its approach to business. BisB attaches great importance to female participation in the workforce and its commitment to female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

BisB is also committed to community investment. BisB continued to invest in the growth of 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, BisB is developing 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 the future of the next generations at the forefront of its decisions, reviewing yearly new ways to ensure its acts in an environmentally responsible manner - through initiatives to increase recycling, decrease waste, reduce paper use, and minimize electricity and water consumption. In 2021, BisB will adopt an Environmental Management system to align targets, processes and monitoring activities, in line with NBB Group's ESG drive.

Information on the activities of BisB during 2020, can be found in its Annual Financial and Sustainability Report which captures how it performed not only in terms of financial performance, but also sets out its social, socio-economic, environmental and governance performance, aligned with NBB's sustainability framework.

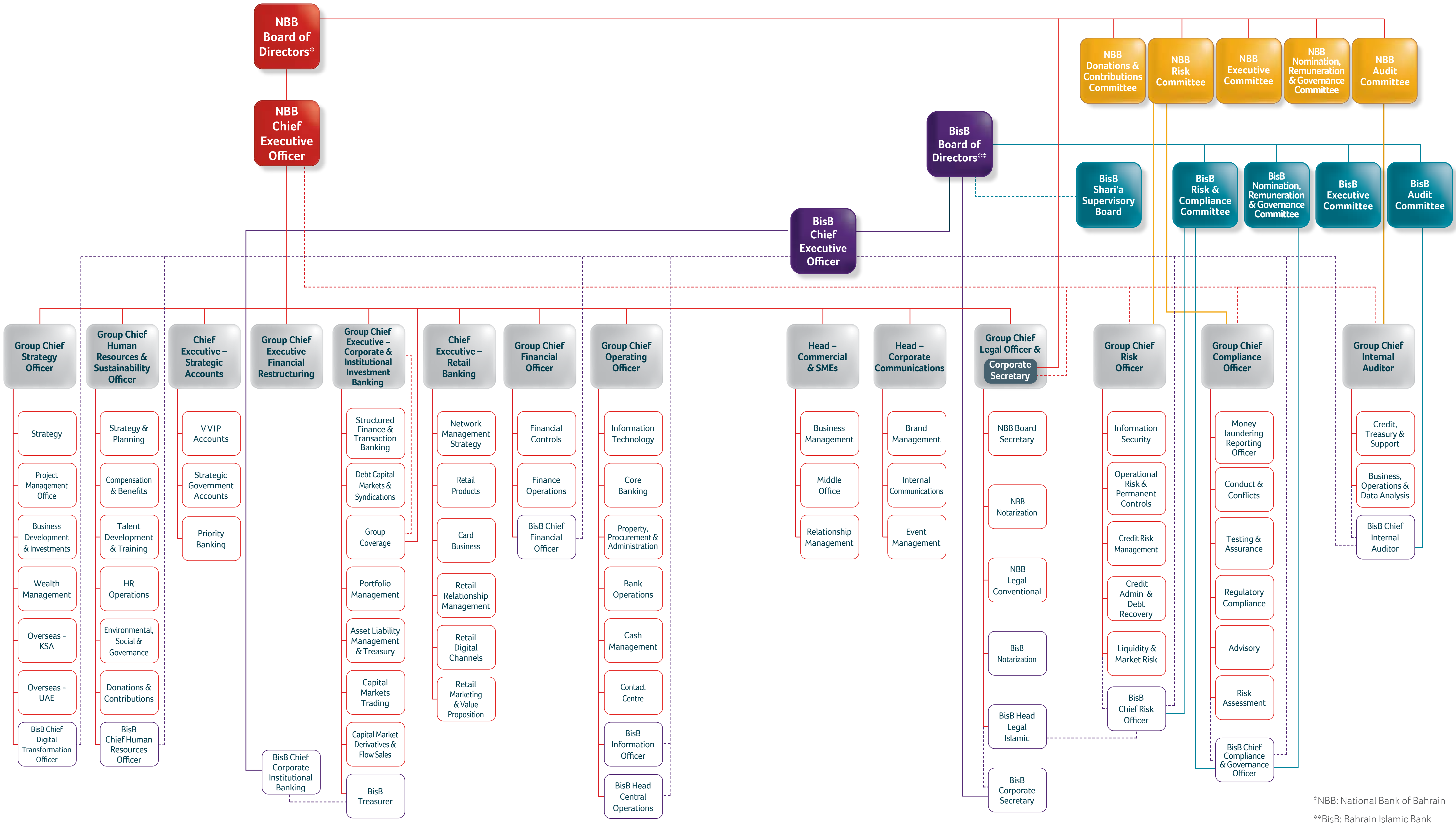
› Organisational Chart - Summarised



*NBB: National Bank of Bahrain
**BisB: Bahrain Islamic Bank

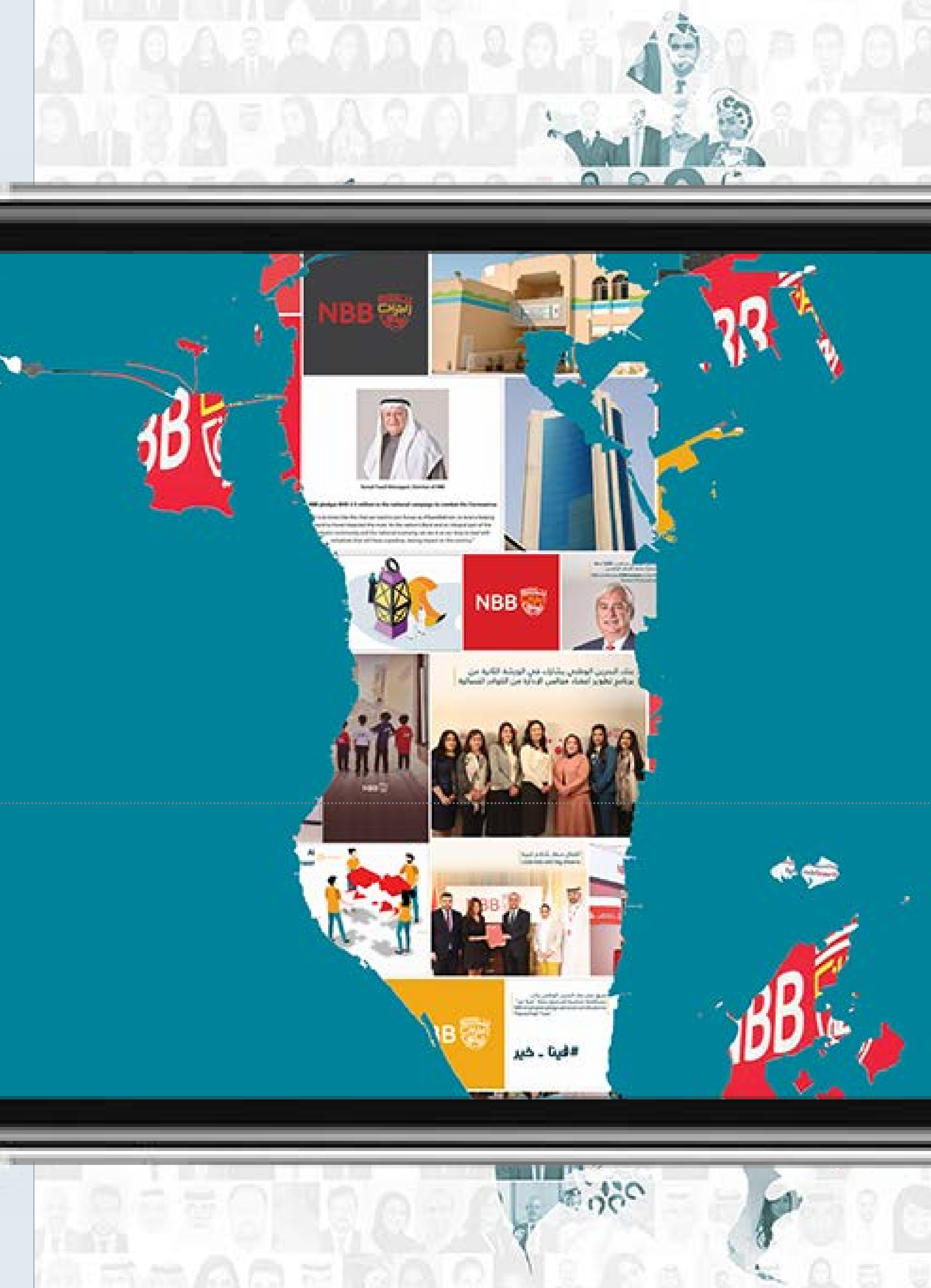
› NBB Group Organisational Chart

31 December 2020



*NBB: National Bank of Bahrain

**BisB: Bahrain Islamic Bank



Standing together supporting the community

Because we care about the environment in which we operate, and because we care about you, we stand together to build a stronger community. Through our vested interest in ESG and our initiatives to support sustainability throughout 2020, we worked to transform our internal and external processes to incorporate a more sustainable and conscientious model of operation. By giving back to Bahrain, we weave together the fabric of a society that can only be stronger, together.

› Sustainability

Our roadmap to sustainability

Our goal is to embed sustainability into the core of our business. Sustainability is good for the Bank's stakeholders and good for society.

A forward-looking partner

We set the foundations 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.

With this belief, it is our aim to shift markets towards sustainability and to maximise our impact within 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 these high-growth, high-impact sectors that shape the country's economic future and lend it a competitive advantage. As an indication of our commitment towards sustainability, our central ambition is to be ranked #1 in the banking sector regionally and to become the #1 company in all sectors in Bahrain for ESG rankings.

To accomplish this, we have developed a three-year sustainability roadmap. Our journey began in 2019, and in 2020, NBB focussed intently on embedding sustainability at the core of its business. Our commitment is demonstrated initially by this report, the first consolidated financial and sustainability report in Bahrain. Moreover, we have set specific targets with key performance indicators (KPIs) to follow its course. The Bank has also addressed disclosure gaps and presents all ongoing actions in a systematic way. Furthermore, NBB has started putting in place a management model, committees, a governance framework, and is updating its policies to reflect the fundamentals of this sustainability shift.

To that end, an environmental, social, and governance (ESG) team was created with a mandate to facilitate this journey. Finally, we are initiating or strengthening actions to address the key gaps and opportunities identified.

For the second year of our sustainability roadmap, we aim to integrate environmental, social, and governance (ESG) factors into our lending and investment analysis, following the Principles for Responsible Investment and the Equator Principles, and new sustainability-oriented products and services will be developed in high-growth, high sustainability impact sectors. It is also important to begin demonstrating performance improvements from the implementation of the roadmap, and to measure and report on 'total impact'. Finally, we will aim to scale up successful efforts, such as our internal energy efficiency initiatives.

In the third year, we aim to benefit from recognised ESG leadership, linked with growth, as part of our goal to achieve or strengthen dominant market position to become the lender of choice, in high growth, high sustainability impact sectors. Ultimately, NBB aims to become a genuinely purpose and impact driven organisation.

NBB's sustainability framework

NBB's sustainability framework has seven pillars: economic growth, responsible banking; serving our customers; nurturing our workforce; community investment; preserving natural resources; and governance and ethical behaviour.

The objectives for each pillar are:

Economic growth

- Capture net impact i.e., the overall contribution of NBB to society and Bahrain's Economic 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

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's Economic Vision 2030 ambitions

Serving our customers

- Offer the best sustainability-oriented products and services
- Highlight sustainability and focus on impact in customer messaging
- Be transparent and fair in all aspects of customer relation
- Ensure the safeguarding of customer data and privacy
- Contribute to the well-being of customers

Nurturing our workforce

Empower employees and 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 well-being of employees

Preserving natural resources

- Significantly improve our environmental performance, including taking action to mitigate climate change and minimise our environmental impact

Sustainability (continued)

Community investment

- Effectively enhance our community investments through leveraging NBB's full resources and capabilities

Governance and ethical behaviour

- Achieve leading practice in good governance and integrity
- Embed sustainability directly into the core of our business, reinforced by world-class governance of sustainability

Over the past year, the Bank has been actively disclosing 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 goal to embed sustainability in the core of our business, where we seek to take into account fundamental reporting principles, including accuracy, comprehensiveness, and clarity.

Setting the standard

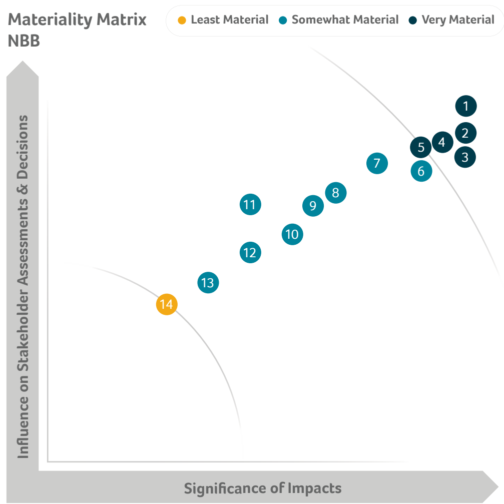
NBB is a trusted voice in industry dynamics and a vital thought leadership source working towards the elevation of local industry standards.

Reporting what matters: our material topics

We recognise the need to report on issues of importance to our stakeholders, particularly issues with the most significant impact on our future business performance.

This report links the most material topics identified in its materiality analysis - defining issues that reflect the organisation's economic, environmental and social impact or any matters that significantly influence the assessments and decisions of stakeholders - with its priority sustainability goals. These topics are selected based on customer, employee, shareholder and other stakeholder priorities, the Bahrain's Economic Vision 2030, the UN SDGs, the ESG analyst priorities, the GRI, and our impacts that have the greatest financial implications for shareholders and yield positive benefit for the society.

As an outcome, we developed a materiality matrix to define and present our understanding of the influence of each topic on stakeholders' decisions and the impacts on NBB's business.



		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

The analysis identified 14 topics:

Compliance and ethical behaviour

The Bank complies with the current regulatory framework as defined by national and international legislation, establishing procedures and ensuring they are strictly applied.

Data privacy and security

The Bank ensures the protection of their customers' personal data and that of other stakeholders through the implementation of integrated procedures and systems.

Governance, transparency and innovation

The Bank adopts the principles and best practices of Corporate Governance ensuring its effective organisation, functionality, management and development. We aim to be transparent in communicating with shareholders, provide direct and continuous information to the investment community, and safeguard the interests of all stakeholders.

Financial and economic performance

The Bank enhances its financial performance and contributes to the growth of the economy by implementing a robust business plan.

Responsible customer relationships

The Bank puts customer service at the heart of its operations, seeking to meet their needs with simple and easily accessible products and services, while protecting the privacy of their information.

Talent attraction, engagement and retention

Our commitment to continuous human capital development, to mentoring the best talent, to grooming leaders from within, is a strategic priority.

Financial inclusion

Making financial services accessible and understandable to all members of society is a fundamental part of our customer approach.

Responsible finance

We recognise the need for the diverse services that we and other banks provide to support financial, environmental and social well-being.

Diversity, inclusion and equal opportunity

We welcome differences, and believe that diverse views and backgrounds contribute to a better business, and superior decision making abilities.

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.

Direct environmental footprint

We are taking a diverse range of actions to minimise the environmental impact of our activities.

Workforce well-being

We prioritise the welfare of our employees to sustain a happy, satisfied, efficient and productive workforce.

Community investment

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

Responsible sourcing

We procure products and services in a responsible and ethical manner, and remain committed towards positive and meaningful engagement with all our suppliers. Acting as a reliable partner has guaranteed us decades of success and a solid reputation in the industry and beyond.

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 organisations in Bahrain and beyond.

Lasting relationships

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

Sustainability (continued)

Customers

Our relationship with 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 offering convenient access to innovative and competitive financial products.

Employees

Having highly engaged and motivated employees is vital to our success and their growth and development is at the core of our belief. By continuously training our employees and providing them the opportunity to fulfil their potential and to evolve with the changing face of the industry, we are able to maintain our leading position in the market and remain a significant.

We believe in maintaining an open culture in the Bank and so ensure that the employees are encouraged to report any instances of unethical behaviour or any violation of our policies through our whistle blowing 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.

Communities

We believe that sustainability goes further than simply serving our customers' banking needs. Supporting the welfare of families in the communities where we operate is of the utmost importance to us. We ensure that our impact on the community remains positive through our collaborations with numerous philanthropic organisations and participation in national awareness campaigns alongside other social initiatives.

Government and regulators

Promotion of a robust compliance culture is central to NBB's strategy. The Bank has been focussed on developing a sound framework that oversees compliance with the codes, rules, regulations and standards of the Kingdom of Bahrain, as well as those in other countries where NBB operates. Our compliance department as well as our risk committee are responsible for ensuring strict adherence to all policies, regulations and government requirements.

Suppliers

We seek to maintain excellent relationships with vendors, while maintaining a streamlined value chain, and remain committed to ethical, fair and transparent dealings with all our suppliers. Our procurement department is responsible for supplier selection, tracking and communication though our supplier portal.

Communication

We continue to build a strong media presence, and remain connected to our stakeholders, increasing our engagement through a range of offline and online channels, such as our website and social media platforms including Twitter, Instagram and Facebook. Other mechanisms of engagement include our NBB email address and telephone numbers, our mobile app, the customer service unit, our branches and contact centres, as well as our WhatsApp chat service. Given our strong social media presence, we understand our stakeholders' needs and we continue to encourage transparency by disclosing information in a timely manner. All communication is underpinned by robust privacy and information security guidelines, ensuring that our customers are provided with the necessary tools to contact the Bank and raise any queries or concerns through our customer complaint form.

Additionally, we maintain open and transparent key communication with our stakeholders through our Investor Relations Department, the NBB Annual Financial and Sustainablity Report and our Annual General Meetings, in addition to our quarterly financial results.

NBB's social media channels:

Instagram, Twitter and Facebook: @NBBonline

LinkedIn

YouTube

Customer complaint form

› Economic Growth

8 DECENT WORK AND ECONOMIC GROWTH | Financial sustainability & Economic Development | 2030 أهداف التنمية المستدامة البحرين BAHRAIN SDGs

As a key player in the sector, NBB remains committed to its duty to provide unwavering economic support to the Kingdom of Bahrain. This stems from our continued dedication to our corporate customers and from the diverse service offerings we provide to the country's individuals. We take an active role in supporting initiatives and enterprises with a strong social impact on Bahrain's economic well-being.

Our strategy also supports cross-sector growth within the GCC economy 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.

Proudly supporting Bahrain: 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 more than 60 years.

In support of economic and capital market initiatives that impact positively to the Kingdom, we remain among the main contributors to the Bahrain Liquidity Support Fund (LSF), created to enhance and deepen Bahrain's capital market. The fund was a joint initiative between Bahrain Bourse and SICO Bank and supported by the CBB. Along with local prominent institutional participants, NBB's participation accounted for more than 24% of the overall fund. We will 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 for 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

Responsible banking is becoming an integral requirement of our industry. There has been a recent surge in the number of financial institutions and individuals pursuing responsible investing and lending strategies, with improved implementation frameworks in place. We remain committed to integrating ESG factors into our investment and lending strategies and to developing sustainable products and services in the future wherever possible.

As a key player in the sector and as part of our commitment to contribute to the Kingdom's economic well-being, our investment approach possesses strong social and governance screening criteria. This year, we have achieved the first place ESG ranking in the banking sector within Bahrain as ranked by ESG Invest, and we are proud to be the only entity representing the Kingdom on the Refinitiv Arab Federation of Exchanges Low Carbon Select Index.

Responsible banking

NBB is transforming 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.

We are working to incorporate environmental safety criteria into our investment and blending approach, and provided financing to waste management and recycling facilities that work to support a cleaner environment.

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

Islamic finance

Providing products that promote ethics, inclusion and equality is at the very heart of Islamic finance. 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. NBB has subscribed to Bahrain Bourse's new introduced Murabaha service, used by the Bank when transacting in Islamic Commodity Murabaha financing.

A broader impact

Supporting economic well-being 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 support for 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 to 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.

In 2020, a joint housing mortgage loan with Eskan Bank was also launched. The Bank offered deferred payments for personal loans (during the two Eid holidays) to reduce financial burdens.

We also recognise the need for banking services to cater to customers facing severe challenges, or those 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.

We have also facilitated the Voluntary Retirement Scheme ('VRS') initiated by the government. The Bank extended its 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 via debiting their retirement benefits. This has helped to ensure that beneficiaries have sustainable disposable income during their retirement. During 2020, we provided support to personal loans catering to retirees with more than BHD 120 million.

We have several exciting initiatives planned. 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.

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 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 impairments.

Financial inclusion - Branches & ATMs	2017	2018	2019	2020	Target
Number of branches in low populated and economically disadvantaged areas	1[1]	1[1]	2[2]	**1[3]**	1[3]
Number of ATMs in low populated and economically disadvantaged areas	4[4]	4[4]	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.

At NBB, we are devoted to ensuring that our customers, including those within the low income and disadvantaged, have appropriate financial products and services by providing easy access to a wide variety of our channels, based on their needs and preferences. We continue to ensure the availability of our ATMs in low populated and economically disadvantaged areas. We also provide voice-activated ATMs that cater to our clients with visual impediments in two of our branches. Furthermore, we are providing an ATM truck with two portable ATMs, designed for specific access to remote areas. The truck aims to provide NBB's services to customers in hard-to-reach areas and can serve residents in locations such as labour camps and remote villages.

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 labor in need of convenient access to cash.

We also take action to support customers with special needs, providing facilitated access ramps for customers with disabilities at our branches. We are providing sign language training to our retail representatives, allowing them to serve all customers in a suitable manner, and have upgraded our contact centre with a new set of services such as sign language communication and a video service.

We have aligned our resources to focus on products and services in support of financial inclusion.

Through Relationship Management, we enabled and facilitated lending to SMEs by identifying the challenges they face, such as access to technology, low barriers to entry, and strong competition. As such, NBB is implementing financial solutions to facilitate processes that allow better access to products and services. We also improved the use of online banking among our commercial and SME client-base by 41%, with the majority of these clients being SMEs.

For 2021, we are examining balance sheet restructuring transactions for viable businesses, a valuable addition to customers, provided that the income from operations is structured in ways routed towards repayment of our facilities. We are also considering the possible creation of an SME lending programme. This scheme will target smaller companies with turnover up to BHD 3.0 million and will provide small ticket loans. The plan, currently under evaluation, is to launch the programme with a small capital allocation with the potential for substantial increase based on programme performance and market reaction. In addition, we plan to study the viability of point of sale and payment gateway backed lending in 2021, targeted mainly at micro, small and medium-sized enterprises.

Standing together for the future

We believe in opportunities, and through our initiatives designed to enhance the lives of generations, we actively work towards providing our customers and our community with the tools to invest in their respective futures. We firmly believe that it is part of our role as a national partner to create opportunities, investing heavily in building an internal and external environment in which people are able to thrive, side by side, standing together, for a brighter future.

Serving our Customers

3 GOOD HEALTH AND WELL-BEING | 8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | Financial sustainability & Economic Development | 2030 أهداف التنمية المستدامة البحرين BAHRAIN SDGs

As part of our transformation journey, we have taken steps to modernize 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 a market leader and continue to play a central role in the development of the financial sector in Bahrain. In doing so, we continue to build the strength of our business by acquiring a larger market share, while making a valuable national contribution to society.

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 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.

We especially value our relationship with our customers. Their loyalty is a measure of our continued success. NBB seeks to connect with customers at all times. 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 with the best sustainability-oriented products 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 one of our customers, while effectively safeguarding their data and privacy.

NBB manages its operations through the following Business Units:

Retail Banking, Strategic Accounts, Commercial and SME Banking, Corporate and Institutional Investment Banking, Treasury, Capital Markets and Wealth Management, and Financial Restructuring. Our focus in 2020 was to strengthen every department to maintain business sustainability and to be positioned as a market benchmark.

Retail Banking

Making banking a smooth life experience

We are proud of our continiously expanding customer base which reflects the Bank's capabilities to reach customers (through diversified channels) more than any other bank. We aspire towards adopting a substantial philosophy to make banking a smooth life experience for our customers. 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 at a rapid pace, particularly with the introduction of digital technologies that increase speed, flexibility, and simplicity for customers. Our extensive network of more than 100 ATMs across Bahrain is a prime example of NBB's ability to provide customers with the Bank's transactional services wherever they may be, 24/7. Many features of these technologies elevate the customers personal banking experience, making it much easier and more convenient than ever before, with the addition of automated telebanking and other services, as well as online facilities. We are strong supporters of these technologies and have invested significantly in many leading practices, while recognising the importance of personal contact, allocating dedicated teams to respond directly to customer concerns.

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, bulk cash deposit machine (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 throughout 2021.

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. This year, we have extended that further by providing our ATM truck (with two portable ATMs), designed to provide customers in remote areas with access to funds. A further example 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.

Serving our Customers (continued)

Closer to you

NBB is digitally expanding its presence through various product and service offerings to better connect with its customers in line with its brand promise of being 'Closer to You'.

Retail Banking continued on its mission to enhance the Bank's product and service offerings, with the re-launch of Al Watani Personal Loan, Home Finance Loan and Home Equity, Mazaya Social Housing Finance, 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" has also been 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) technology, enabling customers to tap and pay at local and international NFC-enabled machines. 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 positively impact and become part of our customers' special moments in life, and as such, we have extended 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.

Customer-centric

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

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

We have also sought to promote products and services that deliver a specific environmental benefit. Our 'Go green' initiative in ATMs, account statements and credit cards statements has been effective in reducing paper waste. The Bank has replaced printing paper receipts with direct SMS messages to account holders, providing the same details without the use of paper.

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

In the year ahead, we plan to take further action on:

- A digital onboarding platform: Enabling mobile and remote account opening process for residents irrespective of income, including the support of financial inclusion
- The development of a robust loyalty programme with a reward scheme involving redemption options against purchases, utility bills, banking fees, and social initiatives
- The development of a joint-loan product for Ministry of Housing social loan beneficiaries, allowing them access to residential properties with inclusive credit policies and pricing

Our key performance indicators for 2021 will include the following:

- Growth of loans within the Mazaya programme to comprise a bigger portion of the Retail mortgage loan portfolio
- Digital migration to a state-of-the-art digital platform with remote onboarding, instant credit issue and lifestyle management. A targeted 20% of customers are expected to migrate, providing enhanced financial management and eliminating paper waste
- The inclusion of at least two social, charitable, or environmental redemption options within the customer loyalty management scheme

Serving our Customers (continued)

Digital Banking

As result of NBB's continuing journey on its digital transformation strategy, the Bank was awarded "The Middle East's Best Bank Transformation" by Euromoney Awards for excellence in 2020.

Our digital transformation

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

In 2020, our top priority was to continue our digital transformation journey due to the pandemic, by improving digital capabilities and ensuring that our operations continued to modernise and advance. We have adopted a number of processes and procedures for added customer convenience, 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.

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.

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.

Digitalisation for customers

In 2020, our branches recorded a total of 1.1 million transactions. Online and mobile transactions represented 67% of the total.

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.

The new app, developed by NBB's team of internal professionals in collaboration with leading technology partners (including a local Fintech company), represents a breakthrough in digital banking. The developers created a smooth migration journey from the existing app into the new one, consolidating all digitally available services offered via NBB's branches into a one-stop-digital-shop with dynamic features and options designed to simplify the customer banking journey.

The new platform will be rolled out in a phased approached using agile methodology. Every major release will consist of a major functionally or a product based on a business driven proposition, an introduction of a services, and enhanced experience featuring a wow factor to our customers. In addition to, minor continuous releases when required to improve the platform maturity. In the first release, customers can benefit from an improved registration journey, with fewer clicks and faster steps. This will enable digital onboarding within minutes (anywhere, anytime). We will offer diverse product opening options including instant account opening, debit card issuance, easy money transfer alongside Al Watani rewards and increased chances of winning, and full management of all cards types.

NBB digital banking platform development

The challenge	Several drivers led to the initiation of this effort, including the new business opportunities which digital brings, the desire for cost efficient models, the goal of improving the speed of transaction and turnaround times, and evolving the idea of banking as a service to banking as part of a lifestyle. Challenges included completing an infrastructure revamp by amending legacy backend systems, data sets and mapping, and encouraging a mindset shift that requires culture changes such as raising digital awareness. Throughout the process, we needed to ensure customer security and awareness.
The approach	• Conducting a study of the Bank's positioning in this digital area • Developing an initial three-year digital strategy • Defining customer personas, reshaped experience, and tapping into customer lifestyles • Selecting a digital platform that aligned with the Bank's retail vision • Developing a plan using Agile methodology
The outcome	• The successful launch of NBB's Digital Banking App, with a main key differentiator of digital customer onboarding anywhere anytime • Digitalising our current retail banking products and services in the most convenient way • Development of purely digital products • Launching a new digital rewards platform • Introducing 'wow' factors and reshaping the customer banking experience

We took further steps to enhance our digital offering, and sought to re-fashion our customer's digital experience within our branches. For example, we enhanced our ATM services and created digital corners within the new branches and improved existing ones. We allocated digital ambassadors to our locations to better serve customers and steer conventional customers towards a more digital method of banking. In line with our brand promise of being 'Closer to you', we invested in our ATM network to facilitate eWallet cash withdrawals and 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 across multiple locations.

We continued to provide our Al Watani Trade service, originally launched in 2019 to provide online equity trading to clients. Al Watani Trade was designed as a trading platform to fulfil market demand for easier, faster access to online trading, enabling NBB's wide customer base to make direct on-the-go investments in stocks listed on the Bahrain Bourse through multi-digital channels, including laptops, tablets, and smartphones. AlWatani Trade comes with features to help customers track, analyse, and stay informed of stock and global financial market performance.

Digitalising processes

In our internal processes, we began the circulation of digital MIS reports within the Finance department and among other stakeholders in the Bank, encouraging individuals across the organisation to use digital rather than printed forms, along with digital signatures and submissions. We converted the existing paper-based procure-to-pay process into a digital workflow using Microsoft dynamics D365, leading to a significant reduction in paper use and digitalising historical records of the past 10 or more years. The new system was implemented with the coordination of the Procurement department, and involved updating internal policies and procedures. We established vendor self-services, aligning with the Bank's 'Go Green' initiative, to receive work orders and submit invoices digitally. We carried out a wide range of digital training, including seminars, and internal workshops.

Serving our Customers (continued)

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.

Commitments and plans

- In 2021, we are expecting four major releases to NBB's digital banking platform (the app and the web portal). Each release will focus on a major product rollout, new services, bug fixes, and a unique selling propositio
- We are continuing our branches' digitalisation by including digital corners, digital flows, as well as new digital coordinators
- We are planning to enhance the customer experience pertaining to the use of ATM and Interactive Teller Machine (iTMs). Our objective is to guide our clients to a mindset that these are more than cash management devices. We are aiming to change customer perception towards viewing them as more than simple cash management devices, utilising them for cash withdrawals, deposits or instant card issue. Additionally, we plan to partner with service providers for eWallet cash withdrawals and marketplace deployment on the existing machine
- The launch of our new lifestyle App, points, which enhances our customer experience through a personalised reward programme catered towards their individual lifestyles. This will involve a holistic relationship rewards structure and creative redemption schemes
- We aim to acquire new customers with a focus on a market share growth in the millennials segment

Commercial & SMEs

Strong sectoral support

NBB recognises that commercial and SME businesses are a vital element of any economy. Throughout the year, the Commercial and SMEs department (C&SME) has introduced a range of initiatives to support these customers, across a wide variety of sectors.

C&SME had a very successful year in 2020. More than 610 new accounts were opened free of charge, of which 316 were newly registered entities at the Ministry of Commerce, Industry and Tourism. This represents 52% of the total new accounts opened in the year, and serves as a testimony of NBB's important role of being the national partner.

We also continued to support micro, small, commercial customers, with more than 200 borrowing customers. While establishing a strong diverse economy is the top priority for Bahrain's economy, our Bank has directed its financing to many sectors including construction, real estate and housing projects, healthcare, infrastructure, trading, and food and hospitality, which account for more than 80% of our total portfolio.

Supporting SMEs

We have adopted an early engagement strategy to support start-ups and SMEs, constituting the backbone of the local economy.

Account opening	2019	2020
Total accounts opened	541	613
Newly formed Companies (New commercially registered entities)	317	316
% of total accounts opened	59%	52%

Number of borrowing customers	2019	2020
SME	75	82
Commercial	80	89
Total	216	224

Loan portfolio by client type (BHD millions)	2019	2020
SME	15.4	15.5
Commercial	101.1	108.2
Total	116.5	123.7

Moreover, in the course of the year, partnerships with interest groups and business societies were formed to further extend the reach of the Department in communicating it's 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. Recognising that these accounts require constant monitoring and control, we created a special team for monitoring and serving this customer base.

We take the characteristics of each economic sector into account when providing our financing products. For example, the pharmaceutical sector is a major focus in our books, and as such, we've provided banking facilities to more than one subcontractor for Awali Cardiac Centre.

Working through the pandemic has been a multi-faceted challenge. We focussed on protecting our shareholders' interests while extending a helping hand to our customers. We have conducted extensive analysis on our asset portfolio and proactively managed our accounts by taking measures on individual accounts.

We've also played an important role in the design, formulation, and establishment of the Liquidity Support Fund (LSF) with the Ministry of Finance and National Economy (MOFNE). The initiative was announced by the Government of Bahrain in October 2019, under the directives of HRH the Crown Prince, through MOFNE, 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. NBB led the team of participating banks and played a major role in formulating the overall scheme. Following the design stage in

Serving our Customers (continued)

2019, the Bank collected all LSF applications submitted throughout our branches across Bahrain, and distributed them among the three participating banks (including NBB).

We were among the first banks in the Kingdom to complete deferment of loans as per CBB directives, implementing a process that involved system customisation and analysis.

Additionally, we have partnered with Start-Up Bahrain in March 2020, an initiative that brought together entrepreneurs, corporates, investors, incubators, educational institutes, and the Bahrain Government to promote a startup culture in Bahrain. This initiative forms a substantial part of our efforts, falling under the Economic Growth Pillar.

Our commitments and scheduled projects for the future include:

- SME Financing Scheme: a programme to continue supporting the financing of small and medium sized companies based on improved criteria with a quicker turnaround time from initiation to disbursement
- Partnership with Bahrain Economic Development Board's Start-up and Micro, Small and Medium Enterprises (MSME) development initiative "Start-up Bahrain". The main purpose of this partnership is to leverage NBB's wealth of knowledge and expertise in educating the business community and creating a high level of financial literacy among start-ups and MSMEs This partnership will allow NBB's experts to be directly involved through workshops, seminars, and keynote panels

Our key performance indicators and targets for the coming year are to expand our customer base and build our SME loan portfolio through initiatives such as the SME lending programme. We are considering to initiate customer rating based on Environmental, Social and Governance (ESG) principles. We aim to retain our low NPL ratios and increase recoveries. We are also aiming to extend our training and empower our people and build a robust team, as we continue to develop our succession planning.

Corporate & Institutional Investment Banking

Building growth

Our Corporate and Institutional Investment Banking (CIIB) Division has continued to drive us towards becoming Bahrain's leading wholesale banking house for corporate and institutional clients to raise our profile in financial markets.

In 2020, we developed and offered new products and succeeded in expanding our customer base in the Kingdom and overseas. With a diversified portfolio, we have supported critical sectors of the economy and vital endeavours for the country including infrastructure projects, manufacturing, government and government related services such as digital services, construction and real estate, trading and services, oil and gas, power and water (utilities), as well as healthcare.

In response to the pandemic, when uncertainty in the economy created much turbulence, the CIIB department has supported local and regional sovereigns and Government Related Entities (GREs), as well as corporate customers with bespoke financing solutions and relief packages, and, equally important, with sound advice on managing their finances and timing their transactions. NBB also contributed towards the national effort to combat the pandemic by generalising contact-less payment methods and easing physical (paper) documentation requirements. Our Bank was a stable pillar for the economy and its customers,and managed to maintain good asset quality despite the challenges, playing a leading role in local and regional transactions.

It gives us great pride to see that our relationship interaction services have improved significantly, demonstrating to our customers that 'NBB delivers.' We believe we have a strong and diverse team, unique in its capabilities in Bahrain. Relationship consolidation and growth continues in our traditional spheres of regional and multinational companies present in the country, and the wider GCC, as well as with mid-size and large Bahraini companies.

Our product offerings in Transaction Banking (Cash Management and Trade Finance) have developed significantly. For example, NBB's Bulk Cash Deposit Machines demonstrate our multi-channel ability to seamlessly and instantly process cash, while reducing cash transport distances through route and volume optimisation. The updated version of our online banking solution has also improved and made bulk payments, such as salaries, pensions and invoices for government, commercial and corporate clients, making them easier and more reliable. This has had a noticeable impact on footfall in NBB branches and reduced the necessity for our clients to be physically present in our premises.

We have also entered into a partnership agreement with Infosys Finacle to adopt the Finacle Cash Management Suite, which will allow the Bank to digitally transform its transaction banking business.

Digitalisation continues to drive rapid growth in our corporate business transactions. We anticipate continued expansion in this area,with new technologies emerging and digital platforms developing in tandem. As such, NBB has developed several tailor-made solutions for its large customers, including the National Bureau of Revenue and e-Government, while innovative solutions such as B2B direct debit have also been developed for the wider market.

Looking to grow

Our strategy is relevant, tangible and in line with market and industry trends, to guarantee consistent shareholder returns.

Our Debt Capital Markets 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 at conducive market windows. This highlights our strong advisory and global distribution outreach to financial institutions and investment managers across key global financial centres.

In Structured Finance, we have become a recognised and respected player in Bahrain and the GCC. The core business is project finance and refinance in a variety of key sectors that are fundamental any nations' economy including energy, utilities, healthcare, infrastructure, and industry. Expansion into sectors including renewable energy financing will be a continuing focus given its strategic importance and potential growth. Most of our business in project finance is done through market leading structures and documentation that cater for economic and financial viability but also for social and environmental impact assessment. Projects we are considering in 2020 include photovoltaic plants, small-scale wind and solar solutions, and oil water decontamination and re-injection.

In addition, our origination services are in line with market practice, and accordingly abide by international standards that take into account environmental and social factors. For example, syndications arranged and/or participated in by NBB have Loan Market Association (LMA) standard environmental representations and warranties given by the borrowers. The Bank has also engaged in project finance transactions where the Equator Principles take form within the facility documentation. Furthermore, it is part of the due diligence session of every potential capital market issue to cover aspects related to environmental concerns, among other considerations.

Building on our capability and delivery to date, we are optimistic that we can continue to expand the delivery of our services in Oman, Saudi Arabia, Kuwait, the United Arab Emirates, and Egypt.

Treasury & Capital Markets

Comprehensive offerings for our customers & enhanced risk assessment capabilities

Treasury and Capital Markets performed well in 2020, a year of extraordinary volatility caused by COVID-19. We have been able to maintain a solid position in the local market and capable of withstanding disruptions - in part because of the changes made to the Bank's business model in response to the financial crisis and consequent changes to the regulatory environment.

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. Part of this process was initiated in 2019 and included revamping our Treasury system to further enable our clients to execute their foreign exchange requirements through online banking. The new system included a new suite of currencies and products that cater to clients in currencies across the MENA and G10 region.

We continue to support government issuances by leading bond and sukuk transactions for the government and distributing those bonds to our clients. NBB continues to support budgetary plans and infrastructure projects through active participation in financing schemes.

We have established a highly skilled team that provides tailor-made solutions to support clients in risk mitigation. This has contributed to our successful positioning as a go-to bank for solution-related and risk management products, resulting in NBB's appointment as a hedge coordinator in strategic transactions with key clients in the Kingdom.

In 2020, we partnered with a trading solution provider, the 360T online solution, to offer a full range of streamlined treasury services across the entire trading workflow of foreign exchange and short-term deposits, adding real time value to our clients, and enhancing compliance and transparency. We have also implemented Finastra treasury management solution, contributing to enhancing and automating its treasury and trading operations. We also became the first bank in Bahrain to fully implement the Bloomberg Trade Order Management Solution (TOMS) and Multi-asset Risk System (MARS) ecosystem modules that will provide the bank with highly advanced trading, pricing, and risk assessment capabilities.

Having established Islamic Commodity Murabaha as a product, NBB has been able to grow the volume of transactions occurring under this line of business through continued collaboration with local Islamic players. This has enabled the Bank to optimise its liquidity management and tap into new streams of revenue. The Bank has executed several Shariah-compliant transactions with Islamic banks including Waad Islamic forward contracts and collateralised murabaha. NBB has also signed a partnership agreement with Bahrain Bourse to launch a new Murabaha service, which employs the Government of Bahrain Islamic Ijara Sukuk as the underlying commodity in Islamic Commodity Murabaha financing. NBB was the first Bank in the Kingdom to execute a transaction using the new service, which was a result of a collaboration between Bahrain Bourse and the Central Bank of Bahrain and is fully Shariah compliant.

A new dimension

Islamic banking has added another dimension to NBB's business, making us more relevant and appealing in Shariah-compliant markets and geographies.

Serving our Customers (continued)

The Bank facilitates the execution of stocks and bonds orders through our AlWatani Trade platform (for local equities) and Intermediary and Custody Services (ICS) for local, regional, and international bonds/sukuks, and provides the safekeeping of securities being purchased through our platforms. AlWatani Trade provides online equity trading to our clients, strengthening our digital offering. The platform was designed to fulfil a market demand for easier, faster access to online trading, enabling NBB's wide customer base to directly invest in stocks on the Bahrain Bourse on the go, through multi-digital channels. AlWatani Trade is further complemented by support features to help customers track, analyse, and stay informed of stock and global financial market performance. With this solution, NBB took another step towards making its customers' lives easier.

The Bank's equity portfolio is focussed on investing in local companies only (listed and unlisted), in line with its investment policy. Potential investments are considered against the risk framework stipulated by the Risk department and credit committee. While our investment approach contains strong social and governance screening criteria, we are working on incorporating environmental criteria into the investment approach. We remain committed to implementing ESG integration in the future wherever possible, highlighting NBB's role as one of the key contributers to the Kingdom's economy, and is therefore seeking to prioritise the social and governance aspects of our investment approach.

With respect to socially oriented issues, the Treasury portfolio is a part of the overall Bank portfolio book, designed to support the economy, reduce market volatility, and protect asset prices and consumer wealth. NBB's investment in local bond issues and its efforts to enable more liquid capital markets and more active repo channels represent important initiatives to support the economy of the country. In addition, NBB supports and promotes healthy and tightly governed capital markets which exhibit counter-cyclical behaviour and focus on preserving consumer wealth and asset prices.

During 2020, we were successfully positioned as a provider of structured related investment and hedging solutions, offering Bank customers various tailor-made solutions, particularly those revolving around local currency.

Our targets for 2021 include the goal of maximising returns on excess liquidity and minimising funding costs. We are also seeking to elevate NBB's asset and liability management (ALM) process through treasury upgrade systems. We aim to develop and grow the BHD derivatives and structured product assets class profitability and increase capital market sales capabilities and ancillary business profitability both locally and regionally. We are also seeking prudent and profitable management of the Bank's equity and bonds portfolio.

Strategic Accounts

New banking model: Closer to you!

In line with the Bank's vision to deepen and broaden relationships with our strategically important customers (both individuals and government institutions), the Strategic Accounts is tasked with ensuring that our clients are offered world-class, customised service and an exclusive banking experience that encourages them to make NBB their preferred banking partner.

The Ultra High Net-worth Accounts (UHNW) and the Hight Net-worth Accounts (HNW) units within the Department provide quality personalised service to the Bank's prime. The Department offers tailored, around the clock personalised service to these customers, along with a range of value additions and benefits, with a view to enhance loyalty and share-of-wallet.

Government Accounts, within the Strategic Accounts, serves clients that fall under the government sector. A specialised team is in place which offers dedicated high-quality services and support to the government sector. A focused strategy is being implemented based on understanding the clients' business models, requirements and customising products that suit them accordingly. A key objective of ours is to promote the Bank's name, along with its products and services, in order to enhance ancillary business. This is achieved by meeting and striving to exceed client expectations by fulfilling their needs instantly, facilitating this important sector to further stimulate the economy. We manage key sensitive government relationships that require special treatment to maintain high levels of service, security and confidentiality, going above and beyond to exceed our clients' expectations. The high level of service provided to this market segment enhanced trust and resulted in on-boarding several new sensitive and strategic accounts during the past year.

We are focused on enhancing the depth and breadth of relationships with individual and government customers. This was achieved with customers starting new relationships with the Bank, both for their individual and commercial requirements. In addition, over the past year, the department enhanced its services by adding several new ultra high net worth and high net worth relationships to its portfolio, resulting in fortifying the significant deposit pool base under its umbrella. To augment its service proposition, several initiatives were rolled out by the department through offers of pre-approved new card products or upgrades, value additions through one-on-one basis interactions and personalised mementoes.

Additionally, the Bank introduced new and innovative products and service lines, such as Business Online Banking, Cash Management services (CDMs/ATMs) and Retail Banking products, targeted towards our clients' employees.

The unit serves a segment of clients whose deposits significantly contribute to the Bank's liquidity position. We always aim at representing the Bank professionally, reinforcing our image, as we continuously seek sustainable growth in terms of business volumes as well as number of clients.

Financial Restructuring

Expert support for corporates and commercial entities

Our Financial Restructuring business was established as part of our diversification effort, to step up participation and support for local and regional markets. The business helps clients in Bahrain and within the GCC region to navigate through diverse challenges faced in the current market environment. It is part of our social duty to explore solutions that secures the business continuity and operational viability that safeguards jobs through restructuring programmes.

The launch of this business fulfils a need for specialised financial restructuring advice for companies in Bahrain and the GCC markets, with a primary focus on corporate clients, in addition to select commercial banking clients. This includes acting as an independent advisor to companies facing challenges, as well as for companies where NBB is a creditor.

Financial Restructuring has existing mandates from various companies and is prepared for any increase in the number of companies requiring restructuring advice due to the impact of COVID-19 in the upcoming period. The division has also taken on the role and responsibility of Chair or Member in many Creditor Committees and Steering Committees for leading company restructuring efforts.

Our team of experts within the division work closely with companies' Boards of Directors and Executive Management Teams, providing them with the necessary expertise and advice, allowing them to protect, maintain, and unlock the value that exists within their businesses.

Hearing our customers' voice

Our drive to deliver against our brand promise has pushed more investments in enhancing the customer interaction to truly bring the voice of the customer into our organisation.

Voice of Customers

Customer satisfaction

At NBB, we view customer satisfaction as a crucial step in building our franchise. We are committed to be there for our clients when they need us to offer a wide range of customised products and services that meet the changing needs an evolving market conditions. This approach is in line with our brand promise of 'Closer to you'.

We remain committed to measuring and enhancing our customer experience as part of the five-year plan initiated in 2017, with a goal of achieving a strategic world standard Net Promoter Score (NPS) of 70% in 2022.

Responsible customer relationships

Our aim is to remain transparent and fair in all aspects of our customer relations, maintaining sustainability, and a focus on customer messaging that creates an impact.

At NBB, we prioritise customer privacy and the security of personal information, gaining 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, including online, mobile, and ATMs.

Our duty to our customers transcends beyond offering quality products and services and expands to safeguarding and protecting their data and privacy through secured platforms. To that end, we have adopted and upgraded our data privacy policy, which is available on our website (https://www.nbbonline.com/privacy-policy). We disclose all pertinent documents such as the Consumer Code of Conduct, our general banking terms and conditions, as well as our pricing information, on our website, with all information available in Arabic and English.

Card-related fraudulent transactions	2018	2019	2020
Amount of fraudulent transactions (total value of account holder transactions refunded to account holders due to fraud) (BHD)	7,823	4,834	2,257
Percentage of transactions from card-not-present fraud (%)	-	21	2
Percentage of transactions from card-present and other fraud (%)	100	79	98

Serving our Customers (continued)

This year, several specific measures were taken by the Bank to support its customers in light of the particularly challenging circumstances facing individuals, families, businesses, and other organisations:

- We decreased the interest rates on loans taken out for medication procurement. This was in line with the Government of Bahrain's broader initiatives to defer payments on loan instalments
- We increased facilities for customers in the food and beverage industry to procure essential food items as part of the government's broader initiatives to maintain food reserves for a period of six months
- NBB disbursed loans worth approximately BHD 19.3 million to 26 different customers under the Liquidity Fund Support scheme
- We contacted all our borrowers in highly affected sectors and offered to restructure their loans based on mutually agreed terms and conditions
- We contributed to the well-being of our customers by implementing measures in response to COVID-19 across our branch network

Over the past year, we have also been committed to supporting our customers through a number of diverse initiatives, including the Liquidity Support fund, the Share to Care Initiative, Kids with Cancer, the Smile Initiative, as well as providing support to the health care centres across the Kingdom, alongside promoting diversity and inclusion

Customer complaints

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, call centre and email. Excellence in customer service is one of the essential tools to sustain business growth and attract new business. The Bank not only believes that providing prompt and efficient service is essential, but also recognises their customers' rights to voice concerns, welcoming their feedback and viewing it as a valuable constructive tool to improve the Bank's services and products. 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.

The Bank's complaints process is free and accessible to all customers, investors, depositors, and shareholders. Complaints can be made anonymously, and any action taken by the Bank to rectify the underlying issue of the complaint and improve the complainant's condition would be limited to the disclosed information. A customer complaint form is available online, alongside the usual offline channels, including our offices and branches. The online form can be found on our website: (https://nbbonline.com/sites/default/files/inline-files/Complaints-english.pdf).

The complaints policy enables us to improve the complaint resolution process, and to that end, the Bank aims 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 CBB within 30 calendar days of receiving the Bank's letter. Customers can raise their cases on the CBB's website www.cbb.gov.bh. All complaints received are acknowledged in writing and referenced with a 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.

Customer complaints	2018	2019	2020
Number of complaints received	74	53	75
Number of complaints closed	74	53	75
Response rate to customer queries (within 5 days) (%)	100	100	100

This year, about 50% of customer complaints received were due to lack of awareness on the customers' end regarding process mechanism required to conduct an underlying service, such as loan interest calculation, charges, and deferments. The remaining customer complaints were due to Bank falling short in desired performance relating to people, systems, or processes. For complaints in this category, corrective actions were implemented, and investigation or incident reports were raised and shared with the respective business unit. All complainants received their final response before the completion period of 30 calendar days, in line with CBB guidelines.

Strategy

We aspire to retain our position as the national champion with leadership position locally, and continue to expand our footprint regionally through sustainable growth and innovation.

In November 2020, NBB launched its 3-year strategy (2021 – 2023) which was presented and approved by the Board of Directors. It was an evolution of the existing 2018 - 2020 strategy, capitalising on the strength of what has been built with an eye on delivering sustainable growth for its shareholders, customers, partners and community. This strategy will allow the fulfilment of the vision through continued focus on customer centricity, the roll out of the data strategy and creating a robust and integrated banking group which operates efficiently to drive operational excellence.

NBB's local leading position continues to be a result of solid organic growth across the Bank's offerings. Moreover, we continue to explore supplemental partnership opportunities that enables inorganic growth for the Group and expand the Bank's reach locally and regionally. The new NBB Group is one that capitalises on identifying and synergizing ways that create value for its shareholders as well as the wider stakeholder group with the customer at its heart.

To expand its regional presence, NBB will position itself as the partner of choice for players in the region and expand in retail through a digital proposition. Moreover, the Bank will leverage central teams to drive international business with regional trade partners. Any expansion in new geographies for underserved markets will follow a cost efficient, replicable model capitalising on the Bank's core competencies and experience.

The Strategy focus areas are:

1. Digital first data driven

- Drive innovation and lead digital propositions with new technology / solutions and streamlined processes
- Drive customer centricity through data-driven strategy and business model

2. Partner of choice

- Open, innovation-first op-model-people. Technology, ways of working to become an ecosystem platform
- Partner of choice for Bahrain National Champions across sectors to support their growth in Bahrain and beyond
- Employer of choice for talent of the future. Women empowerment and ESG responsibility

3. Robust financials

- Aspire for cost leadership through an efficient and lean operating model
- Drive topline growth through an expanding yet scrutinised appetite, based on a robust risk management

› Nurturing our Workforce

3 GOOD HEALTH AND WELL-BEING | 4 QUALITY EDUCATION | 5 GENDER EQUALITY | 10 REDUCED INEQUALITIES | Supporting an Enabling Environment for Sustainable Development | Upholding the values of the state & society | 2030 أهداف التنمية المستدامة البحرين BAHRAIN SDGs

Our people are fundamental to delivering our vision and realising the Bank's transformation. Our commitment to attract, continuously develop our people, and create leaders from within, is a strategic priority, and as the first bank in Bahrain to obtain the Association of Chartered Certified Accountants "Approved Employer" status, we have made excellent progress in becoming an employer of choice for Bahraini talent.

The employer of choice

We prioritise the welfare of our employees to sustain a happy, satisfied, efficient and productive workforce in line with our promise as an 'Employer of Choice'.

Our aim is to make a meaningful contribution to Bahrain's future growth - in support of Bahrain's Economic Vision 2030. Developing the skills of local people is an integral part of that and to that end, we support a number of development programmes that look to the future. For example, we are committed to INJAZ Bahrain, a non-profit organisation established as part of Junior Achievement Worldwide. The organisation works towards empowering young people to own their economic success and to be prepared for future business challenges. Through a bank-wide mentoring programme, NBB's employees have volunteered to bring many students closer to the world of work and open their minds to their own potential, a further tenet of our Team Bahrain spirit.

Enriching the lives of generations

NBB remains committed to the Kingdom's broader national vision, to evolving the industry and enriching the lives of generations

We continue to ensure the availability of the right people with relevant competencies to be in place to support the Bank in achieving its future objectives and customer centric driven growth. NBB's executive management and in collaboration with the rest of the workforce play a key role in cementing the Bank's market leadership and ensure operational and financial performance.

Workforce composition	2017	2018	2019	2020
Full-time employees	670	702	763	761
Senior management employees	23	29	31	31
Middle management employees	137	146	169	189
Non-management employees	510	527	563	541

Workforce by age and gender (excluding trainees, students and outsourced staff)	2017	2018	2019	2020
Employees aged 18-30	315	300	311	309
Employees aged 31-50	268	319	375	385
Employees aged 51+	87	83	77	67
Male employees	437	465	491	486
Female employees	233	237	272	275
Female employees in middle management	22	24	27	36
Female employees in senior management	2	1	1	1
New hires and turnover	**2017**	**2018**	**2019**	**2020**
Total new employee hires:	139	77	107	43
Male	76	59	59	29
Female	63	18	48	14
Employee turnover (voluntary and involuntary)	54	45	48	45
Male	38	31	34	34
Female	16	14	12	11
Employee turnover (voluntary and involuntary) (%)	8.6	6.6	6.3	5.9

During the year Human Resources & Talent Development continued to work diligently to retain the Bank's existing talents, develop their knowledge and skills, and attract new capabilities, to maintain a progressive culture built on a diverse workforce base. Every member of our team is believed to be a valuable contributor. We continue to support our employees in exploring their leadership potential starting with self-leadership and ending with organisational influencers whose actions serve to position NBB in today's market.

Female empowerment

Our sustainability roadmap, adopted in 2020, recognises the need to reinforce Bahraini and female empowerment, and attracting and retaining female talent is one of our most important objectives. In 2020, women represented 36% (275) of our total workforce and holds 19% (36) of middle management positions.

One female employee held a senior management position within the Bank, as one female member sits on the Board of Directors.

We provide generous benefits and packages to our female employees, and through our recently renewed HR policies, we have introduced various clauses pertaining to female employee flexibility regarding attendance and maternity leave.

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

Note: Retention rate for 2020 is as of January 2021.

We also support the Directors' Development Programme for Women, an initiative with various partners designed to provide aspiring female professionals with the skills and competencies needed to succeed in executive positions across the Kingdom in any industry. To support their pursuit of executive roles, the programme empowers participants to unlock their full potential by providing a clear understanding of the principles of good corporate governance, and the duties and responsibilities that come with holding a leadership role.

Nurturing our Workforce (continued)

Corporate culture and ethics

At NBB, we are dedicated to building a learning environment that fosters our people's capabilities, helping them thrive and evolve, for the benefit of our wider industry. Our Human Resources and Talent Development department is responsible for implementing a range of tools and programmes designed to motivate employees, enhance their competencies and monitor their performance. We have been recognised by Forbes in a case study commending the Bank's efforts towards its human capital, and showcasing them as best practice.

A magnet for talent

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

Our 'Appreciation Programme' recognises and appreciates employees for their performance, loyalty and commitment to our growth and transformation.

The Bank also provides benefits such as bonuses, flexible hours, and insurance benefits, among the different initiatives offered to retain employees.

We have a range of initiatives and programmes to support learning and development. These include:

- The RISE programme, where the Bank offers opportunities outside the scope of the regular job conduct where employees can participate and add value to the Bank, such as the ESG integration project, the SME Lending Programme, and the Retail Customer Journey Project
- The Inspire programme where employees are assigned to mentors of their choice within the Bank
- High-calibre training programmes for leaders, alongside a range of assessments and screening processes throughout the year
- Various opportunities outside the scope of their individual roles, such as participation in the Bank's social committee or in the diversity and inclusion committee, where employees can contribute and add value
- A range of projects assigned to employees to allow them to contribute beyond their job descriptions
- Opportunities within the Bank for employees to apply for internal job vacancies

In addition to our training programmes, we participate in career days to cement our position as an employer of choice for new graduates and job seekers

NBB is keen to ensure that all its employees receive continuous performance and career-related feedback. The percentage of employees who received a performance and/or career development review has been maintained at 100% for the years 2018, 2019, and 2020, in line with the Bank's target.

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.

Employee engagement	2018	2019	2020
Employee engagement (%)	63	85	82
Employee satisfaction score (%)	-	80	84

NBB introduced a revamped internal training model, recently enhanced to continuously provide employees with the necessary skills required to address their developmental needs.

Various online engagement sessions were conducted in 2020, including webinars and internal communication circulars that involved a wide range of knowledge exchange forums and over 90 awareness sessions, including, but not limited to: Employee Engagement in Times of Crisis, Empowering Self and Team, Building Self Confidence, Managing and Adapting to Change, Interpersonal and Communication Skills, Mental Health, Taking Control of Your Career, Personal Self-Management Techniques, Developmental Dialogues, Transformation Mindset and more.

Our compensation policy/framework, in compliance with the sound remuneration practices regulations of the CBB, is built to reward performance while reaching competitive levels essential to attract and retain our talents. The remuneration consists of monthly salaries and allowances. The Bank also has a discretionary bonus scheme based on net income for year, taking employee performance throughout the year into account. Other benefits include flexible hours and insurance benefits.

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.

Diversity and inclusion

We recognise the importance of teamwork and a united spirit, acknowledging that emotional intelligence plays an important role in achieving harmony within the Bank's culture and delivering sustainable organisational performance. NBB aspires to create an inclusive culture and ensures that our people are valued and provided with equal opportunities to thrive. We strive to be strong influencers beyond our own human capital needs within the Kingdom.

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 fairly regardless of their gender, age, religion, disabilities, ethnicity, experience, or background.

Welcoming differences

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.

We continue to collaborate with the Bahrain Down Syndrome Society to support diversity and inclusion in the workplace and community, and we are proudly an official participant and sponsor of the employment onboarding programme, which serves to enrich our workforce with trained and professional employees with Down Syndrome.

To prevent and address any incidents of workplace discrimination or harassment, we run regular awareness sessions on our code of conduct and disciplinary matrix for all employees. We also approved and implemented a dedicated Grievance Policy in 2019 which is subject to continuous improvement. There were no reported incidents of discrimination or harassment, nor any incidents of child or compulsory labour, or poor labour practice at NBB in 2020.

Fostering national talents

In 2020, we continued to implement the RISE programme, which was initiated in 2019 to identify key Bahraini talent within the Bank and invest in their skills through leadership courses and workshops. The programme, developed in partnership with international training consultants, seeks to develop participants' ability to become potential leaders through continuous learning and assessment. RISE helps young employees to enhance their capabilities and cultivates the next generation of industry experts. It offers participants the opportunity to grow and develop on a fast track through training, coaching and the chance to work closely with business units aimed at supporting its strategy and direction.

As part of the Bank's efforts to recruit and develop local talent, 42 Bahraini nationals were hired for permanent employment, positioning NBB among organisations with the highest Bahrainisation rates in the industry. Additionally, 62 Bahraini graduates were trained through internship programmes, of whom 20% were permanently employed within the organisation. Our internship programme offers a broad view of the banking industry while ensuring interns have an engaging and rewarding experience.

Building local capability

As one of the largest national employers we remain focussed on employing and nurturing Bahraini talent, instilling excellent values into the next generation of banking professionals set to pave the way for new industry standards.

Bahraini Nationals	2017	2018	2019	2020
Bank-wide Bahraini Nationals (%)	93	95	94	95

Nurturing our Workforce (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 well-being to ensure that employees can excel at their jobs, and constantly strive to support our people physically, mentally, and financially.

NBB has a low-risk tolerance for Health and Safety incidents, with a new policy approved at the very start of 2021. We remain committed to the continuous improvement of the Health and Safety performance within the bank, without compromising our staff, customers, visitors, or contractors across all our properties, with a Health and Safety plan in line with local laws and regulations, and WHO standards.

The Bank is in the process of formalising a safety management system designed to cover all its premises, as per the Kingdom's legal requirements, as well as forming part of the Bank's risk management guidelines. This system will cover important areas such as legal compliance, inspection, induction and procedures, staff health and safety training, incidents, and unsafe condition reporting, and investigation procedures. The scope also covers a range of procedures including contractor management, first aid, safety communication, emergencies, workstation safety, and manual and chemicals handling.

Information on Health, Safety and Environment (HSE) incidents, if they occur, is compiled monthly and reported to the Bank's senior management. Depending on the nature of the incident, incidents are also reported to the Operational Risk or HR department. In 2020, one lost-time injury was reported. We are pleased to report that no fatalities occurred.

Health and safety	2020
Employee fatalities	0
Contractor fatalities	0
Employee lost-time injuries	1
Contractor lost-time injuries	0

Pandemic response

In response to the challenging circumstances of the COVID-19 pandemic, all staff, tenants, visitors, and contractors have to undergo a temperature screening process and no entry is allowed into premises without a face mask. Contractors were also required to complete a COVID-19-related questionnaire prior to the start of any work, with access to premises granted only through an approved work permit.

We have introduced precautionary measures and arranged for weekly disinfection treatments in all premises and increased levels of security for better control. This has involved revising our standard operating procedures and updating our processes to enhance our cleaning procedure and raise staff awareness on the importance of health, safety and well-being for all staff, customers, and contractors.

A high percentage of employees have been working from home, practicing physical distancing to mitigate potential risks.

We have also provided required Personal Protective Equipment (PPE) to all staff and ensured all employees and 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 many awareness sessions for contractors to ensure they are aware of all 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 well-being,

Health and safety targets for 2021

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

It is our intention to develop an annual health and safety plan to identify, monitor and mitigate risks while implementing health and safety arrangements. The Bank is working to strengthen its health and safety framework, to have more control on monitoring bank premises, and imparting regular and continuous training to all staff. The Property team will establish an action plan to attend to and fulfil requirements highlighted within the health and safety audit.

Our targets for 2021 are to establish a strong 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.

Training and education

Having highly engaged and motivated employees is vital to our success, and their continuous growth and development is integral to our sustainability framework. 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 and to grow with the dynamics of our industry. Our Human resources and talent development team ensures that our employees benefit from continuous development through training sessions and workshops.

We have developed a comprehensive suite of training and development programmes to build employee capacity and empower our personnel to excel in their various functions. We are also focused on keeping abreast of evolving industry best-practices. In total, our employees were provided with over 32,000 training hours during 2020, an increase of 29.5% in comparison to 2019.

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 for it to be driven from within.

Training	2017	2018	2019	2020
Total training delivered (hours)	6,354	25,186	25,284	32,737
Average training per employee (hours)	10	36	33	43
Number of employees who completed sustainability awareness e-learning programme	-	-	-	294

As part of our commitment towards employee development and growth, we introduced a revamped internal training model in 2020. By embracing a more employee empowered approach, the model transitioned into providing employees with opportunities to take part in training sessions across a range of different disciplines, equipping them with the necessary skillset required to continuously address their developmental needs despite the current challenging environment.

A good example of our support for young and developing employees is our annual mentorship training programme 'INSPIRE'. The programme leverages the expertise and skills of existing employees to create a pool of in-house 'mentors' committed to guiding and inspiring ambitious individuals from within the Bank through knowledge sharing and collaboration.

Our training seeks to develop team members' competencies and skill sets on various fronts. This has included enabling team members to conduct presentations to members of the Bank's senior management and creating working groups with other internal stakeholders to achieve specific tasks within defined timelines.

Nurturing our Workforce (continued)

Training during the pandemic

NBB's approach to coping with the pandemic allowed for continued growth among its employees' skills and knowledge base. The Bank's main approach to achieving the highest level of engagement was the use of online webinars, concluding them with a feedback survey used to consistently improve content delivery to better serve each session's purpose.

The Bank's office staff received comprehensive training on the importance of wearing PPE, highlighting the need to continuously wash their hands properly and regularly, with training for branch staff members provided at their respective branch locations. NBB was keen to continue its efforts to provide employees with relevant training programmes through virtual channels, resulting in a participation rate of over 95% among bank employees. This model offered topics to help employees cope with and better adjust to the current situation, ensuring that they were kept up to date with topics of relevance, best practices, management and leadership, interpersonal skills and communication, motivational and inspirational subjects, health and well-being, and more. Topics covered in the webinars conducted during the pandemic included: Secure Working from Home, Managing and Leading a Remote Workforce, Employee Engagement in Times of Crisis, Fintech Reshaping Customer Experience, Banking and Future Technology, Digital to the Core, The Power of Diversity and Inclusion, Managing and Adapting to Change, Mental Health and Well-being, Cyber Security, Risks of AI, Managing Risks, Fundamentals of Islamic Finance, Anti Money Laundering Training, ESG and more.

The virtual training sessions were accessible to all employees through a number of different devices, with various topics covered in support of the newly imposed working environment. The aim of each session was, ultimately, to provide the Bank's employees with opportunities to upscale their skills and knowledge.

Health and safety training

The Bank conducts an annual fire drill for all premises, while regular training is provided annually to all staff to increase their safety and security awareness. Health and Safety training is also provided to the Security team, and in-house contractor personnel covering areas related to health and safety risks and unsafe work practices.

Security training

All NBB security guards have completed a six-month training programme designed and delivered by the Bahrain Ministry of Interior, and required by local authorities. All security guards must obtain certification to work as a guard for any company in Bahrain. As per Bahraini Law, security guards are unauthorised to use force while dealing with the public. The security team and contractor personnel have also received training on safety risks and unsafe work practices.

ESG training

Numerous environmental, social and governance awareness sessions have been conducted throughout the year as well as coverage of diversity and inclusion. Topics covered include the Directors Development Programme for Women; ESG Awareness for all staff; ESG for the NBB and executive management team; ESG impact on banking strategies and ratings; Understanding ESG and where to start; the Power of Diversity and Inclusion; Women in Leadership; and more.

294 employees completed the sustainability awareness e-learning programme.

For 2021, the aim is to further develop ESG training programmes and build internal capabilities in high growth and impact sectors and in ESG assessment within financing and investing

Compliance and cyber security training

NBB Compliance officers periodically undertake role-based training on specialised AML/CFT and sanctions topics to hone their skills and efficiencies. We continue to provide essential training requirements to help our employees identify money laundering attempts and corruption issues through our whistleblowing training sessions. In 2020, we conducted three online training sessions for the entire Bank population in accordance with CBB requirements to provide ongoing training against money laundering. The compliance team also conducted other awareness sessions such as customer due diligence, awareness sessions during COVID-19, as well as AML sessions.

In 2020, we initiated the Compliance Awareness programme (Monthly Compliance news and other Compliance related training). We measure our success by achieving specific KPI's related to compliance training and raising awareness on them among all relevant staff. All Bank employees are required to complete sessions held online about Information Security, sessions about privacy.

In addition to the mandatory CBB training, the following webinars were conducted as further initiatives:

Training Topics in 2020	Month/Year
Introduction to Fraud Risk	May 2020
KYC & Customer Due Diligence Training	June & July 2020
AML and CFT	July to November 2020
Managing Risks	October 2020
Regulatory Compliance System Training	October 2020
Approved person	November 2020
FATCA & Common Reporting Standards (Front Office & Business Units)	November 2020
Conflict of Interest	November 2020
Code of Conduct	November 2020
Risks & Banking	November 2020
Approved Persons Requirement	November 2020
Consumer Protection	December 2020
Security Awareness at the Pandemic Time	December 2020

Community Investment

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Since the Bank's inception, the spirit of giving into the various communities of which we are privileged to be part of was always a priority and a part of our core purpose. Our Donations and Contributions Policy stipulates that 5% of our net annual profit is earmarked to community activities. To date, we have allocated more than BHD 50 million to local communities.

Supporting our community

Involvement in the welfare of the families in the communities where we serve is of the utmost importance to us. It is both our duty and our privilege to support 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 the business with the needs of the community and the country's social, economic and environmental efforts.

The COVID-19 pandemic has made contributions to those in need all the more important. In 2020, we've made many crisis-relevant donations. For example, we provided over one hundred laptops to the University of Bahrain, along with various other electronic devices including TVs, printers, screens, camera accessories, and MacBook Pros for teaching and departmental use. We also donated a number of laptops and iPads to the Supreme Council for Women. Moreover, we offered meals to workers during the pandemic. Prior to the COVID-19 outbreak, Bank representatives had already been meeting face-to-face with entities that receive the Bank's donations to exchange knowledge and obtain feedback on how to enhance the effectiveness of NBB's donations. Meetings of this kind are planned to resume as soon as possible.

Our community investment approach is structured, well-defined, and built around 7 pillars:

- Education: includes contributions to educational institutions and providing scholarships
- Healthcare: Equipping hospitals and medical centres, and contributions to registered health organisation
- Social welfare: contributions made towards associations, social and philanthropic societies
- Development: organising and participating in professional occasions, specialised symposiums and events aimed towards development
- Diversity & Inclusion: In support of initiatives enhancing the acceptance and inclusion of differences among people
- National Sports: In support of national sports initiatives with a positive impact on society and the Kingdom
- Others: all other investments and contributions approved by our Donations and Contributions Committee

As the leading local Bank, NBB pioneers the implementation of initiatives that support the Kingdom and its needs. We are pleased to see that our efforts serve as a benchmark, continuously encouraging others to champion similar initiatives. Our own implementation of the Donations and Contributions Policy continues to evolve; with the introduction of the 'Diversity and Inclusion' pillar as part of the approach in 2020.

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

The Bank makes contact with the entities it donates to on an annual basis, and seeks regular documentation of their audited financial information and proof of their achievements throughout the period in question, as a mechanism to monitor the efficacy rate of its community development approach. The Bank also follows strict internal requirements to ensure compliance with local regulations, such as verifying that the necessary licenses and registrations to operate within the Kingdom are in place.

Community Investment (continued)

Quality and preservation of life is foremost in our health care outreach, encompassing donations to hospitals, medical centres and health providers, and arranging vital well-being awareness campaigns throughout the year. Among the notable healthcare initiatives that we've supported over the past two years, is financing the new Multiple Sclerosis (MS) hospital in Muharraq. We've committed to covering all construction expenses for the hospital at an estimated cost of BHD 1.7 million over the next two years.

This year, we have also provided financial support to two societies that help combat childhood cancer.

We have also committed to constructing, refurbishing and equipping the Khalifa City Health Centre in Jaaw. The project, expected to be completed by the second half of 2021, is valued at an approximate cost of BHD 6.0 million. 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 organisations 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.

Volunteering

The financial element of our community giving is supported by an active culture of employee volunteering. Many of our executives and staff voluntarily donate their time and effort to participate in community events, programmes and campaigns. Some of the initiatives include contributions to programmes that raise the quality of life for disadvantaged sectors, with the aim of creating a better and more cohesive community, while others exert their efforts into working with young people, to inspire and support the next generation. For example, many of our employees volunteer for the various programmes under the INJAZ initiative, designed to introduce school and university students to the world of banking, despite the restrictions imposed due to the pandemic.

Empowered to make a difference

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

We are keen to pursue opportunities that allow us to become active partners within the community, collaborating on important 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.

Several departments of the Bank have also participated in promoting philanthropy through government sponsored programmes like 'Feena Khair', a campaign organised by the Capital Governorate to support the underprivileged and those who have been adversely affected by the ramifications of the Coronavirus, as well as a number of other initiatives.

Financial literacy

We also seek to enhance financial literacy by taking active steps towards providing guidance to customers within specific groups, such as the youth segment, individuals with limited income, and immigrant labour, on the importance of financial planning and management.

We have taken action to train and develop the skills of students in banking and finance. In addition to being a platinum sponsor of the Injaz programme, we also support the Forsti initiative: (Think Smart) to build future IT leaders in the sector. We have been a platinum sponsor of the Crown Prince International Scholarship. We offer an annual summer internship programme for university students and enrol school students aged 15-17 in a one-day workshop in a bank to enable them to gain insight into basic banking functions including treasury, retail and IT roles. These initiatives support students in their decisions when choosing their field of study for further education.

We have supported the latest awareness campaign to be launched by the Director Development Programme for Women (DDPW), a first of its kind in the Kingdom, to focus on the importance of Environmental, Social and Governance reporting.

We aim to initiate communications campaigns for financial literacy focussed on immigrant communities, as an example of our dedication to all sectors of society.

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.

During 2020, we have managed to digitise our procurement process. Moreover, we have implemented the Know Your Supplier (KYS) practice, applying to all of our vendors, and stipulating the review of all pertinent information from their end, ensuring its verification to eliminate unauthorised vendors. We have also established vendor self-services, aligning with the Bank's 'Go Green' initiative to receive work orders and submit invoices digitally to help with environmental conservation.

As part of our supplier selection process, we measure service quality, vendor capability and cost, with the aim to source locally whenever possible. This aligns with Bahrain's Economic Vision 2030 and further boosts Bahrain's economy. We seek to integrate environmental and social considerations into the procurement process for our key procurement categories and aim to monitor our suppliers on environmental and social performance.

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

We believe in building 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.

Local Procurement	2019	2020
Total number of suppliers engaged	336	228
Total number of local suppliers engaged	309	187
Total number of SME suppliers engaged	131	57
Total number of women-owned suppliers engaged	43	16
Total procurement spending (BHD millions)	30	46
Procurement spending on local suppliers (BHD millions)	23	34
Percentage of spending on local suppliers (%)	77	74
Number of suppliers assessed against sourcing code of conduct	336	228

Note: 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.

In 2020, the Bank has conducted a regular review of its suppliers' base in order filter-out inactive relationships. This explains the drop in number of suppliers from 336 suppliers in 2019 to 228 suppliers in 2020. Nevertheless, in line with NBB's aim to support local, SME, and women-owned businesses, the Bank continue to explore venues to partner-up with these types of suppliers while maintaining a fair selection process.

Preserving Natural Resources

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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 taking affirmative action to boost our performance on these fronts.

Pursuing sustainability goals

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

Direct environmental footprint

Water and energy use

We have taken action to reduce energy use and increase energy efficiency, by implementing initiatives such as process redesign, conversion and retrofitting of equipment, changes in employee behaviour, and operational changes. In this framework we have:

- Replaced old chiller equipment with new energy efficient chillers to automate energy reduction. This has also improved air quality and cooling and delivered major savings in utility consumption
- Installed a building management system to control and monitor the building's heating, ventilation and air conditioning systems
- Refurbished old branches with new standard designs and retrofitted advanced energy efficient equipment, which has cut electricity consumption
- Refurbished open office space – introducing environmental and sustainable design with better amenities and common facilities
- Moved all our archives to a shared managed facility, enabling us to reduce our space and minimise the energy required to operate these areas
- Moved our Backup Data Centre to a shared managed facility, allowing us to reduce power requirements

To help improve our performance and our reporting, we are looking to install individual electricity meters on each floor. Its worth noting that our assessments reflect the fact that we do not occupy all existing floors of our properties, and in some cases, also host tenants within the space.

We do not currently use renewable energy but are exploring the idea of using solar energy in four locations.

Energy consumption	2018	2019	2020
Total diesel consumption (litres)	-	-	9,450
Energy consumption from fuel consumption (GJ)	-	-	359.1
Total electricity consumption (kWh)	17,342,000	15,484,480	13,244,080
Energy consumption from electricity (GJ)	62,431.2	55,744.1	47,678.7
Energy intensity (GJ/employee)	88.9	73.1	62.7
Energy intensity (Kwh/employee)	24,703.7	20,294.2	17,403.5

To reduce water consumption in our office premises, we have refurbished our facilities with various sanitary ware equipped with sensors to conserve water.

Water consumption	2018	2019	2020
Total water consumption (litres)	17,629,000	19,952,000	14,792,000
Water consumption intensity (litres/ employee)	25,112.5	26,183.7	19,438.0

Waste management and recycling

We undertook several paperless initiatives and converted existing paper-based systems into a digital workflow, which resulted in significant reductions in paper use. We plan to gather and report information on paper recycling in 2021.

We have also launched a 'Go Green' initiative, establishing a vendor self-service to receive work orders and submit invoices digitally to minimise the Bank's carbon footprint. We have been encouraging our clients to use digital platforms to minimise the printing of statements, reports and other documentation. And as such, NBB ATMs now prompt customers to select the option of not printing receipts and receiving SMS messages as an alternative.

This initiative implemented across our ATMs has been extended to account statements and credit card statement, resulting in effective paper waste reduction.

We have already introduced recycling facilities in several departments and are taking steps to raise awareness and encourage our employees to utilise them. NBB is currently in the process of raising a tender to acquire quotations from special service providers that collect segregated waste, including plastics, papers, and general waste. Each staff member has been provided with a personalised stainless-steel insulated bottle to reduce plastic bottle consumption.

In the year ahead, we plan to:

- Develop a stand-alone environmental policy, supported by achievable targets
- Improve on our measurement of environmental impacts, including our operational carbon footprint
- Enhance environmental impact mitigation initiatives

Corporate Governance and Ethical Behaviour

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

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.

The Board currently consists of five independent directors, representing 45% of the Board, and six non-executive directors. NBB has 1 independent non-executive female member on the Board. 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. 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.

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 265 hours in 2020. Specific governance and ESG related training hours totaled 92 hours in 2020 (an increase of 161% on the previous year). As per the CBB Rulebook, each board member is required to complete a minimum of 15 training hours. NBB's Board has covered the minimum training hours required.

Board Member	Governance & other ESG related			Information Security			Banking and Finance			Others			Total number of training hours		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Mr. Farouk Almoayyed	1	1	8	0	0	2	16	19	7	1	1	1	18	21	17
Dr. Esam Fakhro	1	10	8	1	0	2	5	0	10	12	5	2	19	15	22
Mr. Fawzi Kanoo	31	0	9	0	0	0	10	16	8	54	0	9	95	16	26
Mr. Khalid Abdulrahman	1	12	10	0	0	2	8	0	10	19	3	7	28	15	29
Mr. Hussain Al Ghanem	1	0	8	0	0	2	20	16	8	10	0	1	31	16	19
Sh. Rashed Al Khalifa	1	12	10	0	0	2	20	3	9	0	0	5	21	15	25
Ms. Hala Yateem	1	0	8	0	0	2	22	16	7	0	0	21	23	16	37
Mr. Yusuf Alireza	1	0	8	0	0	0	4	3	7	17	20	14	22	23	29
Mr. Tareq Sadeq	4	0	10	1	0	2	13	22	7	11	16	0	28	38	18
Mr. Rishi Kapoor	1	0	7	0	0	0	98	109	5	28	51	6	127	160	18
Mr. Amin Alarayedh	0	0	8	0	0	0	0	0	8	0	0	11	0	0	27
Total	**43**	**35**	**92**	**2**	**0**	**12**	**212**	**203**	**85**	**152**	**96**	**77**	**408**	**334**	**265**

Note: Mr. Amin Alarayedh joined NBB in Apr 2020, hence no past training hours are included.

The Board Secretary, Audit, Risk and HR teams were able to conduct all board and board sub-committee meetings in 2020 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. Our commitment is to continue to conduct these meetings remotely as well as to study the feasibility of conducting our AGM remotely by amending the Bank's Articles of Association to allow electronic voting in line with the new amendments to the Commercial Companies Law.

Corporate Governance and Ethical Behaviour (continued)

Corporate Governance Report

The Board of Directors is responsible for the overall governance of the National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain 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, counter-parties, 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 Articles 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. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain (CBB) and their appointment is subject to prior approval by the CBB. The present Board was elected at the Ordinary General Meeting in March 2018 and its term was originally scheduled to expire by the Ordinary General Meeting to be held in March 2021.

Due to issues posed by the COVID-19 pandemic, the present term of the Board has been extended to September 2021 with approval of the Central Bank of Bahrain.

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 Chairman and Chief Executive Officer, 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 five independent directors and six non-executive directors. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

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

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

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

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

In its role as the primary governing body, the Board 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.

Corporate Governance and Ethical Behaviour (continued)

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.

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 Nomination, Remuneration and Governance Committee, the Risk Committee and the Donations and Contributions Committee.

Executive Committee:

The Executive Committee comprises of not more than five Board members selected and appointed by the Board, with at least two of the members being independent directors. The Executive Committee meets at least six times a year. The role of the 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 four non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. The Audit Committee is responsible for recommending to the Board of Directors, the appointment and compensation of the external auditors, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of the internal audit function and reviewing compliance with relevant laws 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 Committee is created to manage the distribution of funds allocated towards corporate donations and contributions. The Committee is comprised of a maximum of four Directors and two members of management as decided by the Board. The allocated annual contribution towards the fund is equivalent to 5% of the Bank's net profit.

Risk Committee:

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

Nomination, Remuneration and Governance Committee:

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

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 2020 and attendance are detailed below:

	Board		Executive Committee		Audit Committee		Risk Committee		Nomination, Remuneration and Governance Committee		Donations & Contributions Committee		Total		
Name of the Director	Total No of meetings*	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	% of Meetings attended
Farouk Yousuf Khalil Almoayyed Chairman	6	6							4	4	2	2	12	12	100%
Dr. Esam Abdulla Fakhro Deputy Chairman	6	6	5	5					4	4	2	2	17	17	100%
Fawzi Ahmed Kanoo Deputy Chairman	6	6	5	5							2	2	13	13	100%
Khalid Yousuf Abdulrahman Director	6	6			5	5							11	11	100%
Hussain Sultan Al Ghanem Director	6	6	5	5									11	11	100%
Khalid Omar Al Rumaihi[1] Director	1	0					1	0					2	0	0%
Sh. Rashed Bin Salman Al Khalifa Director	6	6	5	5					4	4			15	15	100%
Hala Ali Hussain Yateem Director	6	6			5	4					2	2	13	12	92%
Rishi Kapoor Director	6	6					6	6					12	12	100%
Mohamed Tareq Mohamed Sadeq Mohamed Akbar Director	6	6			5	5	3	3					14	14	100%
Yusuf Abdulla Yusuf Akbar Alireza Director	6	6	5	5					4	4			15	15	100%
Amin Ahmed Alarrayed[2] Director	5	5			3	3							8	8	100%

* One Board meeting was ad-hoc.
[1] Khalid Omar Al Rumaihi resigned from the Board on 10 March 2020.
[2] Amin Ahmed Alarrayed joined the Board on 2 April 2020.

Dates of meetings and attendance details:

Board meetings: Total number of meetings held: 6

	Meeting dates					
Members	12/2/2020	22/4/2020	13/5/2020 (Ad Hoc)	29/7/2020	27/10/2020	24/11/2020
Farouk Yousuf Khalil Almoayyed – Chairman	✓	✓*	✓*	✓*	✓*	✓*
Dr. Esam Abdulla Fakhro – Deputy Chairman	✓	✓*	✓*	✓*	✓*	✓*
Fawzi Ahmed Kanoo – Deputy Chairman	✓	✓*	✓*	✓*	✓*	✓*
Khalid Yousuf Abdulrahman – Director	✓	✓*	✓*	✓*	✓*	✓*
Hussain Sultan Al Ghanem – Director	✓	✓*	✓*	✓*	✓*	✓*
Khalid Omar Al Rumaihi – Director	X	(Resigned from the Board)				
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	–	✓*	✓*	✓*	✓*	✓*

* Attended through video conference

Board meetings and attendance (continued)

Executive Committee meetings: Total number of meetings held: 5

	Meeting dates				
Members	15/1/2020	23/3/2020	24/6/2020	1/10/2020	6/12/2020
Dr. Esam Abdulla Fakhro – Deputy Chairman and Chairman of Executive Committee	✓	✓*	✓	✓	✓
Fawzi Ahmed Kanoo – Deputy Chairman	✓	✓*	✓	✓	✓
Hussain Sultan Al Ghanem – Director	✓	✓*	✓	✓	✓
Sh. Rashed Bin Salman Al-Khalifa – Director	✓*	✓*	✓	✓	✓
Yusuf Abdulla Yusuf Akbar Alireza – Director	✓	✓*	✓*	✓*	✓*

* Attended through video conference

Audit Committee meetings: Total number of meetings held: 5

	Meeting dates				
Members	20/1/2020	4/2/2020	28/7/2020	22/10/2020	26/10/2020
Khalid Yousuf Abdulrahman – Director and Chairman of Audit Committee	✓	✓	✓	✓	✓*
Hala Ali Hussain Yateem – Director	✓	X	✓	✓	✓*
Mohammed Tareq Sadeq Akbar – Director	✓	✓	✓	✓	✓*
Amin Ahmed Alarrayed – Director			✓	✓	✓*

* Attended through video conference

Risk Committee meetings: Total number of meetings held: 6

	Meeting dates					
Members	19/1/2020	8/4/2020	5/5/2020 (Ad Hoc)	7/7/2020	23/7/2020 (Ad Hoc)	14/10/2020
Khalid Omar Al Rumaihi[1] – Director and Chairman of Risk Committee	X					
Rishi Kapoor[2] – Director and Chairman of Risk Committee	✓	✓*	✓*	✓	✓*	✓
Mohamed Tareq Mohamed Sadeq Mohamed Akbar[3], Director				✓	✓	✓
Sabah Al Moayyad, Non-Director – Advisor to the Board	✓	✓*	✓*	✓	✓	✓
Matthew Deakins, Non-Director – Advisor to the Board	✓	✓*	✓*	✓	✓	✓

* Attended through video conference
[1] Khalid Omar Al Rumaihi resigned from the Board on 10 March 2020.
[2] Rishi Kapoor was appointed as Chairman of the Risk Committee on 13 May 2020.
[3] Mohamed Tareq Mohamed Sadeq Mohamed Akbar was appointed as a member of the Risk Committee on 13 May 2020.

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

	Meeting dates			
Members	3/2/2020	16/2/2020	22/7/2020	24/11/2020
Farouk Yousuf Khalil Almoayyed – Chairman of the Board and Chairman of the NRG	✓	✓	✓*	✓*
Dr. Esam Abdulla Fakhro – Deputy Chairman	✓	✓	✓*	✓*
Sh. Rashed Bin Salman Al-Khalifa – Director	✓	✓	✓*	✓*
Yusuf Abdulla Akbar Alireza – Director	✓*	✓*	✓*	✓*

* Attended through video conference

Corporate Governance and Ethical Behaviour (continued)

Donations and Contributions Committee meetings: Total number of meetings held: 2

Members	Meeting dates 22/4/2020	28/10/2020
Farouk Yousuf Khalil Almoayyed – Chairman of the Board and Chairman of the DCC	✓*	✓*
Dr. Esam Abdulla Fakhro – Deputy Chairman	✓*	✓*
Fawzi Ahmed Kanoo – Deputy Chairman	✓*	✓*
Hala Ali Hussain Yateem – 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 presented in the Organisational Structure section of this report.

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

Committee Name	Members	Objective
1- Weekly Executive Committee Meeting (WEM)- Frequency: Weekly	**1- Jean Christophe Durand – Chief Executive Officer (Chairman)** 2- Abdulaziz Al Ahmed – Chief Executive, Strategic Accounts 3- Dana Buheji – Group Chief Human Resources & Sustainability 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 & Institutional Investment Banking 9- Russell Bennett – Group Chief Financial Officer 10- Isa Maseeh – Group Chief Risk Officer and acting Chief Compliance Officer 11- Subah Al Zayani – Chief Executive, Retail Banking	- The Weekly Executive Committee Meeting (WEM) meets on a weekly basis and was created by the Bank to provide a regular forum for the discussion of strategic matters among 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 Group Chief Executive Officer within his delegation
2- Management Credit Committee Frequency: Monthly	Permanent Members: **1- Jean Christophe Durand – Chief Executive Officer (Chairman)** 2- Isa Maseeh – Group Chief Risk Officer and acting Chief Compliance Officer 3- Yaser Al Sharifi – Group Chief Strategy Officer 4- Ali Ehsan – Chief Credit Officer Temporary Members: 1- Abdulaziz Al Ahmed – Chief Executive, Strategic Accounts 2- Hisham Al Kurdi – Group Chief Executive - Corporate & Institutional Investment Banking	- Overseeing the effective implementation of the credit risk framework of the Bank - Approving credit proposals and monitoring the credit portfolio in line with the defined risk appetite and policies of the Bank
3- Operational Risk Management Committee (ORMC) Frequency: Monthly	1- Jean Christophe Durand – Chief Executive Officer **2- Isa Maseeh – Group Chief Risk Officer & Acting Chief Compliance Officer (Chairman)** 3- Iain Blacklaw – Group Chief Operating Officer 4- Hisham Al Kurdi – Group Chief Executive - Corporate & Institutional Investment Banking 5- Dana Buheji – Group Chief Human Resources & Sustainability Officer 6- Subah Al Zayani – Chief Executive, Retail Banking 7- Jaffar Mohammed – Head of Operational Risk & Permanent Controls 8- Razi Amin - Head of Information Technology 9- Panos Moschonas – Group Chief Internal Auditor (Observer) 10- Nabeel Kazim – Head of Bank Operations* * Nabeel Kazim's last working day in the Bank was 31 December 2020.	- Review and assess different aspects of risk arising from the Bank's business processes (i.e. Operational Risks, Technology Risk, BCP, DR, Legal Risk, Compliance Risks and Compliance with internal controls) to ensure that material risks are captured, monitored and mitigated - Serve as a forum for senior management to discuss, evaluate and decide key Operational Risk issues concerning all division of the Bank

Management structure (continued)

Committee Name	Members	Objective
4- Group Asset Liability Committee (ALCO) 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 & 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 and acting Chief Compliance Officer 7- Yaser Alsharifi – Group Chief Strategy Officer 8- Jaafar Husain – Head of Liquidity and Market Risk 9- Nabeel Kazim – Head of Bank Operations* * Nabeel Kazim's last working day in the Bank was 31 December 2020.	- Serve as a forum for senior management discussion and evaluation of key issues concerning the Bank's balance sheet structure and performance, pricing of assets and liabilities, funding and capital planning, contingency planning, market risk, interest rate risk, and liquidity risk - Ensure that appropriate action consistent with market developments and the Bank's policies are taken to address the above key issues
5- Retail Steering Committee 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- Dana Buheji – Group Chief Human Resources & Sustainability Officer 5- Subah Al Zayani – Chief Executive, Retail Banking	- Ensure proper execution of the Retail strategy as well as Branch refurbishment, Cards Business strategy and overall Retail performance
6- Project Steering Committee (PSG) 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 and acting Chief Compliance 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 – Project Specialist 9- Panos Moschonas – Group Chief Internal Auditor (Observer)	- To ensure that the strategic Programs and Major Projects as approved by the Management are successfully implemented - To monitor issues raised through the PMO, Project Sponsors, and other Program Committees are resolved and that progress is made according to the approved plans and approved financial budgets
7- Group Compliance Management Committee Frequency: Monthly	1- Jean Christophe Durand – Chief Executive Officer **2- Isa Maseeh – Group Chief Risk Officer and Acting Chief Compliance Officer (Chairman)*** 3- Dana Buheji – Group Chief Human Resources & Sustainability Officer 4- Hisham Al Kurdi – Group Chief Executive - Corporate & Institutional Investment Banking 5- Subah Al Zayani – Chief Executive, Retail Banking 6- Zaina Al Zayani – Strategy Manager 7- Arif Janahi – Head of Commercial and SMEs 8- Nabeel Kazim - Head of Bank Operations** 9- Panos Moschonas – Group Chief Internal Auditor (Observer) 10- Mariam Turki – Compliance Advisory Specialist (Secretary) * Eduardo Rangel's (Chief Compliance Officer) last working day in the Bank was 6 August 2020 ** Nabeel Kazim's last working day in the Bank was 31 December 2020	- 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
8- Digital Advisory Committee (DAG) Frequency: Every 2 Weeks	**1- Yaser Alsharifi – Group Chief Strategy Officer (Chairman)** 2- Iain Blacklaw – Group Chief Operating Officer 3- Hisham Al Kurdi – Group Chief Executive - Corporate & Institutional Investment Banking 4- Subah Al Zayani – Chief Executive, Retail Banking 5- Razi Amin - Head of Information Technology 6- Zaina Al Zayani – Strategy Manager 7- Ali Ghuloom Head of Digitisation & Projects Management 8- Muneera Mahmood Projects Specialist	To define the digital direction of the bank, govern the digital initiatives and projects and support business transformation via: - Understand the digital priorities of the Bank - Review the solutions and evaluate these to the Bank - Align IT to the Bank's direction and priorities in a planned manner to ensure effective and efficient utilization of technology - Ensure that staffing, technology and investment are available to ensure reliable and timely services and projects - Oversee all digital related projects and initiatives
9- Information Security Committee (ISC) Frequency: Monthly	**1- Isa Maseeh – Group Chief Risk Officer and acting Chief Compliance Officer (Chairman)** 2- Iain Blacklaw – Group Chief Operating Officer 3- Razi Amin – Head of Information Technology 4- Ali Al Majed – Head of Information Security 5- Nabeel Mustafa – Head of Network Management and Strategy 6- Ali Alsaegh - Head of Information Technology Security 7- Panos Moschonas – Group Chief Internal Auditor (Observer) 8- Salman Radhi - Information Security Risk Analyst (Secretary)	- Set the direction in establishing an Information Security Management System (ISMS) - Review and recommend security policies to the Board of Directors for approval - Review the periodical information security reports - Ensure that processes are created to measure the effectiveness of the security controls specified in this policy - Approve the Bank's information security plan and monitor its implementation
10- Business Continuity Management Committee Frequency: Monthly	**1- Iain Blacklaw – Group Chief Operating Officer (Chairman)** 2- Isa Maseeh – Group Chief Risk Officer and acting Chief Compliance Officer 3- Razi Amin – Head of Information Technology 4- Haitham Seyadi – Head of Property, Procurement and Administration 5- Nabeel Mustafa – Head of Network Management and Strategy 6- Nabeel Kazim – Head of Bank Operations° 7- Jaffar Mohamed – Operational Risk & Permanent Controls 8- Rashid Abdul Rahman – IT infrastructure Manager (Secretary) °° Nabeel Kazim's last working day in the Bank was 31 December 2020.	- 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
11- Product & Service Approval Committee Frequency: As and when a new product and/or service is considered to be launched	**1- Jean Christophe Durand – Chief Executive Officer (Chairman)** 2- Isa Maseeh – Group Chief Risk Officer and acting Chief Compliance Officer 3- Hisham Al Kurdi – Group Chief Executive - Corporate & Institutional Investment Banking 4- Iain Blacklaw – Group Chief Operating Officer 5- Jaffar Mohamed – Head of Operational Risk & Permanent Controls	- To approve new products and services - To approved 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

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

Performance evaluation of Board of Directors and sub-committees

The Board has conducted a self-evaluation of the performance of the Board and its sub-committees for the year 2020. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination, Remuneration and Governance Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in the first quarter of 2021 which confirms that the Bank's Board and its sub-committees continue to operate with a high level of effectiveness. Furthermore, during 2020 the Board attended an awareness session aimed at sharing the best practices around board evaluation with the intention to revise and revamp the existing process for 2021.

Related party transactions and conflict of interest

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 2020 are disclosed in Note 30 of the consolidated financial statements.

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

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. They are entered into following the satisfaction of the Bank's tender processes and procedures to ensure that the Bank receives optimal services from its counterparties at the best pricing available. Decisions relating to the approval of related party transactions, whether with connected parties of Directors, Controllers or significant shareholders of the Bank, or employees are approved after appropriate disclosures have been made and the related parties and their connected persons refrain from participating in the decision making process. The Bank's shareholders are referred to Note 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 2020.

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.

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, among 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.

Whistle Blower policy

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

Communication strategy

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

Fines and penalties

The following penalties were paid by the Bank to the CBB during the year:

- One penalty was issued on 7 September 2020 relating to the Bank failing to correct a customer account in the Bahrain Credit Reference Bureau system. The penalty amount was BHD 50.

Corporate Governance and Ethical Behaviour (continued)

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 December 2020[1]	Sales during 2020	Purchases during 2020	31 December 2019
Farouk Yousuf Khalil Almoayyed - Chairman	Ordinary	27,414,742	-	-	24,916,022
Dr. Esam Abdulla Fakhro - Deputy Chairman	Ordinary	11,939,888	-	-	10,854,446
Fawzi Ahmed Kanoo - Deputy Chairman	Ordinary	108,063	-	-	96,535
Khalid Yousuf Abdulrahman - Director	Ordinary	27,275,075	-	-	24,795,523
Hussain Sultan Al Ghanem - Director	Ordinary	-	-	-	-
Sh. Rashed Bin Salman Al-Khalifa - Director	Ordinary	-	-	-	-
Khalid Omar Al Rumaihi - Director	Ordinary	(Resigned from the Board)			
Hala Ali Hussain Yateem - Director	Ordinary	5,284,923	-	-	4,668,713
Rishi Kapoor - Director	Ordinary	-	-	-	-
Mohamed Tareq Mohamed Sadeq Mohamed Akbar- Director	Ordinary	-	-	-	-
Yusuf Abdulla Yusuf Akbar Alireza - Director	Ordinary	-	-	-	-
Amin Ahmed Alarrayed - Director	Ordinary	-	-	-	-
Total shares		**72,022,691**	**-**	**-**	**65,331,239**
As a % of the total number of shares		**4.23%**			**4.23%**

1. Shares as at 31 December 2020 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

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 2020[1]	Sales during 2020	Purchases during 2020[2]	31 December 2019
Jean Christophe Durand - Chief Executive Officer	Ordinary	523,894	-	351,396	156,817
Abdulaziz Al Ahmed - Chief Executive Strategic Accounts	Ordinary	836,532	-	229,064	552,244
Bruce Wade - Group Chief Executive of Financial Restructuring	Ordinary	33,975	130,000	100,574	57,638
Dana Buheji - Group Chief Human Resources & Sustainability Officer	Ordinary	101,523	-	101,523	-
Iain Blacklaw - Group Chief Operating Officer	Ordinary	86,072	-	58,750	24,839
Yasser Alsharifi - Group Chief Strategy Officer	Ordinary	-	68,293	68,293	-
Hisham Alkurdi - Group Chief Executive - Corporate, Institutions and Investment Banking	Ordinary	37,406	-	37,406	-
Moschonas Panagiotis - Group Chief Internal Auditor	Ordinary	68,310	50,000	57,158	55,593
Russell Bennett - Group Chief Financial Officer	Ordinary	21,860	-	17,957	3,549
Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary	Ordinary	90,817	-	58,714	29,185
Isa Maseeh - Group Chief Risk Officer and acting Chief Compliance Officer	Ordinary	56,926	-	39,362	15,968
Subah Al Zayani - Chief Executive, Retail Banking	Ordinary	3,985	-	3,985	-
Hussain Al Hussaini - Chief Executive Treasury, Capital Markets and Wealth Management	Ordinary	(Retired from NBB)			236,602
Richard Hicks - Chief Marketing Officer	Ordinary	(Resigned from NBB)			47,587
Eduardo Rangel - Chief Compliance Officer	Ordinary	(Resigned from NBB)			-
Total shares		**1,861,300**	**248,293**	**1,124,182**	**1,180,022**

Notes

1. Shares as at 31 December 2020 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
2. Represents shares transferred during the year as part of the Employee Share Incentive Scheme

Approved Persons interests

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

	Type of shares	31 December 2020	31 December 2019
Total number of shares held	Ordinary	**73,989,539**	66,612,118
As a % of the total number of shares		**4.35%**	4.32%

Remuneration

Board of Directors remuneration policy

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

Employees remuneration policy

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices. In addition to fixed monthly salary and allowances, employees are provided with several other benefits like variable remuneration in the form of bonus, medical, life insurance cover, retirement benefits and employee savings scheme. While doing so, the Bank gives paramount importance to the interests of the shareholders and to this end, the Bank has implemented the Sound Remuneration Practices mandated by the Central Bank of Bahrain. While aligning the compensation of the employees with the risk outcomes and performance levels of the Bank, the revised policies for Variable Remuneration i.e. the Bonus and Share Incentive Scheme also endeavour to align senior management's interest with shareholders' interests. The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 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 and Governance 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 Note 30 of the consolidated financial statements.

KPMG Fakhro was the Group's external auditors for the financial year ended 31 December 2020. Details of the audit fee paid to the auditors during the year 2020 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

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

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

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

Guidance

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

Corporate Governance and Ethical Behaviour (continued)

Remuneration Report

Our philosophy

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

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

In its elements, our philosophy encompasses the following:

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

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

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

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

NRG role and focus

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

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits
- Ensure remuneration is adjusted for all types of risks
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment
- Ensure that for Approved Persons in risk management, human resources, strategy, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration
- Recommend Board Member remuneration based on their attendance and performance and in compliance with Article 188 of Bahrain's Commercial Companies Law
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements

The Board of Directors has established the Nomination, Remuneration and Governance Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRG Members during the year in the form of sitting fees amounted to BHD 8,000.

External consultants

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

Scope of application of the remuneration policy

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

Board remuneration

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

Variable remuneration for staff

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

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

The key performance metrics at the bank level include a combination of short-term and long-term measures and include profitability, solvency, liquidity and growth indicators.

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

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

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 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 on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

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

Risk assessment framework

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

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

Corporate Governance and Ethical Behaviour (continued)

Risk assessment framework (continued)

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to the distribution of the annual bonus. The Bank ensures that the total variable remuneration does not limit its ability to strengthen its capital base.

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

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

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

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

Malus and Clawback framework

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

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

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

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

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

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's share incentive scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

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

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

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

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

Details of remuneration paid

(A) Board of Directors

BHD thousands	2020	2019
Sitting fees	**33.5**	30
Remuneration	**460**	460

(B) Employees

2020											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
(BHD thousands)	**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.

Note: Other staff costs amounting to BHD 52 thousand incurred towards recruitment are not included in the above.

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

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

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

Corporate Governance and Ethical Behaviour (continued)

Deferred awards

	2020				
	Cash	Shares		Others	Total
	BHD thousands	Number	BHD thousands *	BHD thousands	BHD thousands
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

	2019				
	Cash	Shares		Others	Total
	BHD thousands	Number	BHD thousands*	BHD thousands	BHD thousands
Opening balance	503	4,597,455	2,685	-	3,188
Awarded during the year	126	2,550,252	1,581	-	1,707
Cash/Stock dividend awarded during the year	179	714,771	443	-	622
Interest on deposits	4	-	-	-	4
Paid out/released during the year	(358)	(3,027,305)	(2,056)	-	(2,414)
Closing Balance	454	4,4835,173	2,654	-	3,108

* Based on the original award price for each award period

Compliance

Financial institutions around the world adhere to many regulations. Complying with such regulations is vital to conduct our operations responsibly, maintain our reputation, and protect our customers. At NBB, we are committed to ensuring compliance with the applicable regulations and standards of the CBB as well as other legislative authorities in the Kingdom and countries where we operate.

We continue to strengthen our compliance culture and we succeeded in implementing our Regulatory compliance System (Bench Matrix). A compliance awareness programme has also been initiated, providing employees with monthly compliance news and compliance training. The Bank has also completed its compliance testing plan as well as additional testing for 2020. We have also implemented a Regulatory Mapping Programme, which is an essential tool for management, businesses and support functions to monitor and comply with regulatory requirements, thus reducing non-compliance risks with CBB regulations.

In addition, we committed to exploit synergies that arise from consolidating our operations and procedures with Bahrain Islamic Bank.

A Group Compliance Management Committee was established in 2019 to ensure the strengthening of the compliance function by implementing various measures and approaches. Measures include compliance reverse screening, compliance annual testing and a new customer risk-assessment. In addition, training on financial crime and sanctions was provided to the compliance teams in Bahrain, KSA and UAE.

In line with CBB requirements, we have implemented a whistleblowing policy to protect our employees from any form of violation. If employees observe any unethical or improper practice or behaviour, a wrongful conduct of a financial or legal nature, or any activity that violates the code of conduct, they have the opportunity to report these to the chairman of the audit committee without fear of repercussion.

The Chief Internal Auditor oversees inquiries into allegations raised by the whistleblower and informs other colleagues on a ‘need to know’ basis when investigating the allegation. The Chief Internal Auditor will keep the Audit Committee advised of the outcome of the investigation and will communicate the same to the Chief Executive Officer and Group Chief Human Resources & Sustainability Officer (CHRO) to take suitable remedial action, including any disciplinary action, as necessary.

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 specialised AML/CFT and sanctions topics to hone their skills and enable them to discharge their responsibilities more efficiently. The NBB 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.

Based on regulatory requirements, expectations of our correspondent banks and industry’s best practice, NBB periodically reviews its policies and procedures to ensure appropriate changes are reflected and implemented as and when needed. NBB established the Group Compliance Management Committee (GCMC) in 2019 to provide a forum to discuss and implement the compliance agenda. Additionally, NBB conducts ongoing testing of screening systems to ensure applicable transaction monitoring scenarios, thresholds and user profiles remain effective in the generation of alerts. In turn, the Chief Compliance Officer and the team of Compliance Officers present relevant information to the GCMC periodically and to the Board Risk Committee (BRC) quarterly. Any changes made to the Bank’s policies and procedures, are discussed and agreed at GCMC level, submitted for discussion and recommendation to the BRC and approved by NBB’s Board of Directors.

There have been no incidents of corruption involving the Bank in 2020.

One penalty was issued on 7 September 2020 relating to the Bank failing to correct a customer account in the Bahrain Credit Reference Bureau system. The penalty amount was BHD 50.

In 2020, in compliance with CBB requirements, we have conducted three online training sessions on AML. Additional awareness sessions were conducted on customer due diligence and a hundred percent of NBB’s customer facing employees have undertaken an anti-money laundering online training this year.

In addition, webinars among others on Fraud Risk, KYC, Terrorist Financing, CFT, FATCA and CRS, regulatory compliance system were conducted.

For the year ahead, we are expecting a Bank wide PDPL assessment (Personal Data Protection Law) and implementation of a Compliance Risk Based Approach Testing, improving identification of the highest compliance risks within the Bank and upgrading the existing Bench Matrix Compliance solution.

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 Internal audit department is subject to an independent external quality assurance review system. The Bank’s internal audit department follows a risk-based approach, and the annual audit plan includes the assessment of the effectiveness and adequacy of controls, validation of risk models and operational compliance. More than 60% of audit department staff are professionally qualified by well-known international associations (such as CIA, ISACA, and ACCA).

Corporate Governance and Ethical Behaviour (continued)

In 2020, data mining techniques and electronic monitoring of transactions were applied ensuring more efficiency. Despite COVID-19 challenges, the annual audit plan was successfully completed while complying with health requirements.

The department's goals include:

- Increasing professionally qualified staff to 80% in 2021 and to 100% in the coming three years
- Working closely with auditees and achieving 100% closure of all audit recommendations within agreed timelines
- Ensuring the availability of successors for all important audit areas

Risk Management

Early in 2020 and in response to the pandemic, NBB activated the Crisis Management team (CMT). 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. NBB has adopted paperless circulation of proposals, supporting its newly implemented workflow-based credit process, and contributing to minimizing resource use. The delivery channel was effectively used for credit related decision making from initiation to approval, including Management Credit Committee approvals.

Adoption of workflow for paperless credit process	
Background	Before COVID-19, credit processes were manual, emanating from business units. To support working from home and to counter the risks of closer physical contact, a paperless/electronic credit process was established. This ensured seamless adoption of the platform from the preparation of credit applications (among other credit related requests), credit due diligence along the cycle, and final approval by authorities within the Bank.
Approach	The Credit Risk department initiated a credit workflow procedure document to ensure seamless adoption. It was considered as a timely opportunity to introduce effectively for the loan side of the business. This was adopted following initial testing on a pilot basis before launching it formally. The approach serves the dual purpose of paperless credit due diligence and a seamless and time saving method of reaching credit decisions and approvals.
Outcomes	• A paperless, environmentally friendly approach • Electronic requests resulting in quicker dissemination of requests for approvals • Timely decision making due to efficiency of the process

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.

Overall authority for risk management in the Bank is vested in the Board of Directors. A Board Risk 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 new corporate strategy.

With regulatory and market pressures driving the industry to heightened risk controls and wise use of capital, the team continues to undertake more scrutiny in detailed reviews of our portfolios. 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.

In 2020, the Bank approved its Global Credit Policy. This 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

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.

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 standardised method to calculate capital charge for market risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital 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.

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.

Operational risk is:

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

The objective of our operational risk management framework (ORMF) is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite. We have a dedicated Operational Risk Management Department (ORMD) within our Risk Group. It is responsible for leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defence.

It supports the Chief Risk Officer and the Operational Risk Management Committee (ORMC), which meets on a periodic basis to discuss key risk issues and review the implementation of the ORMF.

Corporate Governance and Ethical Behaviour (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's 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 minimizing the risk to an acceptable level.

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

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. Further, periodic security reports are reviewed by the Board of Directors. During 2020, we had zero data security breaches.

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 and rules in the FraudGuard System 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. The latest controls implemented were Data Loss Prevention (DLP), a Privileged Accounts Management (PAM), Database Access Management (DAM), and Mobile Device Management (MDM) solutions. NBB is currently working to enhance its existing Security Operations Centre (SOC) service and its Cyber Incident Management Plan.

During the last year, the Bank engaged external suppliers to check for cyber compromise, forensic investigation and cyber resiliency. The aim was to ensure that the Bank's electronic environment is safe from any hidden threat not detected by existing controls. Further, the Bank engaged a leading industry specialist to help align the Information Security function with international best practices.

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 Committee, based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

Regulatory compliance and financial crime risks

Promotion of a healthy compliance culture lies at the heart of NBB's strategy. During 2020, the Bank reinforced its efforts to further develop the compliance framework, which oversees adherence to Bahrain's laws and regulations, as well as those from other countries where NBB has operations. The Bank has also established the Group Compliance Management Committee (GCMC) during 2019 as the appropriate forum to discuss the compliance agenda, 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 Chief Compliance Officer reports relevant management information from GCMC sessions to the Board Risk Committee on a quarterly basis.

As part of NBB's annual compliance plan, the department is focused on four pillars being regulatory compliance, financial crime, assurance, and advisory. During 2020, NBB successfully rolled out an automated system for tracking, monitoring, and completing regulatory reporting obligations that was launched in 2019.

The system strengthened the framework across the Bank's various lines of business and support functions enabling them to comply with their periodic reporting obligations under the CBB Rulebook.

As part of the Bank's efforts to combat financial crime, anti-money laundering and countering the financing of terrorism, NBB continues to apply a risk-based approach to address 'Know Your Client' requirements, sanctions screening, anti-money laundering transaction monitoring, as well as other concerns from a broader financial crime perspective. In that regard, NBB periodically tests its systems to ensure 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.

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

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

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Independent Auditors' Report to the Shareholders

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

Report on the audit of the consolidated financial statements

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 2020, 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 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

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)

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of loans and advances representing 50% 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)

Description	How the matter was addressed in our audit
• 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 programs and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.	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, recording of data in source systems and transfer of data between source systems and the impairment models; • 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.

Business Combination

(refer to the note 13 of the consolidated financial statements in relation to business combination)

Description	How the matter was addressed in our audit
During the year, the Bank acquired additional stake in Bahrain Islamic bank BSC resulting in entity becoming a subsidiary of the Bank. This is considered as a key audit matter due to: • significant increase in assets and liabilities acquired as a result of the acquisition and the complexity associated with application of acquisition accounting principles; and • significant estimates and judgement is involved in determining fair value of identifiable assets and liabilities acquired and the resultant goodwill.	We evaluated and challenged the appropriateness of the methodology, assumptions and valuation techniques used to value assets and liabilities, the adequate identification of Cash Generating Units ("CGU") and the appropriateness of the useful lives assigned to the identified intangible assets, having regard to the expected use of these assets. Our audit procedures, amongst others, included: • validation of fair value adjustment recognized by the management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3; • challenging management's basis and assumptions used in determining CGUs. This included inspection of board minutes and internal reporting associated with the acquisition; • assessing management's assumptions used i.e. cash flow projections, growth rate and discount rate in relation to the accounting for the transaction in accordance with the requirements of IFRS 3; • testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used; and • evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the 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.

Independent Auditors' Report to the Shareholders (continued)

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the 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.

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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Rule Book issued by the Central Bank of Bahrain ("CBB"), 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 chairman's 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 Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.

KPMG

KPMG Fakhro

Partner registration number 213

17 February 2021

Consolidated Statement of Financial Position

As at 31 December

		2020		2019	
	Note	BHD millions	USD millions	BHD millions	USD millions
Assets					
Cash and balances at central banks	5	**125.5**	**332.9**	110.6	293.4
Treasury bills	6	**236.7**	**627.9**	425.3	1,128.1
Placements with banks and other financial institutions	7	**335.4**	**889.7**	228.8	606.9
Loans and advances	8	**2,173.1**	**5,764.2**	1,213.7	3,219.4
Investment securities	9	**1,231.4**	**3,266.3**	1,070.7	2,840.0
Investment in associates	10	**36.7**	**97.3**	53.6	142.2
Interest receivable and other assets	11	**112.5**	**298.4**	60.0	159.1
Property and equipment	12	**55.7**	**147.7**	31.8	84.4
Goodwill and other intangible assets	13	**54.4**	**144.3**	-	-
Total assets		**4,361.4**	**11,568.7**	3,194.5	8,473.5
Liabilities					
Due to banks and other financial institutions	14	**544.5**	**1,444.3**	396.6	1,052.0
Borrowings under repurchase agreements	15	**112.9**	**299.5**	108.4	287.5
Customer deposits	16	**3,084.3**	**8,181.2**	2,094.0	5,554.4
Interest payable and other liabilities	17	**93.4**	**247.7**	63.2	167.7
Total liabilities		**3,835.1**	**10,172.7**	2,662.2	7,061.6
Equity					
Share capital	21	**170.3**	**451.7**	154.3	409.3
Shares unallocated under share incentive scheme	21	**(1.3)**	**(3.4)**	(1.4)	(3.7)
Share premium	22	**10.5**	**27.9**	6.3	16.7
Statutory reserve	22	**85.1**	**225.7**	77.1	204.5
General reserve	22	**32.4**	**85.9**	32.4	85.9
Other reserves and retained earnings	22	**222.7**	**590.7**	263.6	699.2
Equity attributable to the shareholders of the Bank		**519.7**	**1,378.5**	532.3	1,411.9
Non-controlling interest		**6.6**	**17.5**	-	-
Total equity		**526.3**	**1,396.0**	532.3	1,411.9
Total liabilities and equity		**4,361.4**	**11,568.7**	3,194.5	8,473.5

The consolidated financial statements were approved by the board of directors on 17 February 2021 and signed on its behalf by:

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

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

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

		2020		2019	
	Note	BHD millions	USD millions	BHD millions	USD millions
Interest income	24	**164.4**	**436.1**	138.6	367.6
Interest expense	24	**(48.4)**	**(128.4)**	(45.3)	(120.1)
Net interest income		**116.0**	**307.7**	93.3	247.5
Net fee and commission income	25	**11.4**	**30.3**	13.7	36.3
Other income	26	**21.5**	**57.0**	14.7	39.0
Total operating income		**148.9**	**395.0**	121.7	322.8
Staff expenses	27	**39.5**	**104.8**	27.2	72.1
Other operating expenses	28	**31.7**	**84.1**	18.0	47.8
Total operating expenses		**71.2**	**188.9**	45.2	119.9
Profit before results of associates and impairment provisions		**77.7**	**206.1**	76.5	202.9
Share of profits (net) from associates	10	**1.0**	**2.7**	4.1	10.9
Net impairment provisions	18	**(28.0)**	**(74.3)**	(6.4)	(17.0)
Profit for the year		**50.7**	**134.5**	74.2	196.8
Loss attributable to non-controlling interests		**(2.6)**	**(6.9)**	-	-
Profit attributable to the shareholders of the Bank		**53.3**	**141.4**	74.2	196.8
Basic and diluted earnings per share attributable to the shareholders of the Bank	41	**32 fils**	**8 cents**	44 fils	12 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020		2019	
	BHD millions	USD millions	BHD millions	USD millions
Profit for the year	**50.7**	**134.5**	74.2	196.8
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	**(2.2)**	**(5.8)**	13.8	36.6
Net amount transferred to profit or loss	**(3.5)**	**(9.3)**	(5.6)	(14.8)
Items that will not be reclassified to profit or loss:				
Net change in fair value of equity FVOCI investments	**2.5**	**6.6**	8.6	22.8
Total other comprehensive (loss) / income for the year	**(3.2)**	**(8.5)**	16.8	44.6
Total comprehensive income for the year	**47.5**	**126.0**	91.0	241.4
Total comprehensive loss attributable to non-controlling interests	**(2.6)**	**(6.9)**	-	-
Total comprehensive income attributable to the shareholders of the Bank	**50.1**	**132.9**	91.0	241.4

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 2020

					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**

The appropriations for the year 2020 will be submitted to the shareholders at the annual general meeting. These appropriations include BHD 34.1 million for cash dividend at 20% (2019: 25%) 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 17.0 million from retained earnings and the transfer of BHD 8.5 million from retained earnings to the statutory reserve.

					Other reserves and retained earnings				Total	
For the year ended 31 December 2019	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	BHD millions	USD millions
Balance at 31 December 2018	140.3	(1.5)	5.0	70.1	32.4	10.0	17.5	202.0	475.8	1,262.1
2018 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(34.8)	(34.8)	(92.3)
Bonus shares issued at 10%	14.0	(0.2)	-	-	-	-	-	(13.8)	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.5	(3.5)	-	-
Transfer to statutory reserve	-	-	-	7.0	-	-	-	(7.0)	-	-
Balance after 2018 appropriations	154.3	(1.7)	5.0	77.1	32.4	10.0	21.0	142.9	441.0	1,169.8
Employee shares allocated	-	0.3	1.3	-	-	-	-	-	1.6	4.2
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	74.2	74.2	196.8
Other comprehensive income	-	-	-	-	-	16.8	-	-	16.8	44.5
Total comprehensive income for the year	-	-	-	-	-	16.8	-	74.2	91.0	241.3
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.3)	-	(1.3)	(3.4)
Balance at 31 December 2019 (notes 21-23)	154.3	(1.4)	6.3	77.1	32.4	26.8	19.7	217.1	532.3	1,411.9

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 Flows

For the year ended 31 December 2020

	Note	2020 BHD millions	2020 USD millions	2019 BHD millions	2019 USD millions
Cash flows from operating activities					
Profit for the year		50.7	134.5	74.2	196.8
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation		4.8	12.7	2.9	7.7
Amortisation of right-of-use leased property		1.5	4.0	1.7	4.5
Net impairment provisions	18	28.0	74.3	6.4	17.0
Share of profits (net) from associates		(1.0)	(2.7)	(4.1)	(10.9)
Profit for the year after adjustments		84.0	222.8	81.1	215.1
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		37.4	99.2	(0.1)	(0.3)
Treasury bills		154.0	408.5	17.6	46.7
Placements with banks and other financial institutions		(51.2)	(135.8)	(3.2)	(8.5)
Loans and advances		(290.3)	(770.0)	(31.4)	(83.3)
Investment securities		92.8	246.1	99.2	263.1
Interest receivable and other assets		(28.3)	(75.1)	(16.6)	(44.0)
Due to banks and other financial institutions		(70.2)	(186.2)	15.2	40.3
Borrowings under repurchase agreements		4.5	11.9	4.5	11.9
Customer deposits		127.3	337.7	(96.6)	(256.2)
Interest payable and other liabilities		(2.5)	(6.6)	7.9	21.0
Net cash from operating activities		57.5	152.5	77.6	205.8
Cash flows from investing activities					
Dividend received from associates		0.8	2.1	1.1	2.9
Cash flow arising on acquisition of subsidiary		99.7	264.5	-	-
Capital reduction of associates		-	-	1.0	2.7
Purchase of property and equipment, net		(13.9)	(36.9)	(15.6)	(41.4)
Net cash from / (used in) investing activities		86.6	229.7	(13.5)	(35.8)
Cash flows from financing activities					
Dividends paid		(40.7)	(108.0)	(35.1)	(93.1)
Purchase of subsidiary	13	(58.8)	(156.0)	-	-
Government grants received	4	4.6	12.2	-	-
Donations and charities paid		(8.8)	(23.3)	(1.3)	(3.4)
Payment of lease liabilities		(2.8)	(7.4)	(3.0)	(8.0)
Net cash used in financing activities		(106.5)	(282.5)	(39.4)	(104.5)
Net increase in cash and cash equivalents		37.6	99.7	24.7	65.5
Cash and cash equivalents at 1 January	5	335.6	890.2	310.9	824.7
Cash and cash equivalents at 31 December	5	373.2	989.9	335.6	890.2

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

Notes to the Financial Statements

For the year ended 31 December 2020

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 Abu Dhabi (United Arab Emirates) and Riyadh (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.

The retrospective applications did not result in any change to the financial information reported for the comparative period.

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 BHD0.377 to USD 1 (2019: BHD0.377 to USD 1). Further details on translation changes are presented in note 47.

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

A. Business combination and goodwill

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.

IFRS 3 – Business Combinations allows for remeasurements within one year from the date of acquisition, with any changes to be reflected retrospectively.

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. 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases, using the accounting policies of the Bank.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

ii) Amendmends to standards

A. Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform

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.

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 Group has started an initial assessment of the potential impact on its consolidated financial statements of adopting these amendments. Application will not impact amounts reported for 2020 or prior periods.

iii) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2021 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 insturments.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Use of estimates and management judgement (continued)

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.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

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.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

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.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

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 Financial Statements (continued)
For the year ended 31 December 2020

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. 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.

l. 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.

m. 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.

n. Proposed appropriations

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

o. 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.

p. 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.

q. 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.

r. Income tax liability

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

s. 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.

t. 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.

u. 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.

3. FINANCIAL RISK MANAGEMENT

The Group is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (continued)

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 Financial Statements (continued)
For the year ended 31 December 2020

4. COVID-19 IMPACT

The outbreak of the coronavirus disease (COVID-19) earlier 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, along with the Government of Bahrain, continued to 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 originally recorded by the Group amounted to BHD 28.4 million (USD 75.3 million). During the second half of 2020, the deferral was granted to additional customers, while others have opted out or early settled their loans. This has resulted in a net reduction of BHD 0.5 million (USD 1.3 million) in modification loss, with BHD 27.9 million (USD 74.0 million) reported as at 31 December 2020. The CBB subsequently announced second and third loan deferral programmes effective September 2020 for a period of four months, and January 2021 for a period of six months. The latter two programmes permitted banks to charge interest, and as such, did not result in any additional modification losses to the Group.

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.

The Group excluded the impact of the modification loss, net of COVID-19 related government grants, from the regulatory capital in line with concessionary measures issued by the CBB.

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.

The CBB has also provided ECL relaxations by extending the stage 2 migration from 30 to 74 days past due. The Group, however, had factored in an allowance under stages 1 and 2 of BHD 7.0 million (USD 18.6 million) for future credit losses relating to COVID-19.

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

5. CASH AND CASH EQUIVALENTS

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Cash and balances at central banks	125.5	332.9	110.6	293.4
Less: mandatory cash reserves	(73.7)	(195.5)	(75.6)	(200.5)
	51.8	137.4	35.0	92.9
Treasury bills (less than 3 months)	40.4	107.1	75.0	198.9
Placements with banks (less than 3 months)	281.0	745.4	225.6	598.4
	373.2	989.9	335.6	890.2

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, the Government of Saudi Arabia and the Central Bank of UAE.

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Government of Bahrain	226.6	601.1	410.2	1,088.1
Government of Saudi Arabia	10.1	26.8	10.0	26.5
Central Bank of UAE	-	-	5.1	13.5
	236.7	627.9	425.3	1,128.1

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

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.

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Placements with banks	307.7	816.2	212.8	564.5
Placements with other financial institutions	27.7	73.5	16.0	42.4
	335.4	889.7	228.8	606.9

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Term placements	241.0	639.3	194.3	515.4
Current and call accounts	42.3	112.2	19.0	50.4
Reverse repos	52.1	138.2	15.5	41.1
	335.4	889.7	228.8	606.9

8. LOANS AND ADVANCES

	2020		2019	
a) As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Loans and advances to non-banks	2,211.8	5,866.8	1,230.3	3,263.4
Loans and advances to banks	43.3	114.9	31.5	83.6
Less: provision for impairment	(82.0)	(217.5)	(48.1)	(127.6)
	2,173.1	5,764.2	1,213.7	3,219.4

b) As at 31 December 2020, 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 580.2 million (USD 1,539.0 million) [31 December 2019: BHD 461.9 million (USD 1,225.2 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:

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Up to 1 year	70.3	186.5	78.8	209.0
1 to 3 years	35.4	93.9	7.2	19.1
Over 3 years	10.3	27.3	9.8	26.0
Total	116.0	307.7	95.8	254.1
Fair market value of collateral	114.2	302.9	94.1	249.6
Stage 3 provisions	61.9	164.2	36.3	96.3

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 2020, loans past due below 90 days but not impaired amounted to BHD 47.8 million (USD 126.8 million) [31 December 2019: BHD 5.6 million (USD 14.9 million)].

d) The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be de-recognised and the renegotiated loan recognised as a new loan.

The 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 2020, credit facilities amounting to BHD 98.3 million (USD 260.7 million) were restructured [2019: BHD 20.2 million (USD 53.6 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 2020, loans and advances amounting to BHD 640.7 million (USD 1,699.5 million) [31 December 2019: BHD 281.7 million (USD 747.2 million)] were fully collateralised and loans and advances amounting to BHD 180.7 million (USD 479.3 million) [31 December 2019: BHD 63.5 million (USD 168.4 million)] were partly collateralised with a collateral value of BHD 101.8 million (USD 270.0 million) [31 December 2019: BHD 12.2 million (USD 32.4 million)]. Therefore, fully or partially collateralised loans represented 36.4% of gross loans.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

8. LOANS AND ADVANCES (continued)

f) Exposure to credit risk

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
1. Impaired (stage 3)				
Substandard	**88.9**	**235.8**	85.0	225.4
Doubtful	**13.9**	**36.9**	2.1	5.6
Loss	**13.2**	**35.0**	8.7	23.1
Gross amount	**116.0**	**307.7**	95.8	254.1
Stage 3 provisions	**(61.9)**	**(164.2)**	(36.3)	(96.3)
Impaired (stage 3) carrying amount	**54.1**	**143.5**	59.5	157.8
2. Past due below 90 days but not impaired				
Gross amount	**47.8**	**126.8**	5.6	14.9
Stage 1 or 2 provision	**(1.7)**	**(4.5)**	(1.9)	(5.0)
Past due but not impaired carrying amount	**46.1**	**122.3**	3.7	9.9
3. Neither past due nor impaired by internal rating				
Stage 1				
Rating grades 1 to 3	**219.9**	**583.3**	99.7	264.4
Rating grades 4 to 6	**196.2**	**520.4**	215.3	571.1
Rating grades 7 to 10	**389.7**	**1,033.7**	289.0	766.6
Rating grades 11 to 13	**100.3**	**266.1**	54.0	143.2
Unrated	**1,056.5**	**2,802.4**	472.1	1,252.3
Gross amount	**1,962.6**	**5,205.9**	1,130.1	2,997.6
Stage 1 provisions	**(9.4)**	**(24.9)**	(7.5)	(19.9)
Carrying amount of stage 1	**1,953.2**	**5,181.0**	1,122.6	2,977.7
Stage 2				
Rating grades 1 to 3	**-**	**-**	3.0	8.0
Rating grades 4 to 6	**33.0**	**87.5**	0.5	1.3
Rating grades 7 to 10	**8.3**	**22.0**	6.3	16.7
Rating grades 11 to 13	**41.5**	**110.1**	14.9	39.5
Unrated	**7.2**	**19.1**	5.6	14.9
Gross amount	**90.0**	**238.7**	30.3	80.4
Stage 2 provisions	**(8.8)**	**(23.4)**	(2.4)	(6.4)
Carrying amount of stage 2	**81.2**	**215.3**	27.9	74.0
Neither past due nor impaired carrying amount	**2,034.4**	**5,396.3**	1,150.5	3,051.7
Total carrying amount (excluding POCI)	**2,134.6**	**5,662.1**	1,213.7	3,219.4

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

By staging

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**

As at 31 December 2019	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Loans and advances	1,130.5	35.5	95.8	-	1,261.8	3,347.0
Less: impairment provision	(7.5)	(4.3)	(36.3)	-	(48.1)	(127.6)
Net loans and advances	1,123.0	31.2	59.5	-	1,213.7	3,219.4

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

8. LOANS AND ADVANCES (continued)

g) Impairment provisions on loans and advances

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.

2019	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 2019	6.6	6.3	36.5	-	49.4	131.0
Net transfer between stages	3.4	(6.1)	2.7	-	-	-
Write off during the year	-	-	(6.8)	-	(6.8)	(18.0)
Charge for the year (net)	(2.5)	4.1	3.9	-	5.5	14.6
Impairment at 31 December 2019	7.5	4.3	36.3	-	48.1	127.6

9. INVESTMENT SECURITIES

i. Composition

Investment securities comprise the following:

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**	**-**	**245.7**	**651.7**
Equity instruments	**-**	**56.3**	**-**	**56.3**	**149.4**
Total quoted investments	**-**	**302.0**	**-**	**302.0**	**801.1**
Unquoted investments:					
Debt instruments	**-**	**-**	**893.2**	**893.2**	**2,369.2**
Equity instruments	**1.7**	**34.5**	**-**	**36.2**	**96.0**
Total unquoted investments	**1.7**	**34.5**	**893.2**	**929.4**	**2,465.2**
Total investment securities	**1.7**	**336.5**	**893.2**	**1,231.4**	**3,266.3**

As at 31 December 2019	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	238.8	-	238.8	633.4
Equity instruments	-	52.2	-	52.2	138.5
Total quoted investments	-	291.0	-	291.0	771.9
Unquoted investments:					
Debt instruments	-	-	767.4	767.4	2,035.5
Equity instruments	1.2	11.1	-	12.3	32.6
Total unquoted investments	1.2	11.1	767.4	779.7	2,068.1
Total investment securities	1.2	302.1	767.4	1,070.7	2,840.0

ii. Breakdown between repricing nature of debt instruments

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Fixed rate debt instruments	**573.0**	**1,519.8**	459.3	1,218.3
Floating rate debt instruments	**565.9**	**1,501.1**	546.9	1,450.6
	1,138.9	**3,020.9**	1,006.2	2,668.9

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

9. INVESTMENT SECURITIES (continued)

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
AA+	1.9	5.0	-	-
AA	-	-	8.8	23.3
A	4.0	10.6	10.4	27.6
BB	8.7	23.1	7.6	20.1
B	1,092.7	2,898.4	969.0	2,570.3
Unrated	31.6	83.8	10.4	27.6
	1,138.9	3,020.9	1,006.2	2,668.9

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

As at 31 December 2020, 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 1.7 million (USD 4.5 million) [2019: BHD 1.2 million (USD 3.2 million)].

10. INVESTMENT IN ASSOCIATES

The Group has a 39.7% (2019: 34.8%) interest in The Benefit Company B.S.C. (c) which is incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain cheque truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 37.0% (2019: nil) 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 a 29.4% (2019: nil) interest in Al Dur Energy Investment Company, 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% (2019: nil) 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% (2019: 24.3%) interest in the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking «PIU» as per Central Bank of Bahrain rulebook volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investor confidence in the market's listed securities.

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

	2020		2019	
	BHD millions	USD millions	BHD millions	USD millions
Opening balance	53.6	142.2	51.6	136.9
Transfer of Bahrain Islamic Bank to a subsidiary	(37.6)	(99.8)	-	-
Fair value of associates from subsidiary acquisition (note 13)	15.0	39.8	-	-
Share of profit	1.0	2.7	4.1	10.9
Dividends received	(0.8)	(2.1)	(1.1)	(2.9)
Other movements	5.5	14.5	(1.0)	(2.7)
At 31 December	36.7	97.3	53.6	142.2

During 2020, the Bank's shareholding in BISB increased from 29.1% as reported at 31 December 2019 to 78.8%. Further details are included in note 13.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

11. INTEREST RECEIVABLE AND OTHER ASSETS

	2020		2019	
As at 31 December	BHD millions	USD millions	BHD millions	USD millions
Accounts receivable and prepayments	43.4	115.1	18.3	48.5
Interest receivable	27.2	72.2	26.4	70.0
Positive fair value of derivatives	14.6	38.7	8.2	21.8
Others	27.3	72.4	7.1	18.8
	112.5	298.4	60.0	159.1

Others include BHD 8.5 million (USD 22.5 million) [31 December 2019: BHD 4.7 million (USD 12.5 million)] in respect of land and buildings acquired from customers and now held for disposal, and BHD 16.2 million (USD 43.0 million) [31 December 2019: nil] 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

	Leased property right-of-use	Land	Buildings	Furniture and equipment	Total	
	BHD millions	BHD millions	BHD millions	BHD millions	BHD millions	USD millions
Cost	5.1	8.0	34.9	59.6	107.6	285.4
Accumulated depreciation / amortisation	(3.2)	-	(23.1)	(25.6)	(51.9)	(137.7)
Net book value at 31 December 2020	1.9	8.0	11.8	34.0	55.7	147.7
Net book value at 31 December 2019	3.8	0.8	6.8	20.4	31.8	84.4

The depreciation charge for 2020 amounted to BHD 4.8 million (USD 12.7 million) [2019: BHD 2.9 million (USD 7.7 million)]. The above includes capital work in progress at cost, amounting to BHD 20.5 million (USD 54.4 million) [2019: BHD 9.5 million (USD 25.2 million)].

Right-of-use of leased property relates to IFRS 16 which has been adopted from 1 January 2019. The related amortisation in 2020 amounted to BHD 1.5 million (USD 4.0 million) [2019: BHD 1.7 million (USD 4.5 million)].

13. BUSINESS COMBINATION

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.

The fair values of the identifiable assets and liabilities of BISB as at the date of acquisition were:

	BHD millions	USD millions
Assets		
Cash and balances at central banks	61.6	163.4
Placement with banks and other financial institutions	76.1	201.8
Loans and advances	724.3	1,921.2
Investment securities	240.7	638.5
Investment in associates	15.0	39.8
Property and equipment	15.3	40.6
Other assets	26.2	69.5
Total assets	1,159.2	3,074.8
Liabilities		
Due to banks and other financial institutions	218.1	578.5
Customer deposits	863.0	2,289.1
Other liabilities	21.5	57.1
Total liabilities	1,102.6	2,924.7
Total identifiable net assets	56.6	150.1
Non-controlling interest at fair value	12.0	31.8
Purchase consideration		
4,467,173 ordinary shares (0.167 exchange ratio)	3.1	8.2
Cash consideration	58.8	156.0
Derecognition of associate	37.1	98.4
	99.0	262.6
Fair value of consideration	111.0	294.4
Goodwill and intangibles	54.4	144.3
Intangible assets acquired	12.6	33.4
Goodwill	41.8	110.9

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

13. BUSINESS COMBINATION (continued)

As per IFRS 3 – Business Combinations, adjustments are allowed for a period of one year following the acquisition date if related to facts and circumstances that existed as of that date. During the year goodwill has increased by BHD 2.7 million (USD 7.2 million).

Intangibles of BHD 12.6 million (USD 33.4 million) arising on acquisition 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.

Fair valuation of non-controlling interest

The fair value of the non-controlling interest in BISB has been determined by applying the proportionate fair value method. The key inputs used in determining the fair value were external valuation reports, discounted cash flows and impairment tests.

Impact on Group's results

From the date of acquisition, BISB directly contributed BHD 38.1 million (USD 101.1 million) of revenue and BHD 12.6 million (USD 33.4 million) of net losses to the result of the Group.

Business combination related costs

Transaction costs of BHD 1.6 million (USD 4.2 million) were expensed during 2019 and 2020 under other operating expenses.

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% and discount rate of 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 2020, there were no indications of impairment of the cash generating unit (CGU) associated with the goodwill.

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.

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.

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Term deposits	**506.4**	**1,343.2**	343.8	911.9
Current and call accounts	**38.1**	**101.1**	52.8	140.1
	544.5	**1,444.3**	396.6	1,052.0

As at 31 December 2020 and 31 December 2019, 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 112.9 million (USD 299.5 million) [31 December 2019: BHD 108.4 million (USD 287.5 million)] and the fair value of the investment securities pledged as collateral amounted to BHD 113.9 million (USD 302.1 million) [31 December 2019: BHD 135.3 million (USD 358.9 million)].

16. CUSTOMER DEPOSITS

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Repayable on demand or at short notice	**1,743.5**	**4,624.7**	1,129.2	2,995.2
Term deposits	**1,340.8**	**3,556.5**	964.8	2,559.2
	3,084.3	**8,181.2**	2,094.0	5,554.4

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

17. INTEREST PAYABLE AND OTHER LIABILITIES

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Interest payable	**30.3**	**80.4**	24.0	63.7
Negative fair value of derivatives	**28.6**	**75.9**	13.8	36.6
Deferred income	**13.5**	**35.8**	9.7	25.7
Creditors and account payables	**9.7**	**25.7**	5.1	13.5
Employee benefits	**7.0**	**18.6**	3.8	10.1
Lease liability	**1.9**	**5.0**	3.7	9.8
Others	**2.4**	**6.3**	3.1	8.3
	93.4	**247.7**	63.2	167.7

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

	2020		2019	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Less than 1 year	**1.3**	**3.5**	1.2	3.2
1 to 3 years	**1.5**	**4.0**	2.9	7.7
3 to 5 years	**0.4**	**1.1**	0.4	1.1
Total undiscounted lease liabilities	**3.2**	**8.5**	4.5	12.0
Lease liabilities included in the statement of financial position	**1.9**	**5.0**	3.7	9.8

18. NET IMPAIRMENT PROVISIONS

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Loans and advances (note 8g)	**27.3**	**72.4**	5.5	14.6
Other assets	**0.9**	**2.4**	-	-
Investment securities	**0.3**	**0.8**	-	-
Loan commitments and guarantees	**(0.5)**	**(1.3)**	0.9	2.4
	28.0	**74.3**	6.4	17.0

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 of contingent liabilities and undrawn loan commitments is not material.

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Contingent liabilities				
Liabilities on confirmed documentary credits	**53.6**	**142.2**	36.0	95.5
Guarantees:				
Counter guaranteed by banks	**40.2**	**106.6**	34.4	91.2
Others	**184.5**	**489.4**	135.0	358.1
	278.3	**738.2**	205.4	544.8
Banking commitments				
Undrawn loan commitments	**207.6**	**550.7**	200.2	531.0
Forward commitments:				
Securities purchased	**15.0**	**39.8**	-	-
	222.6	**590.5**	200.2	531.0
	500.9	**1,328.7**	405.6	1,075.8

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

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	Notional principal amount		Replacement cost		Fair value	
As at 31 December	2020	2019	2020	2019	2020	2019
Interest rate contracts						
Interest rate swaps	**1,517.9**	985.9	**37.1**	6.8	**37.1**	6.8
Foreign exchange contracts						
Outright spot and forward contracts	**141.0**	139.0	**0.6**	0.2	**0.1**	0.2
Swap agreements	**1,709.2**	1,552.2	**4.1**	3.1	**3.2**	3.0
	1,850.2	1,691.2	**4.7**	3.3	**3.3**	3.2
Total	**3,368.1**	2,677.1	**41.8**	10.1	**40.4**	10.0
Total in USD millions	**8,934.0**	7,101.1	**110.9**	26.8	**107.2**	26.5

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	2020			2019		
As at 31 December	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
Interest rate contracts						
Interest rate swaps	**216.0**	**1,301.9**	**1,517.9**	155.4	830.5	985.9
Foreign exchange contracts						
Outright spot and forward contracts	**111.0**	**30.0**	**141.0**	129.0	10.0	139.0
Swap agreements	**1,576.6**	**132.6**	**1,709.2**	1,542.7	9.5	1,552.2
	1,687.6	**162.6**	**1,850.2**	1,671.7	19.5	1,691.2
Total	**1,903.6**	**1,464.5**	**3,368.1**	1,827.1	850.0	2,677.1
Total in USD millions	**5,049.4**	**3,884.6**	**8,934.0**	4,846.5	2,254.6	7,101.1

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

21. SHARE CAPITAL

	2020		2019	
	BHD millions	USD millions	BHD millions	USD millions
Authorised share capital				
2,500,000,000 (2019: 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 2020: 1,543,292,583 ordinary shares of 100 fils each (at 1 January 2019: 1,402,993,257 shares of 100 fils each)	**154.3**	**409.3**	140.3	372.2
Subsidiary purchase consideration (4,467,173 shares of 100 fils each)	**0.5**	**1.3**	-	-
Bonus issue (one for ten shares held)	**15.5**	**41.1**	14.0	37.1
At 31 December 2020: 1,702,535,732 ordinary shares of 100 fils each (at 31 December 2019: 1,543,292,583 shares of 100 fils each)	**170.3**	**451.7**	154.3	409.3

The shareholders annual general ordinary and extra ordinary meetings for the year 2019 held on 11 March 2020 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 15.5 million.

The Board of Directors have proposed to increase the issued and fully paid capital of the Group to BHD 187.3 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 17.0 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 2020			31 December 2019		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**515,774,995**	**1,599**	**30.3%**	449,986,886	1,260	29.1%
1% up to less than 5%	**251,950,021**	**8**	**14.8%**	243,477,771	9	15.8%
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**184,726,122**	**1**	**10.9%**	167,932,840	1	10.9%
20% up to less than 50%	**750,084,594**	**1**	**44.0%**	681,895,086	1	44.2%
	1,702,535,732	**1,609**	**100.0%**	1,543,292,583	1,271	100.0%

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

	31 December 2020			31 December 2019		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**1,609,854,153**	**1,517**	**94.6%**	1,479,831,190	1,188	95.9%
Other GCC countries	**92,402,032**	**81**	**5.4%**	63,242,081	73	4.1%
Others	**279,547**	**11**	**-**	219,312	10	-
	1,702,535,732	**1,609**	**100.0%**	1,543,292,583	1,271	100.0%

44.1% (2019: 44.2%) of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, which is 100% owned by the Government of Bahrain. 10.9% (2019: 10.9%) of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of, and entities incorporated in, the Kingdom of Bahrain.

Employee share incentive scheme

The employee share incentive scheme ("scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices regulation. As a result, 19,104,000 ordinary shares amounting to BHD 1.9 million were issued in 2015 to an independent party to hold the beneficial interest of the shares under the scheme. Shares are allocated to 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 2020, there are 12,300,394 (2019: 13,731,251) shares unallocated. These unallocated shares under the scheme are deducted from equity.

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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 8.5 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 1.6 million (USD 4.2 million) [2019: BHD 6.3 million (USD 16.7 million)]. As detailed in note 13, the Bank acquired shares in an acquisition transaction during the year via a share swap offer, which resulted in a share premium of BHD 2.6 million (USD 6.9 million).

23. APPROPRIATIONS

The appropriations relating to the year 2019 were approved at the annual general meeting held on 11 March 2020.

24. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Loans and advances to non banks	**95.5**	**253.3**	56.6	150.1
Loans and advances to banks	**2.6**	**6.9**	3.5	9.3
Treasury bills	**8.9**	**23.6**	17.3	45.9
Placements with banks and other financial institutions	**3.5**	**9.3**	4.4	11.7
Investment securities	**53.9**	**143.0**	56.8	150.6
	164.4	**436.1**	138.6	367.6

b) INTEREST EXPENSE

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Customer deposits	**37.0**	**98.2**	33.7	89.4
Due to banks and other financial institutions	**9.5**	**25.2**	8.8	23.3
Borrowings under repurchase agreements	**1.9**	**5.0**	2.8	7.4
	48.4	**128.4**	45.3	120.1

25. NET FEE AND COMMISSION INCOME

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Fees and commission on loans and advances	**6.4**	**17.0**	6.8	18.0
Commission on sale of managed funds	**0.2**	**0.5**	0.2	0.5
Other fees and commission	**14.6**	**38.7**	12.0	31.8
Less: fees and commission expenses	**(9.8)**	**(26.0)**	(5.3)	(14.0)
	11.4	**30.2**	13.7	36.3

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For the year ended 31 December 2020

26. OTHER INCOME

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Profit on trading securities, foreign exchange and derivatives	**6.7**	**17.8**	5.0	13.3
Profit on sale of FVOCI investments	**3.0**	**7.9**	4.3	11.4
Dividend income	**3.2**	**8.5**	3.2	8.5
Gain on fair value through profit or loss investments	**-**	**-**	0.2	0.5
Other income	**8.6**	**22.8**	2.0	5.3
	21.5	**57.0**	14.7	39.0

27. STAFF EXPENSES

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Salaries, allowances and bonuses	**29.6**	**78.5**	21.4	56.7
Social security and gratuity	**2.7**	**7.2**	1.8	4.8
Housing and other benefits	**6.6**	**17.5**	3.5	9.3
Other	**0.6**	**1.6**	0.5	1.3
	39.5	**104.8**	27.2	72.1

28. OTHER OPERATING EXPENSES

	2020		2019	
For the year ended 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Premises expenses	**4.8**	**12.7**	3.3	8.8
Depreciation	**4.8**	**12.7**	2.9	7.7
Equipment expenses	**4.2**	**11.2**	2.0	5.3
Communication expenses	**3.5**	**9.3**	1.6	4.2
Professional fees	**3.1**	**8.2**	2.1	5.6
Advertising and public relations expenses	**1.8**	**4.8**	1.4	3.7
Deposit protection scheme expenses	**1.7**	**4.5**	1.4	3.7
Other expenses	**7.8**	**20.7**	3.3	8.8
	31.7	**84.1**	18.0	47.8

29. NET OPEN FOREIGN CURRENCY POSITIONS

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
US Dollar (long position) - unhedged	**362.7**	**962.0**	67.1	178.0
UAE Dirhams (long position) - unhedged	**14.9**	**39.6**	11.9	31.6
Saudi Riyal (short position) - unhedged	**(24.8)**	**(65.8)**	25.9	68.7

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 2020 or 31 December 2019.

Notes to the Financial Statements (continued)

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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.

	Major shareholder and related entities		Directors and key management personnel		Associates	
As at 31 December	2020 BHD millions	2019 BHD millions	2020 BHD millions	2019 BHD millions	2020 BHD millions	2019 BHD millions
Loans and advances	**232.0**	264.2	**5.7**	5.8	**-**	-
Treasury bills and investment securities	**2,168.5**	1,385.4	**-**	-	**7.6**	53.6
Customer deposits	**235.2**	122.3	**28.7**	18.4	**6.0**	6.5
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**91.6**	194.1	**26.6**	13.7	**-**	-

For the year ended 31 December	2020 BHD millions	2019 BHD millions	2020 BHD millions	2019 BHD millions	2020 BHD millions	2019 BHD millions
Loans advanced	**286.4**	265.5	**0.9**	2.2	**-**	-
Loans repaid	**277.8**	353.2	**0.9**	1.9	**-**	-
Net (decrease) / increase in overdrafts	**(67.2)**	189.0	**(1.1)**	1.3	**-**	-
Treasury bills, bonds and equities purchased	**803.0**	1,114.2	**-**	-	**-**	-
Treasury bills, bonds and equities matured/sold	**219.5**	1,125.8	**-**	-	**-**	-
Capital expenditures	**-**	3.8	**2.5**	-	**0.1**	
Interest income	**72.4**	70.5	**0.4**	0.8	**-**	-
Interest expense	**3.0**	2.0	**0.4**	0.1	**-**	-
Share of profit of associates	**-**	-	**-**	-	**1.0**	4.1
Dividend Income	**0.9**	-	**-**	-	**-**	-
Directors remuneration and sitting fees	**0.2**	0.2	**0.3**	0.3	**-**	-
Short term employee benefits	**-**	-	**3.8**	4.4	**-**	-
Post employment retirement benefits	**-**	-	**0.3**	0.3	**-**	-
Other operating expenses	**1.9**	1.9	**2.4**	0.5	**0.3**	0.8

During the year, a net provision charge of BHD 6.9 million (USD 18.3 million) [2019: BHD 4.6 million provision charge (USD 12.2 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 2020 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 2020, assets under management amounted to BHD 104.4 million (USD 276.9 million) [31 December 2019: BHD 131.5 million (USD 348.8 million)].

32. GEOGRAPHICAL DISTRIBUTION

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2020	2019	2020	2019	2020	2019
GCC	**4,213.8**	3,082.8	**3,681.3**	2,530.2	**2,918.1**	2,191.0
USA	**84.2**	94.5	**27.0**	12.8	**196.6**	198.5
Europe	**62.9**	16.8	**73.7**	83.1	**727.0**	692.8
Rest of the World	**0.5**	0.4	**53.1**	36.1	**27.3**	0.4
	4,361.4	3,194.5	**3,835.1**	2,662.2	**3,869.0**	3,082.7

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

Notes to the Financial Statements (continued)

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33. DISTRIBUTION BY SECTOR

In BHD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2020	2019	2020	2019	2020	2019
Government / sovereign	**1,520.6**	1,452.5	**308.6**	231.6	**110.7**	31.1
Manufacturing / trading	**338.2**	234.2	**174.3**	123.2	**167.6**	141.5
Banks / financial institutions	**608.8**	536.3	**585.1**	544.2	**3,385.6**	2,804.6
Construction	**166.4**	113.3	**217.8**	95.2	**122.1**	73.3
Personal	**981.3**	491.1	**2,141.0**	1,376.7	**59.3**	2.8
Others	**746.1**	367.1	**408.3**	291.3	**23.7**	29.4
	4,361.4	3,194.5	**3,835.1**	2,662.2	**3,869.0**	3,082.7

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

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 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	921.3	524.3	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	928.6	604.0	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

In BHD millions As at 31 December 2019	Government / sovereign Bahrain	Government / sovereign Other countries	Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	80.2	-	-	-	80.2
Treasury bills	410.1	15.2	-	-	-	-	-	425.3
Placements with banks and other financial institutions	-	-	-	228.8	-	-	-	228.8
Loans and advances	50.1	-	226.7	62.1	112.4	490.1	272.3	1,213.7
Investment securities - debt instruments	953.3	7.6	-	38.7	-	-	6.6	1,006.2
Interest receivable and other assets	16.1	0.1	1.5	5.5	0.1	1.0	34.7	59.0
Total assets	1,429.6	22.9	228.2	415.3	112.5	491.1	313.6	3,013.2
Contingent liabilities and banking commitments	31.1	-	121.9	147.2	73.2	2.8	29.4	405.6
Derivatives (replacement cost)	2.4	-	-	7.7	-	-	-	10.1

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 2020.

Counterparty	Counterparty type	Total exposure
Counterparty A	Sovereign	**1,320.5**
Counterparty B	Central Bank	**197.3**

Notes to the Financial Statements (continued)
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34. CONCENTRATION OF CREDIT RISK (continued)

(b) By geographical regions:

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**

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

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.

Notes to the Financial Statements (continued)
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35. INTEREST RATE RISK (continued)

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

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%	1,468.4	135.6	129.8	45.2	1.3	1,304.0	3,084.3
Interest payable and other liabilities	-	-	-	-	-	-	93.4	93.4
Equity	-	-	-	-	-	-	526.3	526.3
Total liabilities and equity		**1,982.7**	**168.9**	**189.7**	**57.0**	**1.3**	**1,961.8**	**4,361.4**
On-balance sheet interest rate sensitivity gap		**(608.7)**	**70.3**	**(25.1)**	**1,422.0**	**598.6**	**(1,457.1)**	**-**
Off-balance sheet interest rate gap		**1,316.2**	**(14.3)**	**-**	**(565.9)**	**(736.0)**	**-**	**-**
Cumulative interest rate sensitivity gap		**707.5**	**763.5**	**738.4**	**1,594.5**	**1,457.1**	**-**	**-**

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

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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	2020	2019
Interest rate risk	1.8	2.3
Foreign exchange risk	0.1	-
Total minimum capital required for market risk	1.9	2.3
Multiplier	12.5	12.5
Market risk weighted exposure under the standardised method	23.8	29.2

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:

	2020		2019	
In BHD millions	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	(6.6)	6.6	(1.3)	1.3
Average for the year	(4.6)	4.6	(1.4)	1.4
Minimum for the year	(1.9)	1.9	(0.7)	0.7
Maximum for the year	(7.0)	7.0	(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 SBU's 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.

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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	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Interest income	75.7	30.9	20.9	27.3	1.6	2.7	66.2	77.7	164.4	138.6
Interest expense	(35.8)	(23.2)	(5.2)	(10.1)	(0.4)	(0.4)	(7.0)	(11.6)	(48.4)	(45.3)
Inter-segment interest income / (expense)	29.0	30.6	1.2	6.6	0.1	0.3	(30.3)	(37.5)	-	-
Net interest income	68.9	38.3	16.9	23.8	1.3	2.6	28.9	28.6	116.0	93.3
Net fee and commission and other income	9.2	6.9	7.5	7.8	1.6	1.7	14.6	12.0	32.9	28.4
Operating income	78.1	45.2	24.4	31.6	2.9	4.3	43.5	40.6	148.9	121.7
Result	33.5	22.1	4.0	23.8	(10.9)	0.2	35.6	36.3	62.2	82.4
Unallocated corporate expenses									(11.5)	(8.2)
Profit for the year									50.7	74.2
Other information										
As at 31 December										
Segment assets	1,434.2	675.1	1,059.9	639.4	100.6	89.1	1,766.7	1,790.9	4,361.4	3,194.5
Segment liabilities and Equity	2,742.2	1,909.5	1,010.0	590.0	49.2	79.7	560.0	615.3	4,361.4	3,194.5
For the year ended 31 December										
Depreciation for the year	2.9	1.5	0.6	0.4	0.4	0.3	0.9	0.7	4.8	2.9
Provision for impaired assets	3.7	5.0	14.6	1.1	8.6	0.3	1.1	-	28.0	6.4

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.

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 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	2,772.4	135.6	129.8	45.2	-	1.3	-	-	3,084.3
Interest payable & other liabilities	93.4	-	-	-	-	-	-	-	93.4
Equity	-	-	-	-	-	-	-	526.3	526.3
Total liabilities and equity	3,418.2	168.9	189.7	57.0	-	1.3	-	526.3	4,361.4

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

38. MATURITY PROFILE AND LIQUIDITY RISK (continued)

a) Maturity profile (continued)

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

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 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**	**2,783.2**	**136.7**	**131.6**	**45.3**	**1.3**
Total non derivative liabilities	**3,741.7**	**3,757.5**	**3,336.2**	**170.1**	**192.4**	**57.5**	**1.3**
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)**

The Group's consolidated net stable funding ratio (NSFR) as at 31 December 2020 was 145%, while the average LCR for the fourth quarter of the year stood at 395%. The Group continues to meet minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio ("CAR").

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

39. 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 2020 amounted to BHD 2.1 million (USD 5.6 million) [2019: BHD 1.3 million (USD 3.4 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	**2020**		**2019**	
Movements during the year	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
At 1 January	**2.3**	**6.1**	2.6	6.9
Movement from subsidiary acquisition	**0.5**	**1.2**	-	-
Charge for the year	**0.7**	**1.9**	0.6	1.6
Paid during the year	**(0.9)**	**(2.4)**	(0.9)	(2.4)
At 31 December	**2.6**	**6.8**	2.3	6.1

The Group has voluntary staff savings schemes for eligible employees. The employees and the Group contribute monthly on a fixed-percentage-of-salaries basis to the scheme. The scheme is managed and administrated by a board of trustees who are the employees of the Group. The Group's contribution to the scheme for 2020 amounted to BHD 4.5 million (USD 11.9 million) [2019: BHD 1.1 million (USD 2.9 million)]. As at 31 December 2020, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the scheme, the net balance of the scheme, amounted to BHD 20.7 million (USD 54.9 million) [31 December 2019: BHD 11.6 million (USD 30.8 million)].

40. LEGAL CLAIMS

As at 31 December 2020, legal claims pending against the Group aggregated to BHD 5.5 million (USD 14.6 million) [31 December 2019: BHD 1.5 million (USD 4.0 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.

41. EARNINGS AND DIVIDEND PER SHARE

	2020		**2019**	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Profit attributable to the shareholders of the Bank	**53.3**	**141.4**	74.2	197.4
Dividend proposed at 20% (2019: 25%)	**34.1**	**90.5**	38.7	102.9
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2020	**1,543.3**	**1,543.3**	1,543.3	1,543.3
Effect of bonus shares issued during 2020 for 2019	**154.3**	**154.3**	154.3	154.3
Shares issued during January 2020 relating to subsidiary acquisition (note 13)	**4.5**	**4.5**	-	-
Effect of bonus shares issued during 2020 for new shares issued	**0.4**	**0.4**	-	-
Less unallocated employee shares	**(12.3)**	**(12.3)**	(13.7)	(13.7)
Weighted average number of ordinary shares (millions) as at 31 December	**1,690.2**	**1,690.2**	1,683.9	1,683.9
Earnings per share	**32 fils**	**8 cents**	44 fils	12 cents
Dividend per share	**20 fils**	**5 cents**	25 fils	7 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 Financial Statements (continued)
For the year ended 31 December 2020

42. ACCOUNTING CLASSIFICATION

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

In BHD millions As at 31 December 2020	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount
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
In BHD millions As at 31 December 2019				
Cash and balances at central banks	-	110.6	-	110.6
Treasury bills	-	425.3	-	425.3
Placements with banks and other financial institutions	-	228.8	-	228.8
Loans and advances	-	1,213.7	-	1,213.7
Investment securities	1.2	767.4	302.1	1,070.7
Interest receivable & other assets	-	145.4	-	145.4
Total assets	1.2	2,891.2	302.1	3,194.5
Due to banks and other financial institutions	-	396.6	-	396.6
Borrowings under repurchase agreements	-	108.4	-	108.4
Customer deposits	-	2,094.0	-	2,094.0
Interest payable & other liabilities	-	63.2	-	63.2
Total liabilities	-	2,662.2	-	2,662.2

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

42. ACCOUNTING CLASSIFICATION (continued)

b) Fair value hierarchy (continued)

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

In BHD millions	2020				2019			
At 31 December	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through profit or loss:								
Equity instruments/Managed funds	-	1.7	-	1.7	-	1.2	-	1.2
Fair value through other comprehensive income:								
Debt instruments	245.7	-	-	245.7	238.8	-	-	238.8
Equity instruments	56.3	-	34.5	90.8	52.2	-	11.1	63.3
Derivative financial assets	-	41.8	-	41.8	-	10.1	-	10.1
Other assets - investment properties	-	16.2	-	16.2	-	-	-	-
Total	302.0	59.7	34.5	396.2	291.0	11.3	11.1	313.4
Derivative financial liabilities	-	1.4	-	1.4	-	0.1	-	0.1

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	**2020**	**2019**
At 1 January	11.1	11.1
Acquisition of assets within the subsidiary	27.2	-
Sale / write-off of asset	(2.1)	-
Total losses in other comprehensive income	(1.7)	-
At 31 December	34.5	11.1

Total gain for the year included in the statement of profit or loss for assets / liabilities classified as level 3 at 31 December 2020 is nil (2019: 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.

43. AVERAGE BALANCES

The following are average daily balances for the year :

	2020		2019	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Total assets	4,397.5	11,664.5	3,186.8	8,453.1
Total liabilities	3,892.2	10,324.1	2,692.3	7,141.4
Total equity	505.3	1,340.4	494.5	1,311.7
Contingent liabilities and undrawn loan commitments	531.0	1,408.5	245.0	649.9

44. 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:

	2020		2019	
	BHD millions	**USD millions**	**BHD millions**	**USD millions**
Assets				
Placement with banks and other financial institutions	85.2	226.0	3.2	8.5
Loans and advances, net	958.9	2,543.5	154.3	409.3
Investment securities	355.1	941.9	118.9	315.4
Liabilities				
Due to banks and other financial institutions	207.3	549.9	5.0	13.3
Customer deposits	894.9	2,373.9	-	-

Liabilities are inclusive of equity of investment accountholders.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

45. 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:

	2020		2019	
As at 31 December	**BHD millions**	**USD millions**	**BHD millions**	**USD millions**
Common equity (CET1)	**500.8**	**1,328.4**	514.4	1,364.5
Additional tier 1	**-**	**-**	-	-
Total common equity tier 1 (CET)	**500.8**	**1,328.4**	514.4	1,364.5
Tier 2	**21.1**	**56.0**	13.4	35.5
Total capital base	**521.9**	**1,384.4**	527.8	1,400.0
Risk weighted exposure:				
Credit risk	**2,005.7**	**5,320.2**	1,176.8	3,121.5
Market risk	**23.8**	**63.1**	29.2	77.4
Operational risk	**313.7**	**832.1**	209.9	556.8
Total risk weighted exposure	**2,343.2**	**6,215.4**	1,415.9	3,755.7
CET 1 ratio	**21.4%**		36.3%	
Total capital adequacy ratio	**22.3%**		37.3%	

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.

46. 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.

47. COMPARATIVES

Prior year US dollar comparatives have been restated to reflect the change in the exchange rate used from 0.376 to 0.377.

Supplementary disclosures (not audited)

For the year ended 31 December 2020

IMPACT OF COVID-19

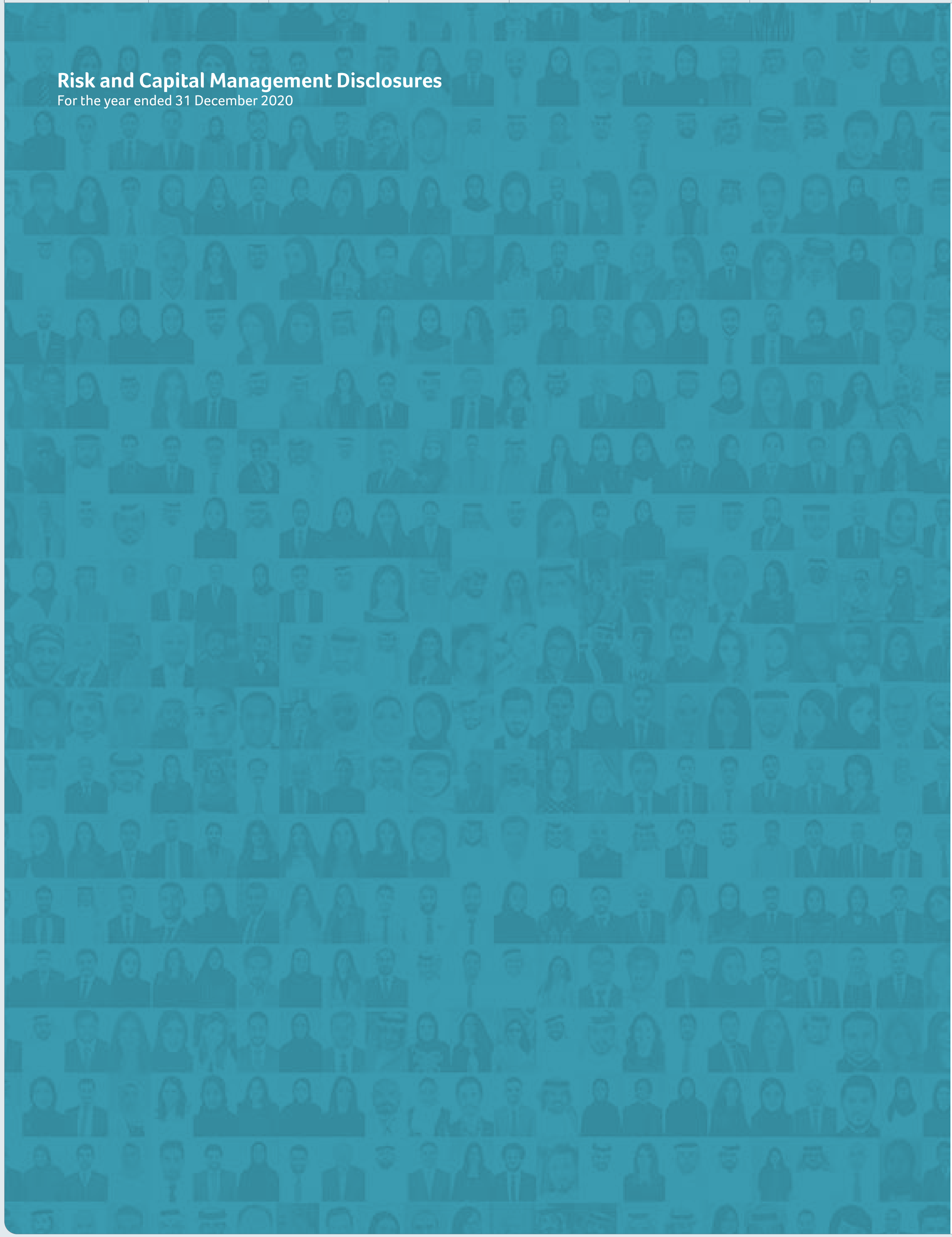
The outbreak of the coronavirus disease ("COVID-19") in early 2020 has had multiple implications on the Group, from stressed market conditions to relief measures provided by the regulator and government.

The Central Bank of Bahrain ("CBB"), along with the Government of Bahrain, continued to provide 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 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 second and third loan deferral programmes effective September 2020 for a period of four months, and January 2021 for a period of six months. The latter two 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 note 38-b 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 2020 and is inclusive of a provision charge of BHD 7.0 million in excess of the base ECL model as a precaution toward future currently unidentified expected risks that the Group may face:

In BHD millions	**Net profit**	**Total equity**	**Total assets**
Closing balances as per the financial statements	**50.7**	**526.3**	**4,361.4**
CBB and Government measures			
Loan deferral modification loss	0.6	27.9	-
Preferential rate repo	0.6	(0.6)	-
Other government grants	-	(4.0)	-
	1.2	**23.3**	**-**
Market conditions			
Additional provision charges against future uncertainty and specific charges relating to COVID-19	9.2	-	9.2
Lower credit card income due to deferrals	1.2	-	-
Lower dividend income as payouts reduced	0.6	-	-
Negative land revaluations	1.7	-	1.7
Additional cost of funding due to scarcity of USD	2.8	-	-
Reduction in market interest rates	3.2	-	-
Negative mark-to-market of FVOCI debt securities	-	2.4	2.4
Lower income from associate due to equity valuations	2.1	-	2.1
	20.8	**2.4**	**15.4**
	72.7	**552.0**	**4,376.8**
Incremental net profit add-on to equity	-	22.0	-
Estimated balances excluding COVID-19 impact	**72.7**	**574.0**	**4,376.8**



Risk and Capital Management Disclosures

For the year ended 31 December 2020

INTRODUCTION

This document presents the Pillar 3 disclosures on a consolidated basis as at 31 December 2020. 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 reviewed consolidated financial statements as of 31 December 2020.

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 2020, the Group's total risk weighted assets amounted to BHD 2,343.2 million; common equity tier 1 (CET1) and total regulatory capital amounted to BHD 500.8 million and BHD 521.9 million respectively. Accordingly, the CET1 capital adequacy ratio and the total capital adequacy ratio were 21.4 percent and 22.3 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 15.9 percent and 14.6 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.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

RISK AND CAPITAL MANAGEMENT (continued)

Risk management framework (continued)

The board risk committee is responsible for identifying, optimising and ensuring appropriate mitigation of risks within the framework of the risk appetite established by the 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.

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.

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

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

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

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk

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

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.

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2020

RISK AND CAPITAL MANAGEMENT (continued)

Operational risk (continued)

In 2020, 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.

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 2020 unless specified otherwise.

	In BHD millions
Common equity tier 1 (CET1)	
Share capital	170.3
Shares unallocated under share incentive scheme	(1.3)
Share premium	10.5
Statutory reserve	85.1
General reserves	32.4
Other reserves and retained earnings	250.3
Total equity	**547.4**
Addition: unrealised loss in cash flow hedge reserve not eligible for regulatory capital	-
Total CET1 capital before minority interest	**547.4**
Total minority interest in banking subsidiaries given recognition in CET1 capital	7.9
Total regulatory capital	**555.3**
Deduction from CET 1 (Goodwill and other intangible assets)	(54.4)
Total common equity tier 1 (CET1)	**500.8**
Additional tier 1	-
Total tier 1	**500.8**
Tier 2 capital	
Expected credit loss subject to 1.25% of credit risk weighted assets	21.1
Total tier 2	**521.9**
Total capital base (tier 1 + tier 2)	**521.9**

Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2020

CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

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.

Equities / funds portfolio

The equities portfolio comprises equity investments in the banking book, i.e. categorised as fair value through other comprehensive income. The credit (specific) risk for equities in the trading book is included in market risk for regulatory capital adequacy calculation purposes.

A 100 percent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 percent. Investments in rated funds are risk weighted according to the external credit rating. Significant investments in listed and unlisted equities of financial entities are aggregated and the excess above the 10 percent of CET1 is deducted from equity; the amount not deducted is risk weighted at 250 percent.

Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are risk weighted at 200 percent.

In addition to the above portfolios, other exposures are risk weighted as under:

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100 percent or 150 percent is applied depending on the level of specific provision maintained against the exposure.

Other assets

Other assets are risk weighted at 100 percent. A credit valuation adjustment (CVA) is applied to applicable derivative exposures and included under other assets.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

CREDIT RISK (continued)

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	1,654.8	-	1,654.8	0%	-	-
PSEs portfolio	0.2	-	0.2	0%	-	-
Banks portfolio	321.3	66.3	255.0	48%	122.2	15.3
Corporates portfolio	1,215.1	86.7	1,128.4	55%	621.8	77.7
Regulatory retail portfolio	1,004.9	2.9	1,002.1	75%	751.6	93.9
Residential mortgages portfolio	51.0	-	51.0	75%	38.2	4.8
Equities / funds portfolio	102.2	-	102.2	161%	164.2	20.5
Past due exposures portfolio	54.0	1.3	52.7	112%	59.1	7.4
Others assets	238.7	-	238.7	104%	248.6	31.1
Total credit risk exposure	**4,642.2**	**157.2**	**4,485.0**		**2,005.7**	**250.7**
Market risk					**23.8**	**3.0**
Operational risk					**313.7**	**39.2**
Total risk weighted assets					**2,343.2**	**292.9**
CET1 capital adequacy ratio					**21.4%**	
Capital adequacy ratio					**22.3%**	

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 2020, the Group's common equity tier 1 capital ratio was 21.4% 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 2020	2020 Daily average
Balances at central banks	77.9	85.5
Treasury bills	236.7	321.8
Placements with banks and other financial institutions	335.4	354.1
Loans and advances	2,173.1	2,097.4
Investment securities	1,138.9	1,173.0
Interest receivable and other assets	95.2	97.9
Total assets	**4,057.2**	**4,129.7**
Non-derivative banking commitments and contingent liabilities	500.9	531.0
Derivatives (replacement cost)	41.8	30.6
	4,599.9	**4,691.3**

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	-	-	-	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	921.3	524.3	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**	**928.6**	**604.0**	**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
	1,589.0	**45.0**	**467.2**	**614.0**	**287.8**	**969.1**	**627.8**	**4,599.9**

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

CREDIT RISK (continued)

Credit risk exposures (continued)

The previous table includes certain exposures to customers / counter-parties, which are in excess of 15 percent of the 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	1,320.5
Counterparty B	Central Bank	197.3

Geographic distribution of exposure

In BHD millions	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
	4,378.3	**84.3**	**131.8**	**5.5**	**4,599.9**

Residual contractual maturity

In BHD millions	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Balances at central banks	77.9	-	-	-	-	-	-	-	77.9
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	37.0	1,138.9
Interest receivable and other assets	89.5	0.8	0.1	0.5	0.7	-	-	3.6	95.2
Total assets	**1,370.0**	**230.9**	**196.9**	**934.4**	**698.7**	**424.2**	**134.3**	**67.8**	**4,057.2**
Contingent liabilities and banking commitments	214.2	24.1	78.0	50.7	22.9	0.8	0.1	110.1	500.9
Derivative (replacement cost)	18.3	0.7	0.2	13.0	3.4	6.2	-	-	41.8
	1,602.5	**255.7**	**275.1**	**998.1**	**725.0**	**431.2**	**134.4**	**177.9**	**4,599.9**

Shariah compliant credit facilities

As at 31 December 2020, the Group held Shariah compliant facilities amounting to BHD 1,399.2 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.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

CREDIT RISK (continued)

Impaired and past due loans and advances

Ageing analysis of impaired and past due loans and advances

In BHD millions	Total
Up to 1 year	70.3
1 to 3 years	35.4
Over 3 years	10.3
	116.0
Fair market value of collateral	**114.2**
Stage 3 impairment provision	**61.9**

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	-	0.7	-	44.8	10.6	14.2	70.3
1 to 3 years	-	22.7	-	1.2	10.0	1.5	35.4
Over 3 years	-	0.2	-	-	2.6	7.5	10.3
	-	**23.6**	**-**	**46.0**	**23.2**	**23.2**	**116.0**

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	103.4	52.5	112.8	17.5
Other GCC countries	12.6	9.4	1.4	2.3
Other countries	-	-	-	0.1
	116.0	**61.9**	**114.2**	**19.9**

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	23.6	17.2	55.4	4.6
Construction	46.0	18.6	3.0	0.8
Personal	23.2	15.3	22.4	9.5
Banks / financial institutions	-	-	-	0.6
Government	-	-	-	0.3
Others	23.2	10.8	33.4	4.2
	116.0	**61.9**	**114.2**	**19.9**

Movement in impairment provision for loans and advances

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

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

CREDIT RISK (continued)

Restructuring

During 2020, credit facilities amounting to BHD 98.3 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	1,654.8	-	1,654.8
PSEs portfolio	0.2	-	0.2
Banks portfolio	321.3	66.3	255.0
Corporates portfolio	1,215.1	86.7	1,128.4
Regulatory retail portfolio	1,004.9	2.9	1,002.1
Residential mortgages portfolio	51.0	-	51.0
Equities/funds portfolio	102.2	-	102.2
Past due exposures portfolio	54.0	1.3	52.7
Others assets	238.7	-	238.7
	4,642.2	**157.2**	**4,485.0**

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 55.4 million at 31 December 2020.

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Risk and Capital Management Disclosures (continued)

For the year ended 31 December 2020

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	1.8	4.4	1.3	2.4
Foreign exchange risk	0.1	0.5	0.1	0.1
Total minimum capital required for market risk	**1.9**			
Multiplier	12.5			
Market risk weighted exposure under the standardised method	**23.8**			

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 313.7 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, share of profit from Bahrain Islamic Bank B.S.C. (BISB) and any exceptional items of income) for the last 3 years. As BISB was acquired in 2020, the Bank adjusts 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	43.9	43.9	5.5
Unlisted equities	14.4	14.4	1.8
Significant investment in the common shares of financial entities >10%	32.9	32.9	4.1
	91.2	**91.2**	**11.4**
Unrealised gains from equities fair value	2.5		
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, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Modified duration of the Group's unhedged fixed income portfolio was 4.62 percent on 31 December 2020 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 1.0 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 2020

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 2019	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets							
Cash and balances at central banks	-	-	-	-	-	125.5	125.5
Treasury bills	187.7	49.0	-	-	-	-	236.7
Placements with banks and other financial institutions	308.0	-	-	-	-	27.4	335.4
Loans and advances	604.3	146.4	144.5	843.2	434.7	-	2,173.1
Investment securities	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	439.2	33.3	22.1	11.8	-	38.1	544.5
Borrowings under repurchase agreements	75.1	-	37.8	-	-	-	112.9
Customer deposits	1,468.4	135.6	129.8	45.2	1.3	1,304.0	3,084.3
Interest payable and other liabilities	-	-	-	-	-	93.4	93.4
Equity	-	-	-	-	-	526.3	526.3
Total liabilities and equity	**1,982.7**	**168.9**	**189.7**	**57.0**	**1.3**	**1,961.8**	**4,361.4**
On-balance sheet interest rate sensitivity gap	(608.7)	70.3	(25.1)	1,422.0	598.6	(1,457.1)	-
Off-balance sheet interest rate gap	1,316.2	(14.3)	-	(565.9)	(736.0)	-	-
Cumulative interest rate sensitivity gap	**707.5**	**763.5**	**738.4**	**1,594.5**	**1,457.1**	**-**	**-**

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 2020	(6.6)	6.6
Average for the year	(4.6)	4.6
Minimum for the year	(1.9)	1.9
Maximum for the year	(7.0)	7.0

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

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 2020	Major shareholder and related entities	Directors and key management personnel	Associates
Loans and advances	232.0	5.7	-
Treasury bills, bonds and equities	2,168.5	-	7.6
Customers' deposits	235.2	28.7	6.0
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	91.6	26.6	-
For the year ended 31 December 2020			
Loans advanced	286.4	0.9	-
Loans repaid	277.8	0.9	-
Net increase / (decrease) in overdrafts	(67.2)	(1.1)	-
Treasury bills, bonds and equities purchased	803.0	-	-
Treasury bills, bonds and equities matured / sold	219.5	-	-
Capital expenditures	-	2.5	0.1
Interest income	72.4	0.4	-
Interest expense	3.0	0.4	-
Share of profit of associates	-	-	1.0
Dividend income	0.9	-	-
Directors remuneration and sitting fees	0.2	0.3	-
Short term employee benefits	-	3.8	-
Post employment retirement benefits	-	0.3	-
Other operating expenses	1.9	2.4	0.3

During the year, a net provision charge of BHD 6.9 million had been recorded against outstanding balances with related parties.

NET OPEN FOREIGN CURRENCY POSITIONS

In BHD millions	
US Dollar (long position) - unhedged	362.7
Saudi Riyal (short position) - unhedged	(24.8)
UAE Dirhams (long position) - unhedged	14.9

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 2020.

Risk and Capital Management Disclosures (continued)
For the year ended 31 December 2020

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	1,517.9	37.1	37.1
	1,517.9	**37.1**	**37.1**
Foreign exchange contracts			
Outright spot and forward contracts	141.0	0.6	0.1
Swap agreements	1,709.2	4.1	3.2
	1,850.2	**4.7**	**3.3**
	3,368.1	**41.8**	**40.4**

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	216.0	1,301.9	1,517.9
	216.0	**1,301.9**	**1,517.9**
Foreign exchange contracts			
Outright spot and forward contracts	111.0	30.0	141.0
Swap agreements	1,576.6	132.6	1,709.2
	1,687.6	**162.6**	**1,850.2**
	1,903.6	**1,464.5**	**3,368.1**

LEGAL CLAIMS

As at 31 December 2020, legal suits pending against the Group aggregated to BHD 5.5 million. Based on the opinion of the Group's legal advisors and pending final judgment on these suits, adequate provision as assessed by management is maintained.

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Appendix 1- GRI Content Index

GRI Standard	Disclosure	Page number(s) and/or URL(s)
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
	102-4 Location of operations	5
	102-5 Ownership and legal form	5
	102-6 Markets served	5, 48-61
	102-7 Scale of the organization	5, 8-9, 48-62
	102-8 Information on employees and other workers	62-68
	102-9 Supply chain	41-42, 71
	102-10 Significant changes to the organization and its supply chain	9-10, 30-35, 52-53, 71
	102-11 Precautionary Principle or approach	92-95
	102-12 External initiatives	69-71, 137
	102-13 Membership of associations	42
	Strategy	
	102-14 Statement from senior decision-maker	14-17, 22-23, 61
	Ethics and integrity	
	102-16 Values, principles, standards, and norms of behavior	5, 75-85
	102-17 Mechanisms for advice and concerns about ethics	74-92
	Governance	
	102-18 Governance structure	32-35, 74-90
	102-19 Delegating authority	32-35, 74-90
	102-20 Executive-level responsibility for economic, environmental, and social topics	32-35, 74-90
	102-22 Composition of the highest governance body and its committees	32-35, 74-90
	102-23 Chair of the highest governance body	10-15
	102-24 Nominating and selecting the highest governance body	76
	102-25 Conflicts of interest	83-85
	102-26 Role of highest governance body in setting purpose, values, and strategy	75
	102-27 Collective knowledge of highest governance body	74
	102-28 Evaluating the highest governance body's performance	83
	102-29 Identifying and managing economic, environmental, and social impacts	14-17, 22-23
	102-30 Effectiveness of risk management processes	92-95
	102-31 Review of economic, environmental, and social topics	38-42
	102-32 Highest governance body's role in sustainability reporting	14-17, 22-23
	102-33 Communicating critical concerns	91
	102-34 Nature and total number of critical concerns	85
	102-35 Remuneration policies	86-90, 112, 133

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)
GRI 102: General Disclosures 2016	102-36 Process for determining remuneration	83, 84-88, 112, 133
	102-37 Stakeholders' involvement in remuneration	83, 84-89
	Stakeholder engagement	
	102-40 List of stakeholder groups	41-42
	102-41 Collective bargaining agreements	No Collective Bargaining approach
	102-42 Identifying and selecting stakeholders	38-42
	102-43 Approach to stakeholder engagement	38-42
	102-44 Key topics and concerns raised	38-42
	Reporting practice	
	102-45 Entities included in the consolidated financial statements	106
	102-46 Defining report content and topic Boundaries	2
	102-47 List of material topics	40-41
	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	152-156
	102-56 External assurance	No external assurance obtained

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)
Material Topics		
200 series (Economic topics)		
Economic Performance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	14-17, 22-23, 26-28, 38-42
	103-2 The management approach and its components	14-17, 22-23, 26-28, 38-42, 107
	103-3 Evaluation of the management approach	14-17, 22-23, 26-28, 38-42, 107
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	14-17, 22-23, 26-28, 38-42, 89-90, 133
	201-3 Defined benefit plan obligations and other retirement plans	85-90, 126, 133
	201-4 Financial assistance received from government	104
Market Presence		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	65
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	18-22, 65
Indirect Economic Impacts		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	30-31, 38-42, 48-61,69-73
	103-3 Evaluation of the management approach	30-31, 38-42, 48-61,69-73
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	30-31, 38-42, 48-61,69-73
Procurement Practices		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	40-41, 71
	103-2 The management approach and its components	40-41, 71
	103-3 Evaluation of the management approach	71
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	71
Anti-corruption		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	38-42
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	38-42
	205-2 Communication and training about anti-corruption policies and procedures	68, 91-93, 95
	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	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	72-73

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)
GRI 302: Energy 2016	302-1 Energy consumption within the organization	72-73
	302-3 Energy intensity	72-73
	302-4 Reduction of energy consumption	72-73
Water and Effluents		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	72-73
GRI 303: Water and Effluents 2018	303-5 Water consumption	72-73
Waste		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	73
GRI 306: Waste 2020	306-4 Waste diverted from disposal	73
400 series (Social topics)		
Employment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	62-68
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	63
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	85-90, 126, 133
	401-3 Parental leave	63
Occupational Health and Safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	66-68
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	66-68
	403-3 Occupational health services	66-68
	403-4 Worker participation, consultation, and communication on occupational health and safety	68
	403-5 Worker training on occupational health and safety	68
	403-6 Promotion of worker health	66-67
	403-9 Work-related injuries	66-67
	403-10 Work-related ill health	66-67
Training and Education		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42, 62-68
	103-3 Evaluation of the management approach	38-42, 62-68

Appendix 1- GRI Content Index continued

GRI Standard	Disclosure	Page number(s) and/or URL(s)
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	38-42, 62-68
	404-2 Programs for upgrading employee skills and transition assistance programs	62-68
	404-3 Percentage of employees receiving regular performance and career development reviews	64
Diversity and Equal Opportunity		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	65
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	65
Non-discrimination		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	65
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	65
Security Practices		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	68
GRI 410: Security Practices 2016	410-1 Security personnel trained in human rights policies or procedures	68
Local Communities		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	16, 69-71, 76
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	69-71, 76
Customer Privacy		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	38-42
	103-2 The management approach and its components	38-42
	103-3 Evaluation of the management approach	59, 68, 94
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	94