BBK

بنك البحرين والكويت

Annual Report 2019

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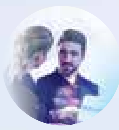

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BBK is licensed by the Central Bank of Bahrain as a Conventional Retail Bank

Designed and produced by Group Origin

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Sabah Al Ahmed Al Sabah
Amir of the State of Kuwait

Our vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong client relationships.

Our mission

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset, with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance-based reward systems.

We are determined to utilise cutting-edge technology, which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Our values

creative . passionate . pioneering . reliable


anytime4u

BBK is known for its leadership in deploying technology-enabled services, constantly enhancing products and other functionalities to make progressive advances in digital transformation.

This continued during 2019, when the Bank's FinTech capabilities further expanded beyond the basic functionalities of online banking, moving away from legacy processes and adopting live platforms that provide ease of communication and quick answers for customers. The past year was the first in the Bank's current three-year strategic cycle and FinTech initiatives continued to play a leading role.

Overall, the Bank once again produced outstanding results, particularly so considering the continuing challenges that faced the entire banking sector. BBK's conversion of perpetual bonds to shares was successfully concluded. During the year, the Bank successfully raised USD 500 million from the international financial markets. In light of the remarkable performance, the Bank declared and paid interim cash dividends to shareholders and became the first bank in Bahrain to pay an interim dividend.

Total equity

+9.3%

Total equity increased to BD 547 million.

Total assets

+7.9%

Total assets increased to BD 3,865 million.

Net profit

+12.4%

Net profit increased to BD 75.4 million.

Financial highlights

	2019	2018	2017	2016	2015
Income statement highlights (BD millions)					
Net interest income	**107.3**	109.9	90.9	85.8	72.7
Other Income	**51.0**	51.2	52.2	47.7	48.4
Operating expenses	**63.2**	57.7	54.0	53.1	49.8
Net profit	**75.4**	67.1	58.7	56.4	53.2
Cash dividend	**40%**	40%	35%	30%	25%
Stock dividend	**5%**	–	–	–	–
Financial statement highlights (BD millions)					
Total assets	**3,865**	3,582	3,763	3,703	3,646
Loans and advances	**1,671**	1,773	1,741	1,767	1,765
Investments	**946**	863	796	812	794
Customer Deposits	**2,170**	2,374	2,624	2,494	2,643
Term borrowings	**333**	145	199	206	205
Total equity	**547**	500	501	474	361
Profitability					
Diluted earnings per share (fils)	**59**	52	45	44	50
Cost / income	**40.0%**	35.8%	37.8%	39.8%	41.1%
Return on average assets	**1.9%**	1.8%	1.6%	1.5%	1.4%
Return on average equity	**14.9%**	13.7%	12.1%	13.2%	14.8%
Profit per employee (BD)	**54,139**	50,351	49,902	52,523	50,630
Capital					
Capital adequacy	**21.7%**	19.6%	20.0%	18.5%	14.9%
Equity / total assets	**14.2%**	14.0%	13.3%	12.8%	9.9%
Term Borrowings / equity	**60.9%**	28.9%	39.7%	43.5%	56.7%
Liquidity and business indicators					
Loans and advances / total assets	**43.2%**	49.5%	46.3%	47.7%	48.4%
Loans and advances / customer deposits	**77.0%**	74.6%	66.3%	70.9%	66.8%
Investments / total assets	**24.5%**	24.1%	21.2%	21.9%	21.8%
Liquid assets / total assets	**34.4%**	27.6%	34.7%	32.6%	32.0%
Net yield ratio	**3.0%**	3.1%	2.7%	2.5%	2.1%
Number of employees*	**1,392**	1,333	1,176	1,074	1,051

* Number of employees has been adjusted to include employees of the entities owned and controlled by the Group's directly owned subsidiaries in order to conform to the presentation of annual audited consolidated financial statements.

Dear Shareholders

The past year was particularly notable for Bank of Bahrain and Kuwait (BBK), distinguished by a series of achievements. Further progress was made to implement new technology, accompanied by several other initiatives of significant importance.

BBK again maintained its record of increasing profitability. Net profit growth of 12.4 percent followed an increase of 14.4 percent in 2018, a singular achievement in the circumstances. Compound annual growth over the past five years stands at 7.2 percent, reinforcing our position as market leaders in Bahrain and as one of the most consistently successful listed companies in the region.

I take this opportunity to extend our appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmad Al Sabah, the Amir of the State of Kuwait. I also extend thanks to their respective governments and regulatory authorities for their guidance during the year.

I thank the Board of Directors and all stakeholders for their support during 2019. As we enter the second year of our 2019-21 strategic cycle, their expertise will continue to be a prime asset as we strive to realise our vision for sustained and sustainable growth.

Murad Ali Murad
Chairman

Net profit
(BD millions)

75.4

The Ministry of Finance forecasts economic growth of 2.3 percent for the year, followed by a further 2.7 percent in 2020.

The Board of Directors is honoured to present the 48th annual report and consolidated financial statements of Bank of Bahrain and Kuwait (BBK) and its subsidiaries (the Group) for the year ended 31 December 2019.

Operating environment

Bahrain was ranked among the top-10 most improved economies in the world during 2019, according to the World Bank's Doing Business 2020 report, moving up 19 places to 43 among the 190 countries assessed. Criteria for most improved economies include the number of economic programmes and legislative reforms enacted, and improvements in the ease of doing business.

As part of its Economic Vision 2030, Bahrain has implemented a comprehensive reform programme. The Ministry of Finance and National Economy reports that 2018's pronounced accelerations in headline growth continued into 2019. The Ministry forecasts economic growth of 2.3 percent for the year, followed by a further 2.7 percent in 2020.

Financial support from Gulf allies will contribute to the projected acceleration in economic growth, along with low interest rates and a range of strategic projects such as Aluminium Bahrain's expansion, The Bahrain Petroleum Company's (BAPCO) modernisation programme, and the redevelopment of Bahrain International Airport.

Bahrain may also enjoy positive spill-overs from the steady economic growth across the Gulf region, supported by growing non-oil sectors and improving oil prices under the agreed global oil production control measures.

The Bahrain Economic Development Board (EDB) has underlined the importance of FinTech innovation and its far-reaching impact on the economy – creating new jobs, providing training for an already highly-skilled workforce, and generating foreign direct investment. The EDB notes that the financial services sector is going through an unparalleled period of disruption, and Bahrain already has the soft and hard infrastructures in place to not only handle this, but to enable innovation to thrive.

Despite this generally positive trend, the operating environment still presented many challenges for Bahrain's banking sector during 2019, coupled with ongoing volatility in the global economy stemming from US-China trade wars, Brexit, and a general downturn in growth.

In this context, BBK's performance is all the more commendable and reflects the prudence and caution that are integral to the Bank's strategy and operating principles. This gives cause for continued, albeit restrained, optimism for the year ahead.

Economic policy

Bahrain's government approved a plan in 2018 to overhaul public finances, reduce the budget deficit, and control public debt after securing a $10 billion aid pledge from Saudi Arabia, the United Arab Emirates, and Kuwait. This plan aims to eliminate the budget deficit entirely by 2022. The forecast expenditure of BD 3.25 billion in 2019 and BD 3.28 billion in 2020 is accompanied by additional public investments of BD 670 million in 2019 and an equal allocation for 2020.

The 2019 deficit is projected at BD 708 million, falling to BD 613 million in 2020. Bahrain is already experiencing the benefits in the form of reduced borrowing costs. Six-month treasury issues that used to carry a coupon of 4.0-4.25 percent are now placed at less than 3.0 percent.

Revenues for 2019 are forecasted at BD 2.74 billion, rising to BD 2.87 billion in 2020. The 2018 budget had put revenues at BD 2.3 billion, including BD 1.8 billion from oil, with spending at BD 3.5 billion – a projected deficit of BD 1.2 billion. This represented 9.8 percent of GDP but actual results exceed forecasts, cutting the deficit by more than one-third to 6.2 percent of GDP and putting Bahrain on course to achieve a balanced budget by 2022.

The government has also cut subsidies and raised taxes and fees as part of its fiscal reforms, including the introduction of value-added tax. Overall, the fiscal plan aims to balance public finances without affecting public services such as education, health, and housing. Further reforms under review include changes to the pension system and a new subsidy programme.

Strategic cycle

Building shareholder value is at the core of BBK's 2019-21 strategic cycle, maintaining the Bank's impressive record of year-on-year profit increases and laying the foundations for continued success.

FinTech is a dominant theme, taking BBK to the next level of digital innovation. The focus on digitalisation has reached new intensity, evident in our 2019 performance. The Bank has embarked on various new initiatives, adopting the latest technologies in line with Bahrain's national commitment to FinTech-based innovations and technological advancements.

BBK is reviewing and upgrading platforms to introduce new channels and further enhance cyber security measures. The Bank has done well in this area, but we must respond to the rapidly changing environment and stay ahead of the market.

One example is the opening of our first digital branch. This is a tech-enabled branch focusing on sales and self-service, with cash handled through ATMs and CDMs. In another FinTech advancement, in 2019 BBK became one of the first banks in Bahrain to use Amazon Web Services and to adopt cloud-based services. We also launched new technology to facilitate easier money transfer, which gives customers highly-transparent, faster, and more secure services. Several other crucial strategic initiatives are in the pipeline and will be launched during 2020.

Other important strategic initiatives include updates regarding Bahrain and Kuwait central banks' inspection reports, management succession planning, and executive appointments. Risk management and human recourses policies are also being reviewed.

BBK is one of the largest and systemically important banks in Bahrain. Such a strong market share can be an inhibitor to growth in such a crowded marketplace. Consolidation within the banking sector is already taking place and we must remain alert to potential acquisitions, particularly in the fast-growing Islamic finance segment.

Financial highlights

BBK achieved a net profit of BD 75.4 million for 2019, 12.4 percent higher than the previous year's BD 67.1 million and equating to diluted earnings per share of 59 fils (52 fils in 2018). Net interest income reached BD 107.3 million, while total shareholders' equity grew by 9.3 percent to BD 547.0 million.

The profit increase is mainly attributable to a decrease in net provisioning, by 46.5 percent to BD 18.9 million (BD 35.3 million in 2018), as a result of active management of distressed exposures and higher recovery efforts.

BBK broke new ground in 2019 by becoming the first bank in Bahrain – and to our knowledge within the Gulf region – to declare an interim dividend. The Board of Directors approved the new dividend policy at its July meeting and a half-year payment of 10 fils per share was made.

The Board of Directors recommended cash dividends of 40 fils per share (including the interim dividends of 10 fils that were declared and paid in July 2019). In additional to that, 5 percent stock dividend was recommended on the Bank's paid-up capital to the shareholders whose names are registered on the Bank's register on the record date subject to the approval of the Bank's shareholders at the upcoming Annual General Meeting.

Conversion of Tier 1 Capital Perpetual Bonds to ordinary shares

Shareholders also benefited from the conversion of BBK's Tier 1 Capital Perpetual Bonds (AT1 bonds) to ordinary shares. The bonds, amounting to BD 86.1 million were issued by the Bank with a nominal value of 100 fils per share.

The Bank had the option of converting the AT1 bonds to shares after three years at a price of 400 fils per share. At the time of exercising the option, BBK shares were trading at 440 fils, already an attractive proposition. The share price has since risen to more than 550 fils, making the converted bonds an exceptionally rewarding investment.

Medium-term note issuance

A significant success in 2019 was the issue of a USD 500 million medium-term note with a fixed coupon of 5.5 percent and five-year maturity. The senior unsecured bond was targeted to professional investors in the Middle East, Asia, and Europe and followed a successful four-day roadshow in Dubai, Hong Kong, Singapore, and London.

The investor mix was geographically diversified, with 65 percent of subscribers based in the Middle East, 28 percent in Europe, and the balance in Asia. Half of the issuance was bought by fund managers, 44 percent by banks, and the remainder by private banks and others.

More than 85 regional and international investors bought into the issue which was more than two-fold oversubscribed. The response to the issue demonstrates the confidence that investors have in BBK's sound financial position and conservative management.

Diluted earnings per share

59 fils

Net interest income (BD millions)

107.3

We launched new technology to facilitate easier money transfer, which gives customers highly-transparent, faster, and more secure services.


smart4u

Regulatory compliance

The Central Bank of Bahrain (CBB) is invariably helpful in detailing compliance requirements, from domestic stipulations to those specified in international regulatory regimes such as the Basel III framework for banks.

New CBB compliance initiatives in 2019 include improving the accuracy of banks' customer data bases and correcting or eliminating out of date information.

Electronic 'know your customer' is a standard requirement for all banks – this became a significant project for BBK in 2019 and will continue next year and beyond.

Resolving unclaimed amounts – such as uncollected dividends and money in dormant accounts – is another CBB priority. Substantial amounts are involved, and banks must take measures to disburse these funds to legitimate claimants.

Appropriations

The Board of Directors' recommendations for appropriations of the Bank's net profit and approval by shareholders are:

	BD millions
Retained earnings as at 1 January 2019	148.9
Profit for the year 2019	75.4
Proposed appropriation for donations	(2.0)
Distribution of Perpetual Tier 1 Convertible Capital Securities	(3.6)
Other changes in retained earnings	(1.3)
Transfer to Statutory Reserve	(7.5)
Retained earnings as at 31 December 2019 available for distribution (before proposed dividend)	**210.0**
Proposed cash dividends (40% including 10% interim dividends equivalent to BD 12.8 million) of paid-up capital, net of treasury stock)	(51.3)
Proposed stock dividends (5%) of the paid-up capital	(6.5)
Proposed transfer to the General Reserve	(7.5)
Retained earnings as at 31 December 2019 (after proposed dividend)	**144.6**

Fitch

	Rating
Long-term issuer default rating	BB-
Short-term issuer default rating	B
Viability rating	bb-
Support rating	3
Support rating floor	BB-
Senior unsecured debt	BB-
Outlook	Stable

Report issue date: 1 October 2019

Moody's

	Rating
Bank deposits	B2/NP
Baseline credit assessment	B2
Adjusted baseline credit assessment	B2
Counterparty risk assessment	B1/NP
Senior unsecured	B2
Subordinate	(P)B3
Outlook	Stable

Report issue date: 23 December 2019

Fitch
Long-term issuer default rating

BB-

Moody's
Long-term bank deposits

B2

Retained earnings 2019
(BD millions)

144.6

BBK has repeatedly demonstrated the ability to cope with whatever challenges arise and achieve very satisfactory returns for shareholders and we will continue with our unstinting efforts to maintain this performance.

We are confident in our compliance policies and practices and our continued ability to adhere to whatever new regulatory requirements may be introduced.

Sustainability

Sustainability has always been a high priority for BBK but this is now taking on a new dimension as global awareness becomes increasingly sensitive to environmental, social, and corporate governance (ESG) issues.

ESG is now factored into risk management, protecting against vulnerability when raising international finance. Companies are assessed not only for the strength of their operations, but on their policies and practices in taking care of society, women's empowerment, environmental issues, and a range of allied areas that are detailed in the Sustainability section of this annual report.

Appointment of auditors

At the Bank's Annual General Meeting held on 20 March 2019, Ernst & Young were re-appointed as external auditors to BBK for the financial year ending 31 December 2019.

Ratings

On 1 October 2019, Fitch affirmed BBK's long-term issuer default rating (IDR) at BB- with a Stable outlook and a viability rating (VR) of bb-. Fitch says that BBK's IDRs are driven by the standalone strength of the Bank, as indicated by its VR. The IDRs are also underpinned by potential sovereign support as shown by its Support Rating Floor of BB-. BBK's VR is capped by the operating environment and Bahrain's own sovereign rating of BB-.

This reflects BBK's high exposure to the sovereign and domestic operating environment as an important retail bank in Bahrain. The VR also considers the Bank's high impaired loans, high concentration, and only adequate capital ratios – but also its strong domestic franchise, adequate margins, and consistent profitability.

On 23 December 2019, Moody's affirmed BBK's IDRs at B2 Stable/Not Prime for long-term and short-term local currency deposits. The ratings capture the Bank's standalone credit strength, reflected in its baseline credit assessment of b2, at the same level as the Bahrain Government.

This rating represents BBK's strong domestic franchise which supports its sound profitability and solid liquidity buffers, resilient funding, and capital adequacy. These strengths are moderated by the Bank's high deposit and credit concentrations, and asset-quality risks. Despite improvements in the operating environment, these persist from an already elevated position, as some borrowers remain vulnerable.

BBK's long-term foreign-currency deposit rating of B3 is constrained by Bahrain's B3 country ceiling for such deposits, which captures foreign-currency transfer and convertibility risks.

CE award

Reyadh Sater, BBK's Group Chief Executive, was ranked among the regional financial sector's top 10 CEOs, out of more than 700 banks based on profitability, growth, and maintaining the highest standards of corporate governance. The announcement was made during the Top CEO Awards and Conference that took place in Bahrain on 11 April 2019. I take this opportunity to congratulate him on the occasion of this moment of pride.

Looking ahead

The next year will present many challenges as market conditions remain volatile and the pace of change becomes even faster. International factors such as trade wars and fears of a global recession are a very real problem for major nations, let alone smaller countries like Bahrain.

A negative interest environment represents a problematic outlook for the banking sector as a whole. Nevertheless, BBK has repeatedly demonstrated the ability to cope with whatever challenges arise and achieve very satisfactory returns for shareholders and we will continue with our unstinting efforts to maintain this performance.

Appreciation

On behalf of the Board, I extend our thanks to BBK shareholders for their continued confidence, to our clients for their loyalty and patronage, and to BBK's management and employees for their hard work and commitment that underpinned yet another year of excellent results for the Bank.

On behalf of the Board of Directors.

Murad Ali Murad
Chairman

Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman of the Audit and Compliance Committee

Chairman of Independent Directors' Committee

Director since 21 March 1999 (Independent)

Qualifications and experience

Fellow member of the Chartered Institute of Management Accountants, London, UK. Over 47 years' experience in the banking sector and has had his own business for the past 17 years.

Jassem Hasan Ali Zainal
Deputy Chairman

Director since 22 November 1994 (Independent)

Qualifications and experience

Master in Civil Engineering, Kuwait University, Kuwait. 35 years' experience in the banking sector, 4 years in the government sector, 8 years with finance companies, 26 years with investment companies, and has had own business for 11 years.

Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee

Director since 2 March 2008 (Independent)

Qualifications and experience

Bachelor of Arts, Economics and Finance, University of Aleppo, Syria. Over 42 years' experience in the banking sector.

Yusuf Saleh Khalaf
Board Member

Director since 6 March 2011 (Independent)

Qualifications and experience

Associate of the Association of Chartered Certified Accountants, UK, with 39 years of experience in the banking and financial services sector.

Marwan Mohammed Al Saleh
Board Member

Director since 30 December 2014 (Non-executive)

Qualifications and experience

Bachelor of Arts, Eckerd College, USA. 35 years in the investment sector.

Nominated by:

Kuwait Investment Authority

Edrees Musaed Ahmad
Board Member

Director since 29 March 2017 (Non-executive)

Qualifications and experience

Master of Economics, Kuwait University, Kuwait. Over 14 years' experience in the investment sector.

Hani Ali Al Maskati
Board Member

Chairman of the Risk Committee

Director since 29 March 2017
(Non-executive)

Qualifications and experience
Master of Business Administration, University of Hull, UK. Over 32 years' experience in transaction banking.

Nominated by:
Ithmaar Holding B.S.C.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005
(Independent)

Qualifications and experience
Master in Business Administration, Johns Hopkins University, USA.

Master in Social and Public Policy, Georgetown University, USA. 12 years' experience in the government sector (investment field) and 13 years in the diplomatic sector.

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Board Member

Director since 2 March 2008
(Non-executive)

Qualifications and experience
Bachelor of Business Administration, George Washington University, USA. 19 years' experience in the banking and investment sector.

Ashraf Adnan Bseisu
Board Member

Director since 29 March 2017
(Non-executive)

Qualifications and experience
Bachelor of Science in Civil Engineering, Southern Methodist University, USA; Master of Science in Management Information System, London School of Economics, UK. Over 17 years' experience in investment management and over 27 years in the insurance and financial services sector.

Nominated by:
Ithmaar Holding B.S.C.

Mishal Ali Al Hellow
Board Member

Director since 13 March 2019
(Non-executive)

Qualifications and experience
Master in Business Administration from the Open University of Malaysia, and a Bachelor of Science in Computer Science from the University of Bahrain. Over 20 years of public and private sector experience, including roles in government, financial, and investment entities.

Nominated by:
Social Insurance Organization (SIO)

Naser Khaled Al Raee
Board Member

Director since 13 March 2019
(Non-executive)

Qualifications and experience
Certified Internal Auditor, Institute of Internal Auditors, USA. Bachelor of Business Administration, Finance Concentration, University of Texas, USA. Over 10 years of experience in the audit and risk advisory field with a variety of industry exposure including the banking and investment sector.

Nominated by:
Social Insurance Organization (SIO)

BBK's over-riding strategic priority is to generate healthy returns for our shareholders and contribute positively to the betterment of all stakeholders and the societies we serve. Our focus centres on implementing the key initiatives for growth at the heart of our three-year strategic cycles.

BBK has once again achieved outstanding results, maintaining our track record of sustained profitability and setting new records in the process. The year's performance was particularly noteworthy in light of the continuing challenges faced by the entire banking sector.

Our conversion of perpetual bonds to shares was successfully concluded, and we raised USD 500 million from the international financial markets. We also became the first bank in Bahrain to pay an interim dividend.

BBK's over-riding strategic priority is to generate healthy returns for our shareholders and contribute positively to the betterment of all stakeholders and the societies we serve. Our focus centres on implementing the key initiatives for growth at the heart of our three-year strategic cycles. The past year was the first in our current cycle and FinTech initiatives continue to play a leading role.

BBK Bahrain

As our home and primary market, Bahrain is always central to our plans as we concentrate on protecting and growing our domestic market share. BBK is classified by the CBB as a DSIB (Domestic Systemically Important Bank), a mark of distinction but one that brings additional responsibility.

Bahrain was ranked by the World Bank among the world's top-10 most improved economies in 2019. Part of the national economic reforms taking place and contributing to the 'most improved' status was the introduction of value-added tax at the beginning of 2019. This entailed Bahrain citizens and residents becoming accustomed to entirely new procedures.

In 2019, BBK network expansion included the development of our digital branches in shopping malls. The new-generation branches include a digital zone 'BBKPlus' which includes interactive electronic tellers and machines for the instant issuance of debit cards and bank statements – both firsts for Bahrain. The first BBKPlus branch implementation was completed at Bahrain City Centre Mall and further roll-outs are planned in 2020.

BBK Privé, the private banking and wealth management solution launched in 2018, completed its first full year of operations and is performing very satisfactorily, particularly with investment advice and wealth management clientele. BBK Privé provides affluent clients with an integrated package encompassing assets, liabilities, investment products, and bespoke services to suit their particular needs.

Number of BBK Lite branches

6

An additional four BBK Lite branches – providing innovative banking facilities for expatriate workers – were also opened during 2019.

An additional four BBK Lite branches – providing innovative banking facilities for expatriate workers – were also opened during the year, offering a blend of personal services and smart teller machines to create a welcoming environment convenient close to our customers' workplaces.

BBK Kuwait

BBK Kuwait has continued to focus on maintaining the quality of its loan portfolio, diversifying sectoral exposures, and increasing fee-based income. Under a new management team, Kuwait branch has expanded its corporate activities, better positioning itself within the active Kuwaiti market.

Kuwait is considered one of the most stable economies in the GCC region, especially its banking industry. The middle-income segment represents a good potential customer base for BBK's retail team, while the SME sector creates opportunities for the Bank's corporate arm.

BBK Kuwait branch plans several new digital banking and card product initiatives in 2020, as well collaborative ventures with major local banks.

BBK India

With four branches located in Mumbai, New Delhi, Hyderabad, and Kerala, BBK India continues to perform well. Significant growth was achieved once again in 2019, mainly arising from higher customer deposits.

The creation of an NRI division was well received by non-resident Indian nationals across the region. BBK is a preferred banker among corporates and diplomatic missions for their fund management.

The operations in India are now more broadly-based through bancassurance tie-ups with LIC of India, PNB Metlife, Bharti Axa General Insurance, and Reliance General Insurance. We expect to improve bottom-line contributions over the next year by further diversifying revenue streams.

India's government is expected to introduce more economic reforms and initiatives such as cuts to corporate tax and strengthening the insolvency and bankruptcy code. These developments augur well for the country's banking sector as a whole.

BBK Dubai

The Bank's UAE representative office, located in Dubai, is an active operation that facilitates the interaction between BBK Bahrain and clients that are located across the seven emirates of the UAE.

BBK Dubai also supports the Bank's Mumbai branch in India, providing liaison services for non-resident Indian customers based in the Emirates.

BBK Istanbul

Now in its third year, the Turkish representative office grew its assets by around 21 percent in 2019, despite the economic and political challenges in Turkey.

The Istanbul team's longstanding relationships with leading Turkish companies has provided an advantage for BBK to initiate new corporates relationships. BBK Istanbul is also active with the Bahrain Turkey Business Council, with a view to identifying future opportunities between the two countries.

Looking ahead, Turkey has raised its 2020 economic growth forecast to five percent and lowered its inflation outlook to 8.5 percent as the government outlined a relatively quick rebound from recession without stretching the budget.

CrediMax

BBK subsidiary CrediMax is a pioneer credit card issuer and acquirer. A range of state-of-the-art products were developed and launched in 2019. These include contactless payment acceptance, smart POS terminals, and a multi-currency pre-paid contactless card – Cardy EX – giving holders the choice of making payment in up to six major currencies: Bahraini dinars, US dollars, GB pounds, Euros, UAE dirhams, and Saudi riyals.

CrediMax also completed MaxWallet interoperability with Benefit Pay Wallet and is working on extending the same kind of integration to other wallets.

Several more innovative projects are under development. CrediMax recently signed an understanding that paves the way to join EazzyNet, the internet banking platform. The provision of the biometric payment network will give CrediMax cardholders a safer and more convenient way to conduct their transactions and purchases through PoS terminals and other payment channels by using their fingerprint.

Invita

BBK subsidiary Invita is a leading regional contact centre operating across the banking, insurance, retail, utilities, and airline sectors. Key business wins in 2019 included a new tender for a government entity that has been an Invita client since 2007.


agile4u

Invita received the ISO 9001:2015 certification for its operations, upgrading the previously awarded 9001:2008. It has also been recertified for PCI-DSS v3.2.1, upgrading from the previous PCI-DSS v3.2.

The company is exploring the use of artificial intelligence and solutions such as Chatbot and Robotic Process Automation. It is also working to harness WhatsApp as a service channel.

Invita is currently setting up a records digitisation and archival facility that will enable business partners to store, organise, update, maintain, and retrieve records with the help of a secure online retrieval system.

Aegila

Since its formation in 2017, Aegila Capital Management has secured three high-profile real estate assets and established strategic relationships with leading European market participants.

As a principal investor, Aegila deploys capital on behalf of its shareholders on a deal-by-deal basis without having a fixed-strategy fund mandate. This enables the firm to target assets that traditional real estate funds may find structurally challenging.

Aegila's investments in 2018 achieved projected income returns during 2019 and benefited from capital value uplifts.

With a pipeline of attractive opportunities, Aegila is well-positioned to become a market-leading real estate investment and advisory firm in Europe. In 2020, the firm will continue targeting deals that are underpinned by attractive locations, high-quality tenants, and long-term value-creation potential.

Our people

The BBK family remains the key to the Bank's sustainable success. We continue to invest in attracting and retaining superior talent through the development of an encouraging corporate culture, providing opportunities for employees to grow their capabilities and fulfil their potential.

Training and development programmes, in partnership with local and international educational institutions are available to all, e-learning remains a primary focus, and an increasing number of employees are benefiting from studying specialisations that range from credit and investment to master's degrees, as well as professional certifications.

As part of our commitment to embrace new technology and maintain BBK's leadership in this area, we launched our first programme for management trainee development in financial technology (FinTech). This is designed to shape the next generation of Bahraini talents who will support the Bank's digital transformation with the skills required to succeed in a digital economy.

Programme members began their first phase of learning with a visit to Turkey, where they toured a number of leading FinTech companies.

We also launched our credit culture programme, high-level technical training designed to further strengthen the Bank's credit risk framework and establish a unified credit culture across the Group.

Presented in collaboration with a specialist international training provider, the programme included 70 employees involved with risk management, international banking, and corporate banking, drawn from the Bahrain headquarters, regional representative offices, and overseas branches.

Reinforcing the Bank's family-based culture, the BBK Alumni Club remained of great importance, enrolling new retirees and ensuring alumni receive priority service at the Bank's branches.

Technology

FinTech is constantly growing beyond the basic functionalities of online banking. It now encompasses developments such as messaging technology for marketing financial services, 24/7 virtual assistants, mobile apps, voice banking, and social media integration tools.

One of the key factors driving industry changes is consumer behaviour. Traditionally, banks had limited availability and opening hours that were not ideal for many customers. Increasingly, we are moving away from legacy processes and adopting live platforms that provide ease of communication and quick answers for customers.

The rise of artificial intelligence in banking closely follows the trend driven by the messaging revolution. Chatbots or robo-advisors are becoming the new normal and can be a great resource in helping customers. They can take on simple queries or even more complex tasks such as suggesting investment plans or the most appropriate bank account for individual needs.

BBK is very much in step with these trends, as evidenced by our new automated digital branches. We have also demonstrated our commitment to technology by hosting our second tech-related event in collaboration with the Bahrain Institute of Banking and Finance as a knowledge partner, and under the patronage of the Central Bank of Bahrain.

Under the theme 'Transforming Businesses and Society through Digitisation', the forum focused on how the Bahrain economy can benefit from the growth potential of the digital revolution. More than 500 senior representatives from various sectors participated.

BBK is known for its leadership in deploying technology-enabled services, continuously enhancing products and other functionalities to further contribute towards digital transformation in Bahrain.

Internal control

The Group maintains a sound adequate internal control system and processes which are in place across all BBK departments, branches, and entities with the objective of safeguarding the Group assets. The dedicated Internal Control Unit has implemented well-designed and comprehensive systems and procedures that assist in identifying and managing risks that could arise in the course of conducting business. These controls are reviewed and updated periodically and as required.

Awards

Citibank bestowed an award on BBK in 2019, recognising its leadership in payment procedures. The Citi 2019 Straight Through Processing (STP) Award is an honour presented to leading financial institutions for achieving high rates of STP. It also recognises the quality of technology and automation of payments from BBK through Citibank.

Business continuity

The Bank continues to enforce a robust business continuity programme for the Group, protecting the interests of customers, shareholders and employees while maintaining the Bank's reputation and financial sustainability.

The programme is managed by BBK's dedicated Business Continuity Management department that plans, simulates and manages crises and recovery. This ensures the continuity of critical businesses and functions essential to minimising any disruption that could arise from a wide range of unforeseen scenarios.

Business continuity procedures and plans are reviewed and updated annually, and the adequacy of the Business Continuity Centre is reviewed to ensure it is properly equipped for purpose.

In compliance with Corporate Governance and CBB requirements, BBK successfully conducted a Bank-wide exercise and test for all business units, simulating their business continuity and recovery plans, and testing their capabilities to provide essential banking services to retail and corporate customers.

BBK also renewed its ISO 22301-Business Continuity Certification, providing added reassurance to the quality of our process and planning.

Outlook

Throughout 2020 we can expect to see a continuation of the challenging environment, with new complications arising even as historic matters are resolved. Improving geopolitical issues in our region give cause for encouragement, as do the resolution of Brexit and the first phase of a trade agreement between the USA and China.

From a BBK perspective, our priorities will remain largely unchanged: quality of management, quality of assets, and serving our customers. We have already been successful in reducing the ratio of non-performing loans and this will continue to be a high priority. And of course, we will continue our fast-track progress to fully integrated FinTech and digitalisation.

Expansion and diversification initiatives will also remain on the agenda. In this context, the potential for acquisitions is attractive, particularly to enable diversification into Shariah-compliant products and services.

Appreciation

On behalf of my management colleagues, I express appreciation to our Board of Directors for the support and guidance they consistently extend to us. Similarly, our thanks go to the supervisory authorities in the territories where we operate – the Central Bank of Bahrain, the Bahrain Bourse, and the regulators of the State of Kuwait, the Republic of India, the United Arab Emirates, the Republic of Turkey, and the United Kingdom.

Finally, I extend whole-hearted appreciation to our loyal clients and our employees, whose dedication contributes so much to BBK's continued success.

Reyadh Yousif Sater
Group Chief Executive

Operating expenses
(BD millions)

63.2

Total assets
(BD millions)

3,865.0

BBK is known for its leadership in deploying technology-enabled services, continuously enhancing products and other functionalities to further contribute towards digital transformation in Bahrain.


easy4u

Executive management

Reyadh Yousif Sater
Group Chief Executive

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001).
42 years' banking experience.
Joined BBK in 1978.

Abdulrahman Ali Saif
Deputy Group Chief Executive
Wholesale Banking Group

Qualifications and experience:
PhD in Economics, University of Leicester, United Kingdom (1992).
37 years' banking experience.
Joined BBK in 2008.

Mohammed Ali Malik
Deputy Group Chief Executive
Retail Banking Group

Qualifications and experience:
BSc in Computer Science, University of Petroleum and Minerals, Kingdom of Saudi Arabia (1984).
34 years' work experience.
Joined BBK in 2000.

Hassan Ahmed Abouzeid
Group Chief IT and Operations Officer
(effective 3 November 2019)

Qualifications and experience:
BSc, Architecture Engineering, Ain Shams University, Egypt (1987).
30 years' banking experience.
Joined BBK in 2019.

Rashad Ahmed Akbari
General Manager
Operations

Qualifications and experience:
MSc in Marketing, University of Stirling, United Kingdom (1997).
33 years' work experience, of which 18 years in banking.
Joined BBK in 2000.

Nadeem A. Aziz Kooheji
General Manager
Corporate Banking

Qualifications and experience:
BA in Finance and International Business, University of Texas, United States of America (1988).
22 years' banking experience and 11 years' audit.
Joined BBK in 1999.

Neil Sharp
General Manager
Treasury and Investment

Qualifications and experience:
Associate member of the Association of Corporate Treasurers.
33 years' banking experience in the treasury business.
Joined BBK in 2009.

Jamal Mohamed Al Sabbagh
Group Chief IT and Operations Officer
(until 2 November 2019)

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001).

39 years' banking experience.

Joined BBK in 1980.

Hassaan Mohammed Burshaid
Group Chief Human Resources and Administration Officer

Qualifications and experience:
MSc, Human Resources Management, DePaul University, United States of America (2006).

25 years' experience in the field of human resources.

Joined BBK in 1998.

Mohammed Abdulla Isa
Group Chief Financial Officer

Qualifications and experience:
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).

28 years' experience in the field of finance.

Joined BBK in 2001.

Adel Abdulla Salem
General Manager
Retail Banking

Qualifications and experience:
PhD in Management, Monarch Business School – Switzerland (2015),

32 years' banking experience in retail banking, business of cards and telecoms.

Joined BBK in 2017.

Raj Dugar
General Manager
Internal Audit

Qualifications and experience:
ACA, Institute of Chartered Accountants of India (1987),

30 years' banking experience, of which 19 years in internal audit.

Joined BBK in 2000.

Ajay Kumar Jaiswal
Acting Chief Risk Officer
Risk, Credit and Compliance

Qualifications and experience:
MBA, University of Allahabad, Republic of India (1983).

36 years' banking experience.

Joined BBK in 2001.

Prasenjit Mandal
Acting Division Head
International Banking

Qualifications and experience:
MBA, Indian Institute of Management, Republic of India (1993).

22 years' banking experience.

Joined BBK in 2006.


sustainable4u

Investing in the community, partners in sustainability

Social responsibility is not just a side programme for BBK – it is an integral part of the Bank's philosophy and vision. It is woven into the very fabric of the corporate culture and drives the organisation's sustainable success.

Since inception, BBK has remained steadfast in its commitment to support the economic and societal growth of the communities in which it operates. BBK honours this commitment through continued backing of community related projects and worthwhile societal causes.

The Bank's community investment activities are designed to address the needs of different sectors of society, support sustainable economic growth, and encourage the advancement of the United Nations Global Goals for Sustainable Development – a series of 17 ambitious goals designed to end poverty, fight inequality and injustice, and tackle climate change by 2030.

The Bank's community investment programme focuses on 13 main areas. These include support for the more vulnerable members of our society, in particular orphans and those with special needs; empowering our youth through education and the availability of career opportunities; enhancing access to quality healthcare for all members of society; protecting and promoting Bahrain's rich cultural heritage; encouraging a national culture of sport and a healthy lifestyle; honouring the elderly; promoting national pride and prosperity; and, encouraging global environmental sustainability.

In 2019, the Bank underscored its unwavering commitment to remain a regional benchmark for social responsibility through various community investment initiatives.

Investing in economic sustainability

The Bank is a key player in driving the sustainable growth of Bahrain's banking sector while cementing the Kingdom's position as a prominent regional financial centre and FinTech hub. In particular and aligned with government directives to transform the Kingdom to a digital economy, the Bank is facilitating the creation of a FinTech ecosystem by supporting the development of a world-class pool of FinTech-enabled local talent. The Bank's pioneering FinTech-focused Management Trainee Development Programme is the first of its kind in Bahrain and is equipping young Bahrainis with the skills they need to succeed in the digital economy.

Also aligned with preparing the Kingdom to succeed in the digital age, and following the national roadmap to digitalising economic activities, BBK staged the Digital Economy Forum and Expo under the patronage of the Central Bank of Bahrain and in collaboration with the Bahrain Institute for Banking and Finance.

The forum showcased the importance of digital transformation and the opportunities it brings to revolutionise Bahrain's economy as a whole.

Further commitment to economic sustainability was demonstrated by the Bank's early response to official directives to support Bahrain's economy and national growth by becoming involved in the new Liquidity Support Fund. The initiative, led by the Crown Prince, HRH Prince Salman Bin Hamad Al Khalifa, is designed to stimulate entrepreneurship and economic diversification.

Investing in local talent

BBK believes in Bahraini talent. We attract and nurture the country's brightest and best, providing a challenging and encouraging work environment and a positive corporate culture.

BBK invests heavily in its people, providing training and career development opportunities to equip employees with the skills they need to reach their full creative potential. The Bank has one of the highest Bahrainisation levels in the Kingdom and is committed to empowering our people and our youth to succeed.

In 2019, the Bank provided its employees with myriad training and development opportunities in collaboration with local and international educational partners.

At BBK, we reward and recognise our staff achievements and honour their loyalty through various incentives. This commitment to gratitude, as well our BBK Alumni Programme, nurtures the BBK 'Family' culture and is key to our future success and positioning as an employer of choice.

Investing in education

As a learning organisation, BBK values the power of education to enable our youth and change the future. The Bank actively invests in initiatives that enhance the accessibility and quality of education in Bahrain and beyond. A substantial percentage of the donation budget was allocated to education in 2019, in addition to continuing programmes that bridge the gap between education and the workforce.

The Bank is a long-standing Platinum Sponsor of the Crown Prince's International Scholarship Programme, an initiative that enables Bahrain's most outstanding young people to study at top international universities and colleges. BBK's backing of the Isa bin Salman Education Charitable Trust, also contributes to helping Bahraini students pursue their studies.

The Bank also equipped a complete laboratory in cooperation with the University of Bahrain, with the latest equipment and technologies on digital engineering, which helps to establish and prepare students for integration into digital education.

Investing in gender equality

BBK has a rich history and a proven record as an advocate for diversity and equal opportunity. As an equal opportunity employer, the Bank highly values the contributions of its large contingent of female employees, and with an active Women's Empowerment Committee ensures BBK women are supported to reach their full potential, achieve their career goals, and maintain a work/life balance.

This commitment to reaching gender equality is replicated in our community initiatives where we encourage and applaud women's contributions in society through the backing of women-owned ventures, including small businesses and entrepreneurs, and generally supporting women's economic independence.

Investing in independence

BBK is a pioneer in providing innovative services that support the financial independence of customers with special needs. The Bank continues to invest in better accessibility to bank facilities and provides special exemptions from fees and charges and minimum account balances. Underscoring the importance the Bank places on addressing the requirements of the special needs community, BBK allocated more than 15 percent of its total donation budget to special needs societies and associations in 2019.

Other philanthropic support

The Bank renewed its commitment to society with its continued financial support for the community, making numerous charitable donations during 2019. These included our ongoing support of various funds and initiatives such as the Ministry of Social Development NGO Fund and schemes to elevate the care of our elderly citizens and orphan community, as well as other philanthropic societies.

Investing in wellbeing

The Bank believes that every citizen has the right to quality healthcare, accordingly making contributions that emphasise the health and well-being of the Bahraini community. From the establishment of the BBK Health Centre and the BBK Rehabilitation Centre to extending financial support to medical entities and research institutes and promoting national awareness campaigns, BBK is an avid supporter of elevating the health and wellbeing of the citizens in the communities where we operate.

Currently, the Bank is in the process of establishing a health center in the Galali region, in coordination with the Ministry of Health, which in turn will serve a large segment of the population of the northern part of the Kingdom, which includes residents of Amwaj Island, the Galali region, Al Dair, and Samaheej.

Investing in a healthy lifestyle

BBK nurtures a corporate culture that encourages sport activities and a healthy lifestyle, extending this principle to our community involvement where we encourage sport at a national level. In 2019, BBK participated in the National Sports Day and continued its proud record of donations and sponsorships that benefit a range of national sports, such as the Kingdom's football team.

2019 was a golden year, during which our team won the 24th Gulf Cup. The Bank provided BD 100,000 as part of the national campaign to support the team.

Investing in our rich heritage and making our cities safe and sustainable

BBK is proud of Bahrain's rich culture and encourages the promotion and continuation of our heritage by supporting arts, culture, and literature. The Bank contributes to various initiatives for cultural preservation and the restoration of historical facilities through the Bahrain Authority for Culture and Antiquities, for example restoring the minaret of Al-Fadhil Mosque and Manamat Al Gosaibi, and the Sheikh Ibrahim Bin Mohammed Al Khalifa Centre for Culture and Research.

Investing in a greener future

The Bank's sustainability push not only incorporates a sustainable business, economy and society. It encompasses the preservation of our natural environment where the Bank has planted and equipped Al-Eker Park in cooperation with the Capital Governorate, which will benefit children and visitors to the park. BBK continues to take action towards reducing our carbon footprint and ensuring a greener environment for generations to come. The Bank's digitalisation is a key part in this process as we move towards a paperless office, while supporting local conservation work is fundamental to our mission for a cleaner, greener tomorrow.

Part II

Reports and disclosures

Sound corporate governance is central to achieving BBK's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

The Bank takes pride in ensuring that exceptional standards of corporate governance are met. Our corporate governance policy is underpinned by international standards of best practice.

Initiatives in 2019

BBK implemented a number of initiatives over the past year to fulfil its corporate governance strategy. The evaluation process for the Board and its committees was successfully completed and recommendations were made for improvement. An action plan was put in place to achieve the short- and long-term recommendations.

The role of the Board's ad hoc committee for credit approvals continued, concluding with a number of key recommendations.

The Board reviewed the independence of directors through an annual exercise taking into consideration the regulatory requirements, as well as best practice.

The Board Secretariat, in coordination with BBK's Compliance Department, also conducted testing to ensure compliance with the High Level Controls module of the Central Bank of Bahrain (CBB) rulebook. The Board Secretariat also developed a conflict of interest policy for Board members, which was approved by the Board.

Awareness programmes were arranged for the Board and Executive Management with the objective of continuous development and keeping abreast of updates in the technology sector. A special session dealt with the enhancement of corporate governance, including environmental and social issues and sustainability reporting.

Corporate governance philosophy

BBK shall continue to enhance shareholders' value, protect their interests, and defend their rights by practising the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls module of the CBB rulebook – but also formulate and adhere to strong corporate governance practices.

BBK shall continuously strive to best serve the interests of its stakeholders, including shareholders, clients, employees, and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Risk appetite statement

Risk appetite is the level and type of risk that the Bank is willing to assume to achieve its strategic and business objectives, keeping in perspective the obligations to its stakeholders.

The risk appetite of the Bank is both a qualitative and quantitative measure and reflects its level of risk tolerance in normal as well as in stressed scenarios. It is expressed as a measurable key performance indicator (KPI), a tolerance limit, or as a qualitative guideline.

The Bank has a well-defined Risk Appetite Framework, comprising the Risk Appetite Statement along with: (a) well-defined performance metrics in the form of KPIs; (b) risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual; (c) capital and liquidity benchmarks, which are monitored in the Asset Liability Management Committee meetings; (d) key business and risk management objectives, goals, and strategy, which are defined in business, investment and risk management strategies; and (e) management and oversight structures in the Bank through Management and Board committees.

Our risk appetite defines the desired performance levels, which in turn are embedded into the management of various risks within the Bank as well as the capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals.

The Bank measures the contribution of each business vertical against KPIs.

The Bank aims to optimise the risk/reward for the benefit of all stakeholders, and this is reviewed and implemented through strategies (business, investment, risk management, internal capital adequacy assessment process), which are closely reviewed annually. The Bank's primary exposure is to credit risk along with other Basel Pillar 1 and Pillar 2 risks assumed in the normal course of its business. The risk appetite statement is also reviewed though a Risk Management Strategy document by the Executive Management, and recommended for approval to the Risk Committee and the Board annually.

The Bank's risk appetite requires, among other things:

- A high level of integrity, ethical standards, respect, and professionalism in our dealings.
- Taking only those risks which are transparent and understood, and those which can be measured, monitored, and managed.
- Ensuring that the Bank has adequate levels of capital adequacy on an ongoing basis as mandated by the regulator (currently 14 percent) and as assessed by the Bank in its internal capital adequacy assessment process (ICAAP) document; ensuring that the capital requirements and capital planning are incorporated in the Bank's capital management strategy.
- Ensuring that the Bank has access to adequate levels of stable, efficient, and cost-effective funding to support liquidity and lending or investing requirements on an ongoing basis; that the Bank has in place a robust liquidity management framework and contingency plans to monitor and manage liquidity both in normal and stressed liquidity conditions, in addition to monitoring key liquidity ratios (internal and regulatory) in Asset Liability Management Committee meetings on a monthly basis.
- Adhering to the core principles of lending, which are enshrined in the general lending policy of the Bank.
- Maintaining a robust credit management framework with focus on geographies where the Bank has physical presence (Kuwait, India, Dubai and Turkey), the GCC region and select MENA and other countries; undertaking exposures to countries within the directives of the Country Risk Committee, and the Bank's strategy in those countries on a dynamic basis.
- Having in place a defined monitoring, collection, and restructuring framework for effective recovery mechanism.
- Limiting exposures to high-risk activities which may culminate in tail risks, jeopardising the Bank's capital and creditworthiness.
- Striving for optimum profitability through income generation, cost efficiency, and low impairment.
- Widening the product basket and delivery channels for increasing customer satisfaction; assessing new credit products in a structured form for approval by appropriate authorities so that the underlying risks, benefits, operational processes, system/technology requirements, and legal requirements are understood and managed.
- Protecting the Bank's and customers' interests through robust operational procedures, internal controls, system support, training, and operational risk management processes to mitigate operational risk.
- Ensuring full compliance with legal, statutory, and regulatory requirements; ensuring adherence to anti-money laundering (AML) and other obligations under international law; providing adequate training and guidance to mitigate compliance and AML risks.

Shareholder information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,296,891,745 equity shares, each with a face value of 100 fils. All shares are fully paid.

During 2019, BBK converted its perpetual Tier 1 convertible capital securities of BD 86.1 million to ordinary shares. The securities were issued in 2016 with an option to convert to ordinary shares on pre-set dates and conversion rates. Accordingly, an additional 215,243,793 shares were issued as part of the process. The Bank's issued and paid-up capital therefore increased from BD 108,164,795 to BD 129,689,175. The conversion was approved by the regulatory bodies and by shareholders at the Extraordinary General Meeting on 20 March 2019.

Annual Ordinary General Meeting, Extraordinary General Meeting and Ordinary General Meeting

The Annual Ordinary General Meeting (AGM) and an Extraordinary General Meeting (EGM) were held on 20 March 2019. An Ordinary General Meeting (OGM) was also convened on 20 June 2019.

The EGM held on 20 March 2019 approved the following:

1. Conversion of the Tier 1 capital Perpetual Convertible Bonds amounting to BD 86,097,511 issued by the Bank to ordinary shares with a nominal value of 100 fils per share to take effect on 2 May 2019 to 2.5 shares per bond (approximately 215,243,793 shares with a conversion price of 400 fils) subject to obtaining regulatory approval.

2. Amending Article 7 of the Memorandum of Association and Article 7 of the Articles of Association (issued and paid up capital) as a result of the increase in issued and paid up capital following the conversion of the perpetual Tier 1 convertible bonds amounting to BD 86,097,511, distributed as follows:

(a) BD 21,524,379 (distributed as approximately 215,243,793 shares with a nominal value of 100 fils per share)

(b) BD 64,573,132 as share premium

So that the issued and paid up capital increases to BD 129,689,175 distributed as approximately 1,296,891,745 shares, noting the impact on ownership and the approximate effect of the diluted earnings per share in BD, estimated on the basis of 4 fils per share following conversion of the Bank's perpetual Tier 1 convertible bonds to ordinary shares.

The EGM held on 20 June 2019 approved the following:

1. The recommendation of the Board of Directors to issue medium term notes in an amount not exceeding USD 700 million under the program approved by the Ordinary General Meeting on March 7, 2010, for a total amount of USD 2 billion.

2. Authorising the Board of Directors (or any person delegated by the Board) to take the actions required with the concerned authorities in the Kingdom of Bahrain to obtain the necessary official approvals from the regulatory authorities to implement the issuance mentioned under item (1) above, as well as to take all necessary steps to implement and update the notes issuance programme mentioned above and issuance of notes from time to time, and to sign the agreements and take all steps and procedures that the Board deems necessary in accordance with the content of the documents and agreements of the notes issuance programme. Also to authorise the Board to take any decision related to the offer of redemption of the notes in any form within the liability management exercise of the Bank, including buyback of existing notes issued in the year 2015 and/or exchange offer.

Minutes of the AGM, EGMs and OGM are published in this annual report.

The Bank submits a Corporate Governance Report to the AGM annually, covering the status of compliance with the related regulatory requirements.

At the AGM, the Bank discloses and reports to shareholders the details under the Public Disclosure module of the CBB's rulebook. These disclosures include the total remuneration paid to the Directors, Executive Management, and external auditors. The total amount paid to Directors and Executive Management is also included in this annual report.

Board of Directors' information

Board composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association, and comprises 12 members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with corporate governance requirements, the Board Committees consist of members with the appropriate professional experience. Consequently, the Board has five independent Directors. The Board periodically reviews its composition and the contribution of Directors and Committees.

Board composition

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and others	–	282,394,671	21.77
Ithmaar Holding BSC.	Kingdom of Bahrain	337,936,273	26.06
Social Insurance Organisation (SIO)			
– Formerly Pension Fund Commission	Kingdom of Bahrain	249,944,126	19.27
– Formerly General Organisation for Social Insurance (GOSI)	Kingdom of Bahrain	177,645,510	13.70
Kuwait Investment Authority	State of Kuwait	248,971,165	19.20

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	284,369,438	2,443	21.93
1% to less than 5%	–	–	–
5% to less than 10%	84,236,862	1	6.50
10% to less than 20%	590,349,172	3	45.52
20% to less than 50%	337,936,273	1	26.06
50% and above	–	–	–

The appointment of Directors is subject to CBB approval. The classification of Executive Directors, Non-executive Directors, and Independent Non-executive Directors follows the definitions stipulated by the CBB. The current term of the Board began in March 2017 and ends in March 2020.

Directors are elected/appointed by the shareholders at the AGM. Experts who are non-shareholders or promoters of the Bank may also be elected as Directors.

The election or re-election of a Director at the AGM is accompanied by a recommendation from the Board based on a recommendation from the Nomination, Remuneration and Corporate Governance Committee, with specific information such as biographical and professional qualifications and other directorships.

Group Corporate Secretary

The Board is supported by the Group Corporate Secretary, who provides professional and administrative support to the General Assembly, the Board, its Committees, and members. The Group Corporate Secretary also assumes the responsibilities of Group Corporate Governance Officer and in this context supports the processes of performance evaluation for the Board, Board Committees, and individual Directors as well as the process of access to independent advice and other relevant issues on a Group level. The appointment of the Group Corporate Secretary is subject to approval of the Board.

BBK's Group Corporate Secretary is Ahmed A. Qudoos Ahmed, who joined the Bank in 2009. His qualifications include a BSc in Engineering from the University of Bahrain in 1996. He is qualified in Board Secretarial practices from George Washington University. He has attended many advance training programmes in corporate governance both in Bahrain and abroad, accumulating over 22 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the Code of Conduct.

The Board has a schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of financial statements, financing and borrowing activities including the annual operating plan and budget, ensuring regulatory compliance, and reviewing the adequacy and integrity of internal controls.

The Board exercises its judgment in establishing and revising the delegation of authority for Board Committees and the Executive Management. This delegation may be for authorisation of expenditure, approval of credit facilities, or for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, and certain strategic investments are within the Board's authority.

Each Director holds the position for three years, after which he must present himself to the AGM for reappointment. The majority of BBK Directors (including the Chairman and/or Deputy Chairman) are required to attend Board meetings to ensure a quorum. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transactions to Directors, at a certain level of exposure, require Board approval. Credit and investment applications exceeding certain pre-defined exposure levels also require Board approval.

Similarly, related party transactions involving members of the Board require Board approval.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice related to the affairs of the Bank or to their individual responsibilities as members, subject to approval by the Board.

Directors' induction and professional development

The Board is required to be up to date with current business, industry, regulatory, and legislative developments and trends that affect the Bank's business operations. Immediately after appointment, the Bank provides formal induction for a full day.

Meetings are also arranged with the Executive Management. This will foster a better understanding of the business environment and markets in which the Bank operates. A continuing awareness programme is essential and may take many forms, through the distribution of publications, workshops, presentations at Board meetings, and attendance at conferences encompassing topics on directorship, business, industry, and regulatory developments. In terms of the Training and Competency module of the CBB rulebook, each approved person (including members of the Board) is required to complete 15 hours of continued professional development.

Board and Committee evaluation

The Board performs a self-evaluation process annually. The Board annually reviews its Charter and its own effectiveness, initiating suitable steps for any amendments. The Board will also review self-evaluations of individual Board members and the Board Committees and consider any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

Remuneration of Directors

The Board has adopted a remuneration policy for Directors with well-defined procedures to apply to the Directors' various remuneration and compensation components, reflecting their involvement and contribution to the activities of the Board and its ad hoc, temporary and permanent committees. The basic guideline of the policy is that participation is considered in terms of attendance at meetings. Participation in a meeting by telephone/video conference shall be considered as attendance of the meeting. The relevant policy is reviewed periodically to ensure it is in line with regional best practice. Directors' remuneration is governed by Commercial Companies Law No 21 for the year 2001, and therefore all payments comply with the provision of the law.

Insurance coverage

The Bank provides personal accident insurance coverage for Board Members during travel on Bank assignments. The Bank also has a liability insurance policy for Directors.

Whistle-blowing policy

The Bank has a whistle-blowing policy with designated officials that employees can approach. The policy provides protection to employees for any reports made in good faith. The Board's Audit Committee oversees this policy. The whistle-blowing policy is published on the Bank's website.

Key persons (KP) policy

The Bank has established a 'Key Persons' policy to ensure that key persons are aware of the legal and administrative requirements regarding the holding and trading of BBK shares, with the objective of preventing abuse of inside information. Key persons are defined to include the Directors, Executive Management, designated employees, and persons under guardianship or control of Key Persons. The Key Persons policy is entrusted to the Board's Audit Committee. The Key Persons policy is posted on the Bank's website.

Code of Conduct

The Board has approved a Code of Conduct for BBK Directors and a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high-level responsibility for monitoring the codes lies with the Board of Directors. The Directors' Code of Conduct is published on the Bank's website.

Relative recruitment/appointment policy

The Bank has in place policies that govern the recruitment and appointment of relatives to the Bank and across its wholly-owned subsidiaries. The policies are:

1. Employment of relatives of first and second degrees are prohibited, whereas employment of relatives of third and fourth degree may be approved by the Executive Management provided it does not lead to a conflict of interest.

2. Employment of relatives at the Bank's wholly-owned subsidiaries of first and second degree are prohibited for senior managers and above. Any exception must be approved by the Chief Executive.

3. As part of the annual reporting, the Chief Executive must disclose to the Board those individuals who are occupying controlled functions and who are relatives of any other approved persons within the Bank and its wholly-owned subsidiaries.

Conflict of interest

The Bank has a documented procedure for dealing with situations involving conflict of interest of Directors. In the event of the Board or its Committees considering any issues involving conflict of interest of Directors, decisions are taken by the full Board/Committees.

The concerned Director shall leave the meeting room during the discussion of these issues. These events are recorded in the Board/Committee proceedings. The Directors must inform the Board of conflicts of interest (potential or otherwise) in their activities with, and commitments to, other organisations as they arise and to abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Development programmes arranged for board members during 2019

1. Digitalisation – 17 February 2019
2. Artificial Intelligence – 17 February 2019
3. Digital Banking and the role of Data Management and Security in the Banking Industry – 30 April 2019
4. Big Data and Internet of Things (IoT) Application on the Banking Industry – 30 April 2019
5. Corporate Social Responsibility – 28 October 2019
6. ESG and Sustainability Reporting – 28 October 2019

Number of development programme hours attended by board members, arranged by the Bank or otherwise

Board members	Total no. of hours
Murad Ali Murad	15
Jassem Hasan Ali Zainal	17.5
Mohamed Abdulrahman Hussain	20.5
Hani Ali Al Maskati	47.5
Sh. Khalifa bin Duaij Al Khalifa	25
Sh. Abdulla bin Khalifa bin Salman Al-Khalifa	22
Yusuf Saleh Khalaf	21
Marwan Mohammed Al Saleh	33.5
Edrees Musaed Ahmad	15
Ashraf Adnan Bseisu	41
Mishal Ali Alhellow	59.5
Nasser Khalid Al Raee	62.5

Corporate social responsibility

BBK's contribution to the well-being of the community is an integral part of its corporate role. Corporate social responsibility is implemented by the Bank through annual appropriation of a budget allocated for donations to finance community-related projects and initiatives. The projects may vary in nature but ought to fall into any one of the following fields: charity, culture, research, education, philanthropy, environmental protection, and sports.

BBK has an approved high-level donation policy for distribution of the donation budget. The policy outlines guiding principles and sets criteria for the evaluation and selection of donation requests, with the ultimate objective of maximising the return on both the Bank's social image and the benefit of the community. For details on CSR activities conducted by the Bank, please refer to the Sustainability review section in Part I.

Disclosures relating to the Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company BSC	Kingdom of Bahrain
Chairman of the Committee	Nomination Remuneration and Governance Committee – Bahrain Kuwait Insurance Company BSC	Kingdom of Bahrain
Deputy Chairman	Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Committee	Audit and Risk Committee – Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Chairman of the Board	Al Janabeya Company WLL (Family company)	Kingdom of Bahrain
Jassem Hasan Ali Zainal		
Vice Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Chairman and CEO	Addax BSC Closed	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Al-Masah Capital Limited	Dubai, UAE
Board Member	Miami International Securities Exchange LLC (MIAX)	United States of America
Mohamed Abdulrahman Hussain		
Vice-Chairman and Chairman of Executive Committee	Eskan Bank BSC	Kingdom of Bahrain
Board Member	Investcorp Saudi Arabia (Financial investment company	Kingdom of Saudi Arabia
Board Member	The K Hotel WLL	Kingdom of Bahrain
Independent Board Member	A.M. Yateem Brothers WLL	Kingdom of Bahrain
Hani Ali Al Maskati		
Co-Founder and Managing Partner	Cash Management Matters (CMM)	Kingdom of Bahrain
Board Member	Blu Solution Ltd	British Virgin Islands
Sh. Khalifa bin Duaij Al Khalifa		
President	Court of HRH the Crown Prince	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Kingdom of Bahrain
Board Member	Palm Capital Company WLL	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Lebanon
Chairman	Bahrain Financial Markets Associations (ACI)	Kingdom of Bahrain
Chairman	Bahrain Middle East Bank	Kingdom of Bahrain
Sh. Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management BSC	Kingdom of Bahrain
Chairman	Securities and Investment Company (SICO) BSC	Kingdom of Bahrain
Chairman	Bahrain Telecommunication Company (Batelco)	Kingdom of Bahrain
Board Member	Supreme Council for Youth and Sports	Kingdom of Bahrain
Yusuf Saleh Khalaf		
Director	Bahrain Credit Facilities Co BSC	Kingdom of Bahrain
Marwan Mohammed Al Saleh		
Director of Fixed Income	Kuwait Investment Authority	State of Kuwait
Edrees Musaed Ahmad		
Manager	Marketable Securities, European Equity Division, Kuwait Investment Authority (KIA)	State of Kuwait

Ashraf Adnan Bseisu		
Group Chief Executive	Solidarity Group Holding Company BSC	Kingdom of Bahrain
Chairman	Solidarity First Insurance Company PLC	Hashemite Kingdom of Jordan
Vice Chairman	Solidarity Bahrain Company BSC	Kingdom of Bahrain
Vice Chairman	Solidarity Saudi Takaful Company	Kingdom of Saudi Arabia
Board Member	Bahrain Institute of Banking and Finance (BIBF)	Kingdom of Bahrain
Board Member	United Insurance Company BSC	Kingdom of Bahrain

Mishal Ali Alhellow		
Board Member	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management BSC	Kingdom of Bahrain
Director	Arcapita Group	Kingdom of Bahrain
Chairman	Technology and Business Society	Kingdom of Bahrain

Nasser Khalid Al Raee		
Head of Internal Audit	Osool Asset Management BSC	Kingdom of Bahrain

Directors' and related parties' interests

The number of securities held by Directors as of 31 December 2019 was as follows:

Name of Director	Type of shares	31 Dec 2019	31 Dec 2018	Bonds 31 Dec 2019	Bonds 31 Dec 2018
Murad Ali Murad	Ordinary	**1,348,422**	853,977	**–**	197,778
Jassem Hasan Ali Zainal	Ordinary	**265,286**	190,286	**–**	30,000
Mohamed Abdulrahman Hussain	Ordinary	**178,402**	178,402	**–**	–
Sh Khalifa bin Duaij Al Khalifa	Ordinary	**138,326**	138,326	**–**	–
Sh Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	**127,050**	127,050	**–**	50,000
Yusuf Saleh Khalaf	Ordinary	**249,693**	152,050	**–**	39,057
Ashraf Adnan Bseisu	Ordinary	**41,909**	14,707	**–**	–

Related parties

1. Al Janabeya Company WLL (a family company owned by Mr Murad Ali Murad and his family) owns 1,216,140 shares, and is related to the Chairman of the Board.

2. Arzan Financial Group – Board Member Mr Jassem Hasan Zainal is the Vice Chairman and CEO of this group that has a term loan facility with the Bank of KD 724,000 maturing in May 2021.

Nature and extent of transactions with related parties

None.

Approval process for related parties' transactions

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material contracts and loans involving Directors

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 400,000	Fixed deposit rate over 1% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	USD 66,000	LIBOR + 3%	On demand	On demand	Shares 43% plus fixed deposit of 3%
			BD 115,000	BIBOR + 3%			

Notes: 1. The materiality amount for such disclosures is considered above BD 100,000.
2. 10 Board members hold CrediMax Credit cards with a total limit of BD 139,087 and outstanding amount at the end of December 2019 of BD 26,400.

Directors' trading of BBK shares during 2019

None.

Board meetings

The Board of Directors meets at the summons of the Chairman (or Deputy Chairman in the event of his absence or disability) or, if requested to do so, by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members.

Meetings of Independent Directors

Since 2012 the Board of Directors has held separate meetings for Independent Directors. In terms of the Board Charter, minority shareholders look to Independent Directors for representation. For this purpose, regular Board meetings are preceded by a meeting of Independent Directors, unless the Independent Directors decide that there are no issues to discuss.

The agendas for these meetings are the same as those for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings is recorded by the Group Corporate Secretary and shared with the Independent Directors.

Board meeting attendance

During 2019, five Board meetings were held in the Kingdom of Bahrain in the following manner:

Key: ⊙ Attended ○ Absent ⦸ was not a member during this period

Board meetings 2019

	Quarterly meetings				Other meetings
Members	18 Feb	29 Apr	29 Jul	28 Oct	20 Mar
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	○	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙
Hani Ali Al Maskati	⊙	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	○	⊙	○
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	○	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙	⊙
Marwan Mohammed Al Saleh	⊙	⊙	○	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	○	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙
Mishal Ali Alhellow	⦸	⊙	⊙	⊙	⊙
Nasser Khalid Al Raee	⦸	⊙	⊙	⊙	⊙

Major issues discussed by the Board during 2019

(Subjects that fall under the Board Committees' scope are recommended by the respective Committee for the Board's approval.)

Date of meeting	Subject
18 February 2019	1 Recommendation to the AGM concerning amendments to the Articles of Association of the Bank due to amendments to the Commercial Companies Law 2 Corporate Governance report to AGM 3 Quarterly Liquidity Report 4 Investment Portfolio performance 5 Financial results 6 Re-appointment of external auditors and their fees 7 Anti-money laundering annual report 2018 8 Succession plan 9 Review of the Bank's strategy for the years 2016 to 2018 10 Risk policies for review
20 March 2019	1 Board Chairmanship and Board Committees' Composition 2 Board evaluation
29 April 2019	1 Review of the Board Charter 2 Financial Results for first quarter of 2019 and reviewing related press release 3 Cyber security 4 Review of the Audit Committee's terms of reference 5 Investment strategy 6 Risk policies for review 7 Succession plan
29 July 2019	1 Financial results for second quarter of 2019 and reviewing related press release 2 Independent Board Member evaluations 3 Quarterly liquidity report 4 Risk policies for review

Date of meeting	Subject
28 October 2019	1 Financial results for third quarter of 2019 and reviewing the related press release 2 Schedule of meeting of the Board of Director and its Committees for the year 2020 3 Independent Board Member evaluations 4 Quarterly liquidity report 5 Risk policies for review

Board committees

Board Committees are formed and their members appointed by the Board of Directors each year, after the AGM. They are considered the high-level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the operations of the Bank by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary committees and discontinue them from time to time, as necessary. Members of the Board are provided with copies of the meeting minutes of the committees, as required by the regulators. During 2019, the Board established an ad-hoc committee to study the Bank's needs for technological advancement, the objective being to achieve BBK's digital transformation. Furthermore, the Board ad-hoc committee – Credit Approvals process completed its mandate during 2019 and raised its recommendations to the Board, which the Board approved. There are no other significant issues of concern to report relating to the work of the Board committees during 2019.

The terms of reference for the Board committees (Executive; Audit and Compliance; Nomination, Remuneration and Corporate Governance; Risk; and Independent Members) are available on the Bank's website.

Board Committees' composition, roles and responsibilities

Executive Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Mohamed Abdulrahman Hussain Chairman **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Deputy Chairman **Yusuf Saleh Khalaf** Member **Ashraf Adnan Bseisu** Member **Mishal Ali Alhellow** Member **Reyadh Yousif Sater** Member	• No fewer than five members are appointed for a one-year term. • Minimum number of meetings required each year: 8 (actual meetings in 2019: 12) • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Reviews, approves and directs the executive management on matters raised to the Board of Directors such as business plans, donations, credit/ investment applications, and such other proposals within its authority, and the periodic review of the Bank's achievements.

Audit and Compliance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Zanial** Deputy Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Edrees Musaed Ahmad** Member	• The Board appoints no fewer than four members for a one-year term. • The Chairman must be elected by the members of the Committee, from among the Independent non-Executive Directors in its first meeting after the appointment of the members; the majority of members should also be independent. • Minimum number of meetings required each year: 4 (actual meetings in 2019: 4). • Quorum shall be more than half of the members and must include the Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board. • To review the effectiveness of the Bank's system for monitoring compliance with relevant laws and regulations and the measures taken by the Management.	Reviews the internal audit programme and internal control system; considers major findings of internal audit reviews, investigations, and management's response. Ensures coordination among internal and external auditors. Monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements. Approves and periodically reviews the Internal Audit Charter, which defines the purpose, authority, responsibilities and other aspects of internal audit activity. The Internal Audit Charter is available to internal and external stakeholders on request addressed to the Board Secretary.

Nomination, Remuneration and Corporate Governance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Deputy Chairman (Independent) **Marwan Mohammed Al Saleh** Member **Mohamed Abdulrahman Hussain** Member (Independent)	• The Board appoints no fewer than three members for a one-year term. The Chairman is an Independent Director and the majority of members should also be independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: 2 (actual meetings in 2019: 5). • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Assess, evaluate and advise to the Board on all matters associated with nominations and remunerations of Directors and Executive Management. Also, ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements, and which also reflect best market practices in corporate governance, and makes recommendations to the Board as appropriate.

Risk Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Hani Ali Al Maskati Chairman (Non-executive) **Jassem Hasan Ali Zainal** Deputy Chairman (Independent) **Edrees Musaed Ahmad** Member **Nasser Khalid Al Raee** Member	• At least four members are appointed for a one-year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 (actual meetings in 2019: 4). • The quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman; attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the AGM to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendation to the Board.	Reviews risk policies and recommends to the Board for approval. Also examines and monitors the risk issues to the Bank's business and operations and directs the management appropriately.

Independent Directors Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Zanial** Member (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Mohammed Abdulrahman Hussain** Member (Independent) **Yusuf Saleh Khalaf** Member (Independent)	• The Committee comprises Independent Directors. • The Committee meets at least once a year. • The meetings are attended by Independent Directors and the Group Corporate Secretary only. • Attendance should be in person. • The Committee discusses issues on the Board agenda according to its terms of reference.	Provides independent views on certain issues, especially pertaining to minority shareholders.

Note: The full wording for the Board Committees' terms of reference is available on the bank's website www.bbkonline.com

Board Committee meetings and record of attendance

Key: ⊙ Attended ○ Absent ⦸ was not a member during this period ⊖ did not attend due to conflict of interest.

Executive Committee meetings in 2019

Members	11 Feb	18 Mar	9 Apr	22 Apr	19 May	12 Jun	22 Jul	16 Sep	16 Oct	18 Nov	11 Dec	30 Dec
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊖	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Mishal Ali Alhellow	⦸	⦸	⊙	⊙	⊖	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Reyadh Yousif Sater	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Audit and Compliance Committee meetings in 2019

Members	10 Feb	21 Apr	21 Jul	17 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙

Nomination, Remuneration and Corporate Governance Committee meetings in 2019

Members	10 Feb	27 Feb	15 Apr*	10 Jul	18 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙	⊙
Marwan Mohammed Al Saleh	○	○	○	○	○

* Unscheduled meeting

Risk Committee meetings in 2019

Members	11 Feb	21 Apr	21 Jul	17 Oct	26 Nov*
Hani Ali Al Maskati	⊙	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙	⊙
Nasser Kahlid Al Raee	⦸	⊙	⊙	⊙	⊙

*Unscheduled meeting

Independent Directors' Committee meetings in 2019

Members	18 Feb
Murad Ali Murad	⊙
Jassem Hasan Ali Zainal	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙
Mohamed Abdulrahman Hussain	⊙
Yusuf Saleh Khalaf	⊙

Other meetings

Mr Murad Ali Murad, Chairman of the Board, attended the periodical CBB prudential meetings on 5 February 2019 and Mr Mohamed A. Rahman Hussain, Board Member, attended the same on 24 September 2019.

Shariah Supervisory Board disclosures

In 2016, the Bank established a Shariah Supervisory Board as the Bank conducts some of its transactions according to the Islamic Shariah and must ensure that these transactions are within Shariah standards and norms as required by the regulatory authority in the Kingdom. The AGM in its meeting on 29 March 2017 had approved forming the Shariah Supervisory Board and nomination of its members for three renewable years. The Shariah Supervisory Board members and the meetings during 2019 are as follows:

Shariah Supervisory Board attendance in 2019

Members	20 May	22 Sept	10 Dec
Dr Osama Bahar (Chairman)	⊙	⊙	⊙
Sh. Abdulnasser Al Mahmood (Member)	⊙	⊙	⊙
Dr. Adel Al Marzooqi (Member)	⊙	⊙	⊙

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established an independent compliance function in keeping with Basel and CBB guidelines. The AML and Compliance function acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is: 'BBK shall continue its endeavour to enhance shareholders' value, protect their interests, and defend their rights by practising pursuit of excellence in corporate life.' Anti-money laundering measures form an important area of the compliance function, in addition to areas of corporate governance, disclosure standards, insiders'/key persons' trading, conflict of interest, and adherence to best practices.

Starting 2014, BBK implemented an automated compliance system for the monitoring and management of regulatory requirements across the Bank. This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise, as well as monitoring the status of compliance with CBB Rulebook requirements as applicable to BBK.

The Bank has a documented anti-money laundering programme, including periodic awareness training for employees, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The AML policy and procedures are updated annually and were last approved by the Board of Directors in October 2019.

The Bank has deployed a risk-based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB. The automated AML system of the Bank was upgraded in September 2018 and rolled over to all concerned divisions across the Bank in order to further enhance the screening and monitoring of customers and their transactions.

The Bank's anti-money laundering measures are regularly audited by the internal auditors, who report to the Audit and Compliance Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations; the last AML/CFT examination by the Central Bank was concluded in December 2019. The annual inspection of the central bank covers all areas in the bank including Compliance and AML activities. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year. The audit applies to BBK as a Group. The 2019 external audit report for BBK Bahrain was submitted to the CBB in October 2019. The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of applicable regulatory requirements. The Bank is committed to combating money-laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' as stipulated in the Financial Crimes Module of the CBB Rulebook and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper of the Basel Committee, and best international practices.

BBK is periodically subject to regulatory examination as part of the Central Bank's supervisory and monitoring role, due to the Bank's critical role in the national and regional economy. The examination includes Bahrain, India and Kuwait operations, as well as our subsidiary Credimax. The Board of Directors and the Executive Management of the Bank treat all examinations with priority and the Audit and Compliance Committee as well as the Board on regular basis review the progress in addressing any observations raised in order to ensure compliance with the regulatory requirements.

Communication strategy

The Bank has an open policy on communication with its stakeholders, and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the annual general meeting (AGM). The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website, as well as the Bank's Corporate Governance Report, Corporate Governance Framework, Whistle-Blowing Policy, Board Charter, Code of Conduct, Key Persons' Dealing Policy, and Terms of Reference of all Board Committees. Shareholders can complete an online form, which can be found on the website, to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talent.

The Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain in 2014, and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting on 10 March 2015.

The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package comprises the following key elements:

1 Fixed pay
2 Benefits
3 Annual (short term) performance bonus
4 Annual (long term) performance bonus
5 Subsidiaries Board Remuneration

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy. All remuneration matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration and Corporate Governance Committee (NRCG).

The Bank's remuneration policy in particular considers the role of each employee and sets the criteria to determine whether an employee is a material risk-taker and/or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank, and an employee is considered a material risk-taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives, summarised in our performance management system.

This assessment also takes into account adherence to the Bank's values, risks and compliance measures, and, above all, integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long term but, importantly, also on how it is achieved in order to ensure the long-term sustainability of the business.

Nomination, Remuneration and Corporate Governance Committee (NRCG) role and focus

The NRCG has oversight of all reward policies for the Bank's employees. The NRCG 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 remuneration decisions. The NRCG 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, the business plan, and risk profile of the Bank.

The responsibilities of the NRCG with regards to the Bank's variable remuneration policy, 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.

- Review and recommend remuneration for the approval of the Board.

- Approve the remuneration 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, contributions, expenses, bonuses and other employee benefits.

- Recommend the Group Chief Executive's remuneration for the Board of Directors' approval.

- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate same short-run profit but take different amount of risk on behalf of the Bank.

- 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 NRCG 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, internal audit, operations, financial control, 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 the Bahrain 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.

NRCG Members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRCG members are independent including the Chairman of the Committee. The NRCG comprises the following members:

NRCG member name	Appointment date	Number of meetings attended in 2019
Murad Ali Murad	20 June 2004	5
Sh Khalifa bin Duaij Al Khalifa	6 March 2011	5
Marwan Mohammed Al Saleh	10 March 2015	–
Mohamed Abdulrahman Hussain	29 March 2017	5

The aggregate remuneration paid to NRCG members during the year in the form of sitting fees amounted to BD 8,750 [2018: BD 7,500].

External consultancy

A consultant was appointed during the year to enhance the Risk Assessment Framework by reviewing the assigned weights and risk parameters to align the assessment matrix with the Bank's risk appetite and regulatory requirements.

In addition, the Bank has also engaged an external consultant to review the pay and grading structure to bring it in line with market practices. The consultant recommendations have been discussed and approved by the Board's NRCG committee and the Board of Directors. As a result a new grading system corporate titles has been implemented.

Scope of application of the remuneration policy

The variable remuneration policy is adopted on a group basis covering BBK Bahrain and BBK Kuwait. BBK India compensation practices are aligned with the Principles for Sound Compensation Practices issued by the Financial Stability Board (FSB) in April 2009 and adopted by the Reserve Bank of India. Invita and CrediMax are excluded because the remuneration guidelines are not applicable to them.

Board remuneration

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

Employees' variable remuneration

Variable remuneration is performance-related and consists primarily of the annual performance bonus award and long-term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRCG aims to balance the distribution of the Bank's profits between shareholders and employees.

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 performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures including forward-looking considerations.

The NRCG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRCG demonstrates that its decisions are consistent with an 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 and risk profile. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRCG.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted 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 assessment and linkage framework.

Remuneration of control and support functions

The remuneration level of employees 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 is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas 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 remuneration of the business units is primarily determined by 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, and market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of 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 judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

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

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken

(b) The cost and quantity of the liquidity risk assumed in the conduct of business

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or claw back of previous variable awards may be considered

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

- Increase/reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and claw back arrangements

Malus and claw back framework

The Bank's malus and claw back provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration 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 performance 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 made by the Bank's Board of Directors.

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

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

Claw back 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 the 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 three years
Upfront short-term 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 short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over three years
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.
Subsidiaries Board remuneration	The portion of variable compensation that is awarded and paid out at the end of the financial year to an employee representing the Bank as director on the board of any of its wholly owned subsidiaries and/or associated companies of BBK, excluding the sitting fees. Effective July 1st, 2019 the Board of Directors of the Bank approved amendments to the Board remuneration paid to members of the management to be a fixed monthly amount for each Board an employee serves. This amount varies depending on each company dimensions. In return any Board remuneration or sitting fees received by the employees goes back to the Bank.

All deferred and long-term awards are subject to malus provisions. All share awards and related dividends 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.

All the shares and deferred cash components of the variable remuneration are being held and administered in a trust registered in the Kingdom of Bahrain.

Deferred compensation

All employees at senior management level and above or earning BD 100,000 per annum in Bahrain and overseas branches, excluding India, are subject to the following rules of deferral:

1 The Group CEO, his deputies and business line General Managers:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Claw back*
Upfront cash	40%	immediate	–	–	Yes
Deferred cash	10%	3 years	–	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2 All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Claw back*
Upfront cash	50%	immediate	–	–	Yes
Upfront share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

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

Details of remuneration paid

(a) Board of Directors

	2019 BD '000	2018 BD '000
Sitting fees and travel allowance	**87,850**	84,463
Remuneration	**585,000**	585,000
Others	**27,850**	27,505

(b) Board of Directors of subsidiaries

	2019 BD '000	2018* BD '000
Sitting fees and travel allowance	**23,841**	28,635
Remuneration	**135,300**	135,300
Others	**120**	–
Total	**159,261**	163,935

* Adjusted to include the Bank's wholly owned subsidiaries and their subsidiaries.

(c) Employees

1 Employee remuneration

BD 000's	2019									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	**15**	**2,927**	**–**	**–**	**1,128**	**17**	**193**	**1,066**	**–**	**5,331**
Approved Persons Control and support	**9**	**1,450**	**–**	**–**	**486**	**80**	**-**	**345**	**–**	**2,361**
Other material risk-takers	**34**	**3,153**	**–**	**–**	**697**	**127**	**15**	**585**	**–**	**4,577**
Other Staff Bahrain Operations	**573**	**13,519**	**–**	**–**	**2,928**	**–**	**–**	**–**	**–**	**16,448**
Other Staff Branches and Subsidiaries	**761**	**8,922**	**–**	**–**	**724**	**–**	**–**	**–**	**–**	**9,646**
Total	**1,392**	**29,970**	**–**	**–**	**5,964**	**224**	**209**	**1,996**	**–**	**38,363**

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

Adjustment to the accrual of Variable Pay equivalent to BD 138,086 has been included in the table above.

Other Indirect staff cost amounting to BD 192,795 has not been included in the table above.

Board Remuneration and Sitting Fees received during 2019 by Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 283,197 have been included in the table above.

BD 000's	2018									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	14	2,898	–	–	930	12	175	938	–	4,952
Approved Persons Control and support	9	1,522	–	–	422	69	–	297	–	2,310
Other material risk-takers	35	3,711	–	–	588	110	10	488	–	4,907
Other Staff Bahrain Operations	546	13,552	–	–	2,619	–	–	–	–	16,171
Other Staff Branches and Subsidiaries	692	7,987	–	–	622	–	–	–	–	8,609
Total	1,296	29,669	–	–	5,181	191	185	1,723	–	36,949

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

The net impact of other indirect staff costs amounting BD 211,297 has been included in the table above.

Board Remuneration and Sitting Fees received by Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies of BBK amounting BD 329,879 have been included in the table above.

The total amount of remuneration includes severance payments (early retirement) made during the year which amounted to BD 1,409,465 of which the highest paid to a single person amounted to BD 151,056.

2 Deferred awards

	2019			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	**595**	**16,829,259**	**6,481**	**7,075**
Awarded during the period*	**209**	**3,874,532**	**2,220**	**2,429**
Paid out/released during the period	**(207)**	**(5,546,084)**	**(1,958)**	**(2,165)**
Service, performance and risk adjustments	**–**	**–**	**–**	**–**
Bonus share adjustment	**–**	**–**	**–**	**–**
Closing balance	**596**	**15,157,707**	**6,743**	**7,339**

* The number of shares for the 2019 Deferred Awards has been calculated using the year-end closing share price at BD 0.573 fils per share, as the award price will be determined 14 days after the AGM.

	2018			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	623	17,169,886	6,521	7,143
Awarded during the period**	185	4,497,973	1,907	2,092
Paid out/released during the period	(213)	(4,838,600)	(1,947)	(2,160)
Service, performance and risk adjustments	–	–	–	–
Bonus share adjustment	–	–	–	–
Closing balance	595	16,829,259	6,481	7,075

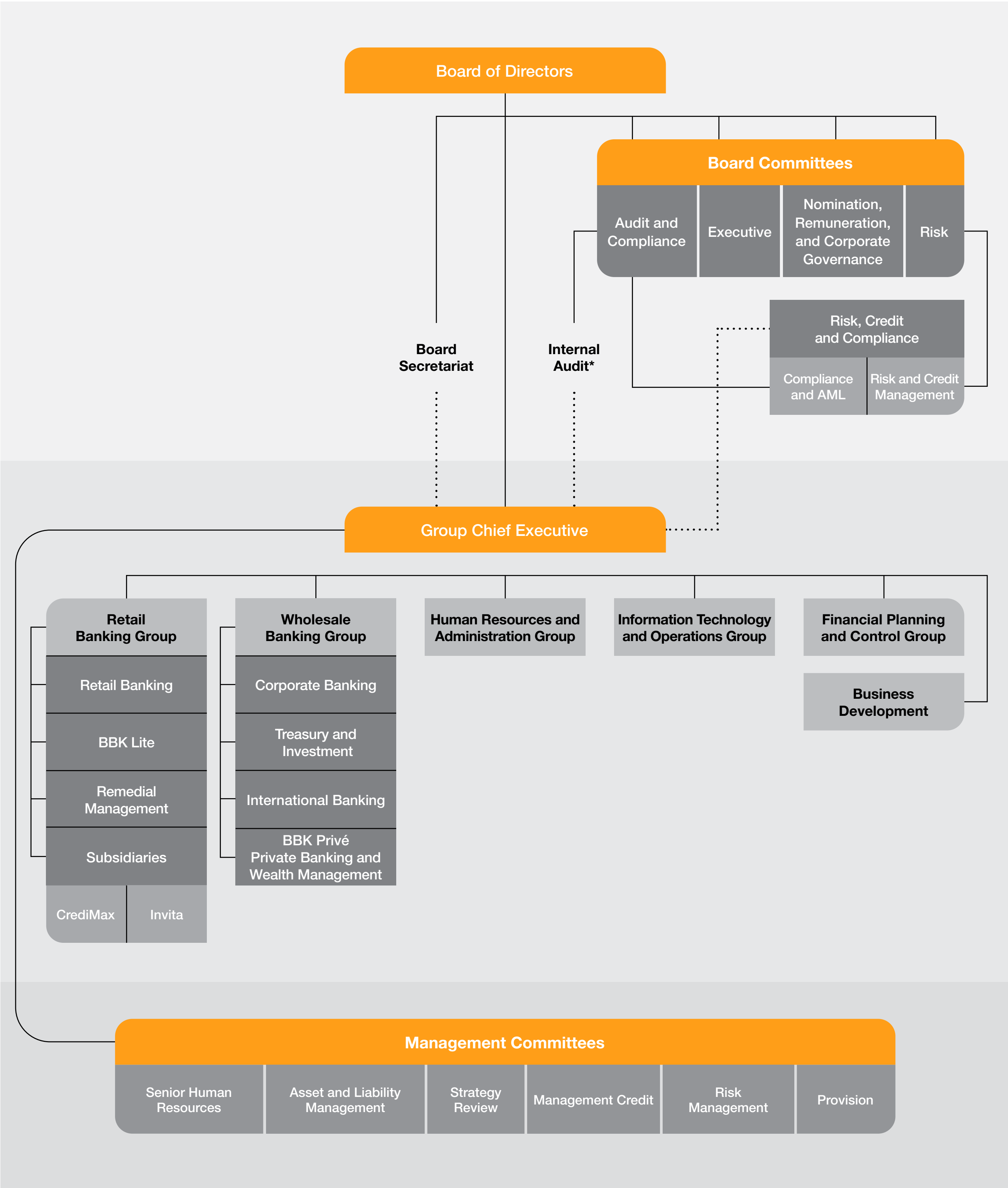
** The number of shares for the 2018 Deferred Awards have been recomputed based on the share price 14 days after the AGM of the Bank at BD 0.424 fils per share, and updated for the actual awards distributed to staff during 2018.

In the case of long-term incentive plan awards, the shares awarded have been included for the purposes of the table above assuming probability of vesting.

Information on share awards included above also include components of long-term performance-based incentive awards (LTIP shares). The amounts included in the tables are based on total awards granted for the performance year and may not necessarily match the accounting charge which factors probability of vesting.

Organisation information

Organisation structure



* To ensure independence, Internal Audit reports functionally to the Audit and Compliance Committee, and administratively to the Group Chief Executive. It is responsible to advise all levels of Management and the Board (through its Audit and Compliance Committee) on the quality of the Bank's operations, with particular emphasis on systems of control.

Executive management interests

The number of shares and bonds held by members of the Executive Management team as of 31 December 2019 was as follows:

Name	Type of shares	31 Dec 2019	31 Dec 2018	Bonds 31 Dec 2019	Bonds 31 Dec 2018
Reyadh Yousif Sater	Ordinary	**911,643**	171,643	**–**	300,000
Abdulrahman Ali Saif	Ordinary	**532,237**	387,237	**–**	90,000
Mohammed Ali Malik	Ordinary	**–**	430,812	**–**	–
Jamal Mohamed Al Sabbagh	Ordinary	**714,790**	538,864	**–**	–
Hassaan Mohammed Burshaid	Ordinary	**463,160**	463,160	**–**	–
Mohammed Abdulla Isa	Ordinary	**175,000**	97,029	**–**	30,000
Rashad Ahmed Akbari	Ordinary	**530,000**	396,036	**–**	–
Prasenjit Mandal	Ordinary	**119,796**	–	**–**	–
Nadeem A. Aziz Kooheji	Ordinary	**54,927**	–	**–**	–
Ajay Jaiswal	Ordinary	**46,899**	–	**–**	–
Neil Sharp	Ordinary	**–**	–	**–**	–
Adel Abdulla Salem	Ordinary	**–**	–	**–**	–
Raj Dugar	Ordinary	**94,405**	76,905	**–**	7,000
Hassan Mohamed Abouzeid	Ordinary	**–**	–	**–**	–

Executive Senior Management trading of the Bank's shares and bonds during 2019

Name	Trading through Bahrain Bourse	Date of trading
Reyadh Yousif Sater	Sold 90,000 shares	04 December 2019
Abdulrahman Saif	Sold 30,000 shares	05 December 2019
	Sold 30,000 shares	08 December 2019
	Sold 20,000 shares	12 December 2019
Mohammed Ali Malik	Sold 430,812 shares	08 August 2019
Mohammed Abdulla Isa	Sold 29,769 shares	09 June 2019
	Sold 92,260 shares	10 June 2019
	Sold 50,000 shares	13 June 2019
Rashad Ahmed Akbari	Sold 7,121 shares	26 August 2019
Nadeem A.Aziz Kooheji	Sold 30,139 shares	16 January 2019

Management Committees

Management Committees are chaired by the Group Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Senior Human Resources	Establishes appropriate policies, procedures and guidelines for the management of human resources.	Once every other month.
Asset and Liability Management	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month.
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year.
Management Credit	Approves credit and investment proposals above a certain limit. Also reviews and recommends any proposal requiring Executive Committee or Board approval.	Once a week.
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures.	Once every quarter.
Provision	Reviews and establishes provisioning requirements for loans, advances and investments.	Once every quarter.

Major BBK shareholdings as of 31 December 2019

The company's ownership in other companies listed on the Bahrain Bourse (5% and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2019 Current	Number of shares 31 Dec 2018 Previous
Bahrain Kuwait Insurance (BKIC)	Bahrain	BSC (c)	2006	6.82%	**9,759,636**	9,759,636
Securities Investment Company	Bahrain	BSC (c)	2006	7.91%	**33,896,140**	33,896,140
Bahrain Commercial Facilities Company	Bahrain	BSC (c)	1994	23.03%	**47,023,363**	37,618,691

Major shareholders of the company's outstanding shares (5% and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2019 Current	Number of shares 31 Dec 2018 Previous
Ithmaar Bank	Bahrain	BSC	2008	26.06%	**337,936,273**	274,493,028
Pension Fund Commission (PFC)	Bahrain	Governmental Institution	1986	19.27%	**249,944,126**	203,020,288
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	19.20%	**248,971,165**	202,229,987
Social Insurance Organization (GOSI)	Bahrain	Governmental Institution	1986	13.70%	**177,645,510**	144,294,820

The Bank's holdings in other companies (Quoted / unquoted in / out Kingdom of Bahrain) (10% and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2019 Current	Number of shares 31 Dec 2018 Previous
The Benefit Company	Bahrain	BSC (c)	1997	22.00%	**6,843**	6,843
CrediMax	Bahrain	BSC (c)	1999	100.00%	**10,000,000**	10,000,000
Global Payment Services (1)	Bahrain	WLL	2005	55.00%	**10,000**	10,000
Invita	Bahrain	BSC (c)	2006	100.00%	**1,000,000**	1,000,000
Naseej Company	Bahrain	BSC	2009	15.15%	**130,909,096**	163,636,370
Alosra Bank	Bahrain	BSC	2009	10.00%	**5,000,000**	5,000,000
Diyaar Al Harameen Al Ola Limited	Cayman Islands	WLL	2011	35.00%	**16,450,000**	16,450,000
BBK Geojit Securities KSC	Kuwait	KSC	2012	40.00%	**2,000,000**	2,000,000
Invita – Kuwait (2)	Kuwait	KSC (c)	2014	60.00%	**600,000**	600,000
Aegila Capital Management Limited	London	LTD	2015	50.00%	**1**	1
Bahrain Liquidity Fund	Bahrain	LTD	2016	24.27%	**9,046**	10,000
Invita Claims Management Company (2)	Bahrain	BSC (c)	2017	70.00%	**350,000**	350,000
Magnum Partners Holding Limited	Jersey	LTD	2018	49.96%	**6,958,001**	6,958,001
Evoque Holdings Jersey Limited	Jersey	LTD	2018	24.99%	**6,082,500**	6,082,500
LSE Jersey Holdings Limited Partnership	Jersey	LTD	2019	45.00%	**1**	–

(1) Shareholding through CrediMax.
(2) Shareholding through Invita

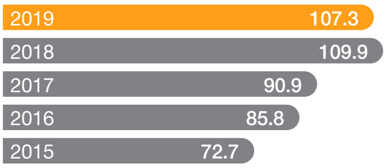
BBK offices and overseas branches

For contact details of our local and international offices and branches, please visit our website www.bbkonline.com.
The Bank is headquartered in Bahrain and also operates in Dubai, Turkey, Kuwait, and India.

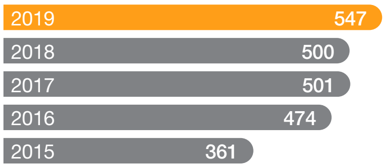
Part III

Financial information

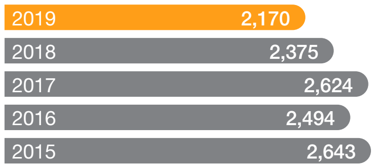
Net interest income
BD millions



Total equity
BD millions



Customer deposits
BD millions



Loans and advances
BD millions

Total assets
BD millions

The key financial indicators of the Bank remain healthy with a return on average assets of 1.9 percent and a return on average equity of 14.9 percent.

Overview

Despite tough conditions in the banking sector and economy as a whole, BBK managed to maintain its high performance in 2019, achieving a record profit of BD 75.4 million attributable to shareholders for the year ended 31 December 2019, representing an increase of BD 8.3 million or 12.4 percent growth over 2018 results.

The key financial indicators of the Bank remain strong with a return on average assets of 1.9 percent and a return on average equity of 14.9 percent. The diluted earnings per share increased from 52 fils to 59 fils. The Bank maintained a more comfortable liquidity position this year, increasing the liquid assets share of total assets from 27.6 percent to 34.4 percent.

This section provides a review of our Group's financial performance, focusing on the consolidated operating results and BBK's consolidated statement of financial position, including its overseas branches, subsidiaries, joint ventures, associated companies, and indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with the International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB) and Financial Institutions law, and CBB rulebook requirements.

Operating results

Net profit for 2019 increased by 12.4 percent from last year, amounting to BD 75.4 million, despite the total operating income for the year decreasing slightly by BD 5.5 million or 3.5 percent (standing at BD 151.5 million), mainly due to lower interest and non-interest income.

Continuing BBK's prudent approach to risk management and provisioning, the Bank conservatively provided for adequate provisioning levels in 2019, applying the IFRS 9 accounting standard.

Net interest income

The net interest income decreased by 2.4 percent to BD 107.3 million (2018: 109.9 million). This was mainly due to the increase in interest expenses on the new Euro medium-term notes.

Other income

Other income consists of non-interest income, derived from business activities such as dealing in foreign currencies, investing in funds other than fixed-income funds, corporate banking and retail banking services, investment trading, and income from associated companies and joint ventures.

Total other income reported for year 2019 stood at BD 51.0 million compared to BD 51.2 million in 2018. Net fees and commissions, the main component of total other income, stood at BD 26.6 million (2018: BD 28.2 million), and income from associated companies at BD 6.8 million (2018: BD 4.1 million). Other income relating to foreign exchange and investment income decreased slightly from BD 18.9 million to BD 17.6 million.

Summary statement of profit or loss

BD millions	2019	2018	Variance BD millions	Change percent
Net interest income	**107.3**	109.9	(2.6)	-2.4%
Other income	**51.0**	51.2	(0.2)	-0.4%
Total income	**158.3**	161.1	(2.8)	-1.7%
Operating expenses	**(63.2)**	(57.7)	(5.5)	9.5%
Provisions	**(18.9)**	(35.3)	16.4	-46.5%
Taxation/non-controlling interest	**(0.8)**	(1.0)	0.2	-20.0%
Net profit	**75.4**	67.1	8.3	12.4%

Operating expenses

Due to the implementation of VAT, new strategic and business initiatives, and improving delivery channels, the Bank's operating expenses increased by 9.5 percent, from BD 57.7 million to BD 63.2 million. Staff costs increased by 4.7 percent, while non-staff related costs increased by 17.8 percent to reach BD 25.1 million (2018: BD 21.3 million). Nevertheless, the Bank's prudent cost control policy and strong revenue-generating capability enabled it to maintain a healthy cost to income ratio of 40.0 percent (2018: 35.8 percent).

Net provisions

The Bank has followed and applied the International Financial Reporting Standard 9 since 2016. IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The net provision charges during 2019 amounted to BD 18.9 million, compared to BD 35.3 million in 2018. The decrease was due to active management of distressed exposures and higher recovery efforts.

Comprehensive income

The Bank's total comprehensive income attributed to the owners stood at BD 109.3 million for the year ended 31 December 2019, compared to BD 47.4 million at the end of 2018. The robust performance of various financial markets and increase in valuations of investment securities globally benefited the Bank's other comprehensive income, leading to positive unrealised valuations on investment securities.

Financial position

The Group maintained its strong financial position and comfortable liquidity.

As at 2019 year-end, the total assets of the Group stood at BD 3,865.0 million (2018: BD 3,581.7 million).

The Bank has been consistent in achieving a good balance between deposits and loans and advances with a comfortable ratio of net loans and advances to customer deposits of 77.0 percent as of end of 2019 (2018: 74.6 percent).

Assets

Total assets stood at BD 3,865.0 million as at 31 December 2019, an increase of 7.9 percent on the previous year's BD 3,581.7 million. Loans and advances decreased slightly (5.7 percent), while the excess was used as cash and balances with the central bank, treasury bills, and placements with banks and other financial institutions.

Liabilities

The Bank's funding structure remains strong, with minimal reliance on the interbank market. Customer deposits remained the main source of funding, representing 65.4 percent of total liabilities. While the bank continued to grow its retail customer base, increasing its retail liabilities to BD 901.4 million (2018: BD 823.8 million), total customer deposits decreased to BD 2,169.5 million during 2019 (2018: BD 2,374.5 million) due to overall reduction of liquidity from the GCC markets. Borrowing under repurchase agreements and term borrowing remain integral parts of the bank's medium and stable funding sources, with the former standing at BD 313.4 million at year-end (2018: BD 199.0 million), and the latter at BD 333.0 million (2018: BD 144.5 million).

Consolidated statement of financial position

BD millions	2019	2018	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**376.4**	191.0	185.4	97.1%
Treasury bills	**484.4**	410.4	74.0	18.0%
Deposits and amounts due from banks and other financial institutions	**278.3**	239.2	39.1	16.3%
Loans and advances to customers	**1,670.9**	1,772.5	(101.6)	-5.7%
Investment securities	**875.0**	800.3	74.7	9.3%
Investments in associated companies and joint ventures	**70.6**	62.9	7.7	12.2%
Interest receivable and other assets	**74.2**	77.9	(3.7)	-4.7%
Premises and equipment	**35.2**	27.5	7.7	28.0%
Total assets	**3,865.0**	3,581.7	283.3	7.9%
Liabilites and Equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**363.1**	258.7	104.4	40.4%
Borrowings under repurchase agreement	**313.4**	199.0	114.4	57.5%
Term borrowings	**333.0**	144.5	188.5	130.4%
Customers' current, savings and other deposits	**2,169.5**	2,374.5	(205.0)	-8.6%
Interest payable and other liabilities	**139.0**	104.6	34.4	32.9%
Total liabilities	**3,318.0**	3,081.3	236.7	7.7%
Equity attributable to the owners of the Bank	**543.9**	497.7	46.2	9.3%
Non-controlling interest	**3.1**	2.7	0.4	14.8%
Total equity	**547.0**	500.4	46.6	9.3%
Total liabilities and equity	**3,865.0**	3,581.7	283.3	7.9%

Capital adequacy

The Bank has implemented the Basel III framework for the calculation of capital adequacy since January 2015, in accordance with Central Bank of Bahrain guidelines.

Total equity attributable to the owners of the Bank stood at BD 543.9 million at the end of 2019 (2018: BD 497.7 million). The Bank improved its capital adequacy ratio to 21.7 percent from the previous year's 19.6 percent, well above CBB's minimum regulatory requirement of 14.0 percent for Domestic Systemically Important Banks (D-SIBs). The Group is keen to maintain strong capitalisation to support future strategic plans, through adoption of dynamic profit retention policy.

Our noticeable growth over the years is a result of our sustained culture of superior performance, our widespread participation in both local and international markets, and excellent customer service, which enables us to sustain the momentum we have built over the years and to enhance value for shareholders.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the key audit matter was addressed in the audit
Impairment of carrying value of loans and advances	
The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 - Financial instruments (IFRS 9) is a significant and complex area. IFRS 9 requires use of the Expected Credit Loss (ECL) model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgment using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significant judgments applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.	Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, among others, focused on following: • We assessed: – the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9; – Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and – the theoretical soundness and tested the mathematical integrity of the models. • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions; • We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on: – Key modeling assumptions adopted by the Group; and – Basis for and data used to determine overlays. • For a sample of exposures, we performed procedures to evaluate: – Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; – Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and – ECL calculation.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS continued

Key audit matter	How the key audit matter was addressed in the audit
Impairment of carrying value of loans and advances continued	
As at 31 December 2019, the Group's gross loans and advances amounted to BD 1,774.2 million and the related ECL amounted to BD 103.3 million, comprising BD 26.1 million of ECL against Stage 1 and 2 exposures and BD 77.2 million against exposures classified under Stage 3. The basis of calculation of ECL is disclosed in the summary of significant accounting policies and note 33 to the consolidated financial statements.	• For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; • In addition, to obtain comfort on the overall model and significant assumptions used in applying IFRS 9, we reviewed the independent validation report prepared by the Group's consultant. Further, we performed procedures to ensure the competence, capabilities, objectivity and independence of the Group's consultant; and • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS. We also involved our internal specialists where their specific expertise was required. Refer to the significant accounting estimates and judgments, disclosures of loans and advances and credit quality in notes 3.4, 7 and 33 to the consolidated financial statements.

Other information included in the Group's 2019 Annual Report
Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

We communicate with the Group's Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Group's Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Group's Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

(c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

The partner in charge of the audit resulting in this independent auditor's report is Mr. Essa Al-Jowder.

Ernst + Young

Partner's registration no. 45
17 February 2020
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2019

	Notes	2019 BD millions	2018 BD millions
ASSETS			
Cash and balances with central banks	4	**376.4**	191.0
Treasury bills	5	**484.4**	410.4
Deposits and amounts due from banks and other financial institutions	6	**278.3**	239.2
Loans and advances to customers	7	**1,670.9**	1,772.5
Investment securities	8	**875.0**	800.3
Investments in associated companies and joint ventures	9	**70.6**	62.9
Interest receivable and other assets	10	**74.2**	77.9
Premises and equipment	11	**35.2**	27.5
TOTAL ASSETS		**3,865.0**	3,581.7
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**363.1**	258.7
Borrowings under repurchase agreement		**313.4**	199.0
Term borrowings	12	**333.0**	144.5
Customers' current, savings and other deposits	13	**2,169.5**	2,374.5
Interest payable and other liabilities	14	**139.0**	104.6
Total liabilities		**3,318.0**	3,081.3
Equity			
Share capital	15	**129.7**	108.2
Treasury stock	15	**(5.2)**	(2.5)
Perpetual tier 1 convertible capital securities	15	**–**	86.1
Share premium	15	**105.6**	41.0
Statutory reserve	15	**61.6**	54.1
General reserve	15	**54.1**	54.1
Cumulative changes in fair values	16	**11.2**	(25.1)
Foreign currency translation adjustments		**(12.2)**	(11.7)
Retained earnings		**144.6**	148.9
Proposed appropriations	17	**54.5**	44.6
Attributable to the owners of the Bank		**543.9**	497.7
Non-controlling interest		**3.1**	2.7
Total equity		**547.0**	500.4
TOTAL LIABILITIES AND EQUITY		**3,865.0**	3,581.7

Murad Ali Murad
Chairman

Jassem Hasan Zainal
Deputy Chairman

Reyadh Yousif Sater
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of profit or loss

For the year ended 31 December 2019

	Notes	2019 BD millions	2018 BD millions
Interest and similar income	18a	**176.4**	165.8
Interest and similar expense	18b	**(69.1)**	(55.9)
Net interest and similar income		**107.3**	109.9
Fee and commission income – net	19	**26.6**	28.2
Other income	20	**17.6**	18.9
Total operating income		**151.5**	157.0
Staff costs		**(38.1)**	(36.4)
Other expenses		**(25.1)**	(21.3)
Total operating expenses		**(63.2)**	(57.7)
Total provisions – net	21	**(18.9)**	(35.3)
Net operating income		**69.4**	64.0
Share of profit from associated companies and joint ventures	9	**6.8**	4.1
PROFIT FOR THE YEAR BEFORE TAX		**76.2**	68.1
Tax expense	22	**(0.2)**	(0.4)
PROFIT FOR THE YEAR AFTER TAX		**76.0**	67.7
Attributable to:			
Owners of the Bank		**75.4**	67.1
Non-controlling interest		**0.6**	0.6
		76.0	67.7
Basic earnings per share (BD)	23	**0.059**	0.056
Diluted earnings per share (BD)	23	**0.059**	0.052

Murad Ali Murad
Chairman

Jassem Hasan Zainal
Deputy Chairman

Reyadh Yousif Sater
Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Notes	2019 BD millions	2018 BD millions
Profit for the year		**76.0**	67.7
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to profit or loss			
Fair value through other comprehensive income reserve (equity instruments)		**7.6**	6.5
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
Foreign currency translation adjustments		**(0.5)**	(2.4)
Movement in hedging reserve:			
Effective portion of changes in fair value	16	**(1.1)**	0.4
Movement in fair value reserve:			
Net change in fair value	16	**30.6**	(21.3)
Net amount transferred to profit or loss	16	**(2.7)**	(2.9)
Other comprehensive income/(loss) for the year		**33.9**	(19.7)
Total comprehensive income for the year		**109.9**	48.0
Attributable to:			
Owners of the Bank		**109.3**	47.4
Non-controlling interest		**0.6**	0.6
		109.9	48.0

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2019

		Attributable to the owners of the Bank and capital securities' holders												
	Notes	Share capital BD millions	Treasury stock BD millions	Perpetual tier 1 convertible capital securities BD millions	Share premium BD millions	Statutory reserve BD millions	General reserve BD millions	Cumulative changes in fair values BD millions	Foreign currency translation adjustments BD millions	Retained earnings BD millions	Proposed appropriations BD millions	Total BD millions	Non-controlling interest BD millions	Total equity BD millions
Balance at 1 January 2018		108.2	(1.0)	86.1	41.0	54.1	54.1	(8.3)	(9.3)	134.6	39.2	498.7	2.2	500.9
Profit for the year		–	–	–	–	–	–	–	–	67.1	–	67.1	0.6	67.7
Other comprehensive loss		–	–	–	–	–	–	(16.8)	(2.4)	(0.5)	–	(19.7)	–	(19.7)
Total comprehensive income		–	–	–	–	–	–	(16.8)	(2.4)	66.6	–	47.4	0.6	48.0
Share-based payments	42	–	–	–	–	–	–	–	–	(0.6)	–	(0.6)	–	(0.6)
Distribution on perpetual tier 1 convertible capital securities		–	–	–	–	–	–	–	–	(7.1)	–	(7.1)	–	(7.1)
Dividends paid		–	–	–	–	–	–	–	–	–	(37.8)	(37.8)	(0.2)	(38.0)
Donations		–	–	–	–	–	–	–	–	–	(1.4)	(1.4)	–	(1.4)
Movement in treasury stock	15	–	(1.5)	–	–	–	–	–	–	–	–	(1.5)	–	(1.5)
Movement in non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	0.1	0.1
Proposed appropriations	17	–	–	–	–	–	–	–	–	(44.6)	44.6	–	–	–
Balance at 31 December 2018		**108.2**	**(2.5)**	**86.1**	**41.0**	**54.1**	**54.1**	**(25.1)**	**(11.7)**	**148.9**	**44.6**	**497.7**	**2.7**	**500.4**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**75.4**	**–**	**75.4**	**0.6**	**76.0**
Other comprehensive income/(loss)		**–**	**–**	**–**	**–**	**–**	**–**	**36.3**	**(0.5)**	**(1.9)**	**–**	**33.9**	**–**	**33.9**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**36.3**	**(0.5)**	**73.5**	**–**	**109.3**	**0.6**	**109.9**
Share-based payments	42	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**–**	**0.6**	**–**	**0.6**
Distribution on perpetual tier 1 convertible capital securities		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3.6)**	**–**	**(3.6)**	**–**	**(3.6)**
Conversion of perpetual tier 1 convertible capital securities	15	**21.5**	**–**	**(86.1)**	**64.6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12.8)**	**(43.0)**	**(55.8)**	**(0.2)**	**(56.0)**
Donations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**–**	**(1.6)**
Movement in treasury stock	15	**–**	**(2.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**–**	**(2.7)**
Transfer to statutory reserve	15	**–**	**–**	**–**	**–**	**7.5**	**–**	**–**	**–**	**(7.5)**	**–**	**–**	**–**	**–**
Proposed appropriations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(54.5)**	**54.5**	**–**	**–**	**–**
Balance at 31 December 2019		**129.7**	**(5.2)**	**–**	**105.6**	**61.6**	**54.1**	**11.2**	**(12.2)**	**144.6**	**54.5**	**543.9**	**3.1**	**547.0**

The attached notes 1 to 49 form part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019 BD millions	2018 BD millions
OPERATING ACTIVITIES			
Profit for the year before tax		**76.2**	68.1
Adjustments for non-cash items:			
Depreciation	11	**6.1**	3.7
Total provisions – net	21	**18.9**	35.3
Share of profit from associated companies and joint ventures	9	**(6.8)**	(4.1)
Realised gains on sale of investment securities	20	**(3.0)**	(3.2)
Accrual on term borrowings		**5.0**	0.7
Operating profit before changes in operating assets and liabilities		**96.4**	100.5
(Increase)/decrease in operating assets			
Mandatory reserve deposits with central banks		**(13.4)**	4.7
Treasury bills having original maturity of 90 days or more		**(74.0)**	16.7
Deposits and amounts due from banks and other financial institutions		**(19.6)**	(9.2)
Loans and advances to customers		**83.4**	(66.9)
Interest receivable and other assets		**2.5**	(7.3)
Increase/(decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**104.5**	65.2
Borrowings under repurchase agreements		**114.4**	37.7
Customers' current, savings and other deposits		**(205.0)**	(249.1)
Interest payable and other liabilities		**29.5**	15.6
Income tax paid		**(0.6)**	–
Net cash from/(used in) operating activities		**118.1**	(92.1)
INVESTING ACTIVITIES			
Purchase of investment securities		**(407.9)**	(407.5)
Redemption/sale of investment securities		**372.3**	354.2
Net investment in associated companies and joint ventures	9	**(6.1)**	(14.7)
Dividends received from associated companies and joint ventures	9	**3.9**	3.1
Purchase of premises and equipment		**(13.8)**	(4.8)
Net cash used in investing activities		**(51.6)**	(69.7)
FINANCING ACTIVITIES			
Payment of dividend and donations	17	**(57.6)**	(39.2)
Term borrowings		**188.5**	(55.2)
Distribution on perpetual tier 1 convertible capital securities		**(3.6)**	(7.1)
Movement in treasury stock		**(2.7)**	(1.5)
Movement in share-based payments		**0.6**	(0.6)
Net cash from/(used in) financing activities		**125.2**	(103.6)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**191.7**	(265.4)
Foreign currency translation adjustments – net		**(0.3)**	(2.2)
Cash and cash equivalents at beginning of the year		**345.4**	613.0
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**536.8**	345.4
Additional Information:			
Interest received		**176.4**	163.6
Interest paid		**69.2**	46.6

The attached notes 1 to 49 form part of these consolidated financial statements

1 ACTIVITIES

Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India, and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 17 February 2020.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

2.2 Accounting convention

These consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at fair value through other comprehensive income (FVOCI), trading investments and financial assets designated at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars, which is the functional and presentation currency of the Bank.

2.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"). The year end of the Bank and all of its subsidiaries is 31 December. The Bank has following principal subsidiaries:

	Ownership			
Name	**2019**	2018	Country of incorporation	Activity
CrediMax B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Credit card operations
Invita Company B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Business process outsourcing services

CrediMax B.S.C. (c) owns 55% (2018: 55%) of the share capital of Global Payment Services W.L.L., which is established in the Kingdom of Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Invita Company B.S.C. (c) owns 60% (2018: 60%) interest in Invita Kuwait K.S.C.C., which is established in the State of Kuwait and engaged in business processing and outsourcing services. It also owns 70% (2018: 70%) stake in Invita Claims Management Company, which is established in the Kingdom of Bahrain and engaged in Third Party Administrators (TPA) services.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed off during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 ACCOUNTING POLICIES

3.1 New standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS.

3 ACCOUNTING POLICIES continued

3.1 New standards and interpretations issued but not yet effective continued

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). These amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The Group is currently assessing the impact of this standard and will apply from the effective date.

The Group does not expect any significant impact on the Groups' financial position and results for the standards and amendments that are not yet adopted.

3.2 New standards and interpretations issued and effective

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 Leases (IFRS 16);
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment; and
- Amendments to IFRS 9 Prepayment features with negative compensation.

Annual improvements 2015-2017 cycle (issued in December 2017)

- IFRS 3 Business combinations;
- IAS 12 Income taxes; and
- IAS 23 Borrowing costs.

The above new standards, interpretations and amendments to IFRSs which were effective for annual accounting periods starting from 1 January 2019, did not have any material impact on the accounting policies, financial position or performance of the Group, except for the adoption of IFRS 16, which is explained below.

3.2.1 IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to BD 7.5 million, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using the incremental borrowing rate of 2.63% at 1 January 2019. Lease costs for the year ended 31 December 2019 relating to right-of-use assets of BD 2.4 million were included under depreciation and other expenses line in the statement of profit or loss.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	BD millions
Operating lease commitments as at 31 December 2018	**8.7**
Weighted average incremental borrowing rate as at 1 January 2019	**2.63%**
Discounted operating lease commitments at 1 January 2019	**7.5**
Lease liabilities as at 1 January 2019	**7.5**

Amounts recognised in the consolidated statements of financial position and profit or loss

The below are the carrying amounts of the Group's right-of-use assets and movement during the year:

	BD millions
As at 1 January 2019	**7.5**
Addition of new leases	**2.9**
Depreciation for the year	**(2.3)**
Interest expense	**(0.1)**
As at 31 December 2019	**8.0**

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

(a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the statement of financial position.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the statement of financial position.

3.3 Summary of significant accounting policies

(a) Financial assets and financial liabilities

(i) Recognition and initial measurement

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both 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.

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.

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 OCI. 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.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

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, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- 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 because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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, which may change over the life of the financial asset. '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).

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.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows 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 a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

A financial asset (in whole or in part) is derecognised where:

- 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 ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

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

(b) Deposits and amounts due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges (if any), less any amounts written-off and related expected credit losses.

(c) Loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method, and adjusted for effective fair value hedges (if any) and net of interest suspended, expected credit losses and any amounts written-off.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(d) Investment securities

The investment securities includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are carried at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest rate method;
- Expected Credit Loss (ECL) and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is impaired or derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to statement of profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of the investment.

(e) Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained above.

(f) Impairment of financial assets

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

- Financial assets that are debt instruments;
- Loans and advances at amortised cost;
- Financial guarantee contracts issued; and
- Loan commitments issued.

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.

(g) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

(i) Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

(ii) Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

(iii) Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

(iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the IFRS 9 provision results from a two-step approach:

As step 1, the facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

As step 2, the expected credit loss is calculated i.e., 12-month expected loss for all facilities in Stage 1 and lifetime expected credit loss for all facilities in Stage 2. The facilities in Stage 3 are covered by specific provisions.

(h) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Bahrain), is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields; or
- The rating agencies' assessments of creditworthiness.

The exposure to the home country sovereign i.e. Bahrain is considered to be low risk and fully recoverable and hence, no ECL is measured. Refer to note 33 for further details.

(i) Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of such assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified the ECL on the loan commitment/off-balance sheet component separately from those on the drawn component, the Group presents a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of such assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve as a provision.

(j) Write-off

Loans and debt securities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(k) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any ECL is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Refer to note 33.3 (e) and note 34 for further details.

(l) Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Investment in associated companies and joint ventures

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

Subsequently, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. It is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

(n) Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

(o) Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

(p) Deposits

These are carried at amortised cost, less amounts repaid.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(q) Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded as interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

(r) Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

In India, the Bank makes provision for income tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through deferred tax asset (DTA)/deferred tax liability (DTL). Current tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under after considering the contested past adjustments on a prudent basis based on management estimates.

(s) Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each jurisdiction where the Group operates.

(t) Share-based payment transactions

For equity-settled shared-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) and the costs to settle the obligation are both probable and able to be reliably measured.

(v) Treasury stock

Treasury stock is deducted from equity and is stated at consideration paid. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

(w) Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(x) Perpetual Tier 1 capital securities

Perpetual Tier 1 capital securities of the Group are recognised under equity in the consolidated statement of financial position and the corresponding distribution on those securities are accounted as a debit to retained earnings.

(y) Proposed dividends

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

(z) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss in on a straight line basis over the life of the guarantee.

(aa) Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

(ab) Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project. The Group has adopted IFRS 9 hedge accounting and has determined that all hedge relationships that were designated as effective hedging relationships under IAS 39 would continue to qualify for hedge accounting under IFRS 9.

At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

Classification of hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

(ii) Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of any gain or loss on the hedging instrument, that is determined to be an effective hedge is recognised initially in the consolidated statement of changes in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss.

Discontinuation of hedges

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation, any subsequent changes in fair value of the hedging instrument are recognized in the consolidated statement of profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in the consolidated statement of changes in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

(ac) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

(ad) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

(ae) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by more than ninety days). Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees and commissions that are linked to certain performance obligations are recognised after fulfilling those obligations.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

The Group recognises dividend income when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa), the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

(af) Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are recorded in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign operation. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of profit or loss are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

(ag) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less.

3 ACCOUNTING POLICIES continued

3.4 Significant accounting judgment and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, these consolidated financial statements continue to be prepared on a going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values. These judgment include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to note 33 for further details.

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2019 BD millions	2018 BD millions
Cash in hand and vaults	**21.2**	20.3
Current accounts and placements with central banks	**266.2**	95.1
Mandatory reserve deposits with central banks	**89.0**	75.6
	376.4	191.0

Mandatory reserve deposits are not available for use in the Group's day to day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of the Kingdom of Bahrain, which are carried at amortised cost, and Republic of India which are carried at FVOCI amounting to BD 482.3 million and BD 2.1 million (31 December 2018: BD 405.8 million and BD 4.6 million) respectively. At 31 December 2019, treasury bills issued by Government of the Kingdom of Bahrain includes short-term Islamic Sukuk amounting to BD 76.7 million (31 December 2018: Nil).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 BD millions	2018 BD millions
Deposits with banks and other financial institutions	**183.1**	195.1
Other amounts due from banks (Nostro and Current Accounts)	**95.5**	44.1
Less: Expected credit losses	**(0.3)**	–
	278.3	239.2

7 LOANS AND ADVANCES TO CUSTOMERS

	2019 BD millions	2018 BD millions
Loans and advances to customers at amortised cost:		
Commercial loans and overdrafts	**1,229.0**	1,343.1
Consumer loans	**545.2**	553.5
	1,774.2	1,896.6
Less: Expected credit losses	**(103.3)**	(124.1)
	1,670.9	1,772.5

Ageing analysis of past due but not impaired loans is as follows:

2019	Up to 30 days BD millions	31 to 60 days BD millions	61 to 89 days BD millions	Total BD millions
Commercial loans and overdrafts	**144.5**	**7.8**	**7.6**	**159.9**
Consumer loans	**20.0**	**4.8**	**10.5**	**35.3**
	164.5	**12.6**	**18.1**	**195.2**

2018	Up to 30 days BD millions	31 to 60 days BD millions	61 to 89 days BD millions	Total BD millions
Commercial loans and overdrafts	61.0	64.6	6.0	131.6
Consumer loans	15.2	4.5	14.7	34.4
	76.2	69.1	20.7	166.0

The distribution of loans and advances by geographic region and industry sector was as follows:

	2019 BD millions	2018 BD millions
Geographic region:		
Gulf Co-operation Council countries	**1,384.9**	1,506.7
North America	**–**	0.1
Europe	**123.1**	103.5
Asia	**113.5**	128.8
Others	**49.4**	33.4
	1,670.9	1,772.5

	2019 BD millions	2018 BD millions
Industry sector:		
Trading and manufacturing	**533.2**	561.1
Banks and other financial institutions	**239.1**	217.1
Construction and real estate	**262.9**	348.4
Government and public sector	**7.8**	9.1
Individuals	**501.9**	496.7
Others	**126.0**	140.1
	1,670.9	1,772.5

Movements in allowances for ECL on loans and advances are as follows:

(i) Commercial loans and overdrafts

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit – impaired BD millions	Stage 3: Lifetime ECL credit – impaired BD millions	Total BD millions
2019				
Balance at 1 January	**6.3**	**20.8**	**81.7**	**108.8**
Transferred to 12 month ECL	**1.2**	**(0.8)**	**(0.4)**	**–**
Transferred to lifetime ECL not credit-impaired	**(0.3)**	**1.7**	**(1.4)**	**–**
Transferred to lifetime ECL credit-impaired	**–**	**(8.8)**	**8.8**	**–**
Net remeasurement of loss allowance	**(0.4)**	**(1.1)**	**18.9**	**17.4**
Recoveries/write-backs	**–**	**–**	**(1.9)**	**(1.9)**
Amounts written-off during the year	**–**	**–**	**(33.6)**	**(33.6)**
Foreign exchange and other movements	**(3.6)**	**7.2**	**1.2**	**4.8**
Balance at 31 December	**3.2**	**19.0**	**73.3**	**95.5**
2018				
Balance at 1 January	4.6	30.9	58.0	93.5
Transferred to 12 month ECL	0.1	(0.1)	–	–
Transferred to lifetime ECL not credit-impaired	(0.2)	0.2	–	–
Transferred to lifetime ECL credit-impaired	–	(38.7)	38.7	–
Net remeasurement of loss allowance	1.8	27.5	10.5	39.8
Recoveries/write-backs	–	–	(6.1)	(6.1)
Amounts written-off during the year	–	–	(18.9)	(18.9)
Foreign exchange and other movements	–	1.0	(0.5)	0.5
Balance at 31 December	6.3	20.8	81.7	108.8

7 LOANS AND ADVANCES TO CUSTOMERS continued

(ii) Consumer loans

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit – impaired BD millions	Stage 3: Lifetime ECL credit – impaired BD millions	Total BD millions
2019				
Balance at 1 January	**5.1**	**4.7**	**5.5**	**15.3**
Transferred to 12 month ECL	**0.7**	**(0.7)**	**–**	**–**
Transferred to lifetime ECL not credit-impaired	**(0.1)**	**0.1**	**–**	**–**
Transferred to lifetime ECL credit-impaired	**–**	**(0.5)**	**0.5**	**–**
Net remeasurement of loss allowance	**–**	**(0.8)**	**2.7**	**1.9**
Recoveries/write-backs	**–**	**–**	**(1.5)**	**(1.5)**
Amounts written-off during the year	**–**	**–**	**(3.7)**	**(3.7)**
Foreign exchange and other movements	**(4.0)**	**(0.2)**	**–**	**(4.2)**
Balance at 31 December	**1.7**	**2.6**	**3.5**	**7.8**
2018				
Balance at 1 January	4.2	6.4	8.2	18.8
Transferred to 12 month ECL	1.0	(1.0)	–	–
Transferred to lifetime ECL not credit-impaired	(0.1)	0.1	–	–
Transferred to lifetime ECL credit-impaired	–	(0.1)	0.1	–
Net remeasurement of loss allowance	–	(0.7)	3.0	2.3
Recoveries/write-backs	–	–	(1.0)	(1.0)
Amounts written-off during the year	–	–	(4.8)	(4.8)
Balance at 31 December	5.1	4.7	5.5	15.3

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2019 amounts to BD 54.8 million (31 December 2018: BD 59.8 million).

At 31 December 2019, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 93.4 million (31 December 2018: BD 118.7 million). These mainly consists of Murabaha and Ijarah financing facilities.

8 INVESTMENT SECURITIES

2019	FVTPL BD millions	FVOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	**–**	**334.2**	**19.5**	**353.7**
Other bonds	**–**	**326.8**	**–**	**326.8**
Equities	**–**	**42.1**	**–**	**42.1**
	–	**703.1**	**19.5**	**722.6**
Unquoted investments:				
Government bonds	**–**	**–**	**126.0**	**126.0**
Equities	**–**	**26.2**	**–**	**26.2**
Managed funds	**0.7**	**–**	**–**	**0.7**
	0.7	**26.2**	**126.0**	**152.9**
	0.7	**729.3**	**145.5**	**875.5**
Less: Expected credit losses	–	**(0.5)**	**–**	**(0.5)**
Balance at 31 December 2019	**0.7**	**728.8**	**145.5**	**875.0**

2018	FVTPL BD millions	FVOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	–	275.7	20.2	295.9
Other bonds	0.7	311.2	–	311.9
Equities	–	38.3	–	38.3
	0.7	625.2	20.2	646.1
Unquoted investments:				
Government bonds	–	–	125.6	125.6
Other bonds	0.1	–	–	0.1
Equities	–	28.2	–	28.2
Managed funds	0.8	–	–	0.8
	0.9	28.2	125.6	154.7
	1.6	653.4	145.8	800.8
Less: Expected credit losses	–	(0.5)	–	(0.5)
Balance at 31 December 2018	1.6	652.9	145.8	800.3

* At 31 December 2019, investment securities include government bonds and other bonds of BD 409.1 million (31 December 2018: BD 286.1 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2019, investment securities include long-term Islamic Sukuk amounting to BD 90.4 million (31 December 2018: BD 72.7 million).

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2018: 23.03%) equity interest in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 22% (2018: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40% (2018: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2018: 24.27%) stake in Bahrain Liquidity Fund, an investment vehicle established in the Kingdom of Bahrain to enhance liquidity in the market and to close the valuation gap between securities listed on Bahrain Bourse and their regional peers.

The Group has a 50% (2018: 50%) stake in Aegila Capital Management Limited, a joint venture company incorporated in the United Kingdom which is engaged in capital market advisory services for alternative investments with particular focus in the real estate.

The Group has a 49.96% (2018: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

The Group has a 24.99% (2018: 24.99%) stake in Evoque Holdings Jersey Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Germany.

The Group has a 45% (2018: Nil) stake in LSE Jersey Holdings Limited Partnership, a joint venture partnership registered in Jersey to facilitate the indirect real estate investment in the United Kingdom.

	2019 BD millions	2018 BD millions
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**62.9**	47.0
Acquisitions during the year	**7.1**	15.2
Share of profit for the year	**6.8**	4.1
Dividends received	**(3.9)**	(3.1)
Change in unrealised fair values – associated companies (note 16)	**(1.1)**	0.5
Foreign currency translation adjustments	**(0.2)**	(0.3)
Capital distribution	**(1.0)**	(0.5)
At 31 December	**70.6**	62.9

Investment in associated companies and joint ventures includes the Group's investment in BCFC, which is considered to be a material associate. The following table illustrates the financial information of the Group's investment in BCFC:

	2019 BD millions	2018 BD millions
Net interest income	**27.6**	25.0
Gross profit on automotive sales	**6.8**	7.2
Other operating income	**13.5**	13.1
Total operating income	**47.9**	45.3
Operating expenses	**(22.1)**	(21.1)
Other expenses	**(5.2)**	(2.8)
Adjusted profit for the year	**20.6**	21.4
Group's share of adjusted profit for the year	**4.7**	4.9

	2019 BD millions	2018 BD millions
Assets		
Cash and balances with banks	**6.7**	4.7
Loans and advances to customers	**330.6**	304.9
Inventories	**27.1**	29.0
Other assets	**57.1**	52.1
Total assets	**421.5**	390.7
Liabilities		
Bank overdrafts	**0.1**	1.0
Trade and other payables	**26.0**	19.4
Bank term loans	**220.0**	184.1
Bonds issued	**20.0**	40.0
Total liabilities	**266.1**	244.5
Donation reserve	**(0.7)**	(0.9)
Equity	**154.7**	145.3
Proportion of the Group's ownership	**23.03%**	23.03%
	35.6	33.5

The figures reported above for BCFC are based on 30 September 2019 reviewed financial statements adjusted for expected performance for the last quarter ended 31 December 2019 (2018: same).

The market value of the Group's investment in BCFC is BD 38.1 million (2018: BD 29.0 million).

10 INTEREST RECEIVABLE AND OTHER ASSETS

	2019 BD millions	2018 BD millions
Accounts receivable	**17.3**	23.1
Interest receivable	**15.6**	15.6
Collateral pending sale	**12.2**	13.5
Prepaid expenses	**2.1**	1.2
Deferred tax asset (note 22)	**1.3**	1.1
Positive fair value of derivatives (note 28)	**1.3**	11.3
Others	**24.4**	12.1
	74.2	77.9

11 PREMISES AND EQUIPMENT

	Freehold land BD millions	Properties and buildings BD millions	Furniture and equipment BD millions	Right-of-use assets BD millions	Capital work in progress BD millions	Total BD millions
Net book value at 31 December 2019						
	9.0	**9.0**	**7.8**	**8.0**	**1.4**	**35.2**
Net book value at 31 December 2018						
	8.8	11.9	6.6	–	0.2	27.5

The depreciation charge for the year amounted to BD 6.1 million (2018: BD 3.7 million).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprised:

Rate of interest	Maturity	2019 BD millions	2018 BD millions
3.50%	2020	**144.5**	144.5
5.50%	2024	**188.5**	–
		333.0	144.5

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2019 BD millions	2018 BD millions
Term deposits	**965.1**	1,259.4
Savings accounts	**655.1**	571.3
Current accounts	**491.0**	484.7
Other accounts	**58.3**	59.1
	2,169.5	2,374.5

14 INTEREST PAYABLE AND OTHER LIABILITIES

	2019 BD millions	2018 BD millions
Accrued expenses	**48.5**	37.6
Negative fair value of derivatives (note 28)	**27.0**	4.8
Interest payable	**24.0**	24.1
Accounts payable	**16.4**	14.2
Lease liability	**6.1**	–
Allowance for ECL on financial contracts	**3.3**	1.0
Others	**13.7**	22.9
	139.0	104.6

15 EQUITY

(i) Share capital

	2019 BD millions	2018 BD millions
Authorised		
1,500,000,000 shares of BD 0.100 each	**150.0**	150.0
Issued and fully paid		
1,296,891,745 shares (2018: 1,081,647,952 shares) of BD 0.100 each	**129.7**	108.2

At the Extra-Ordinary General Meeting held on 20 March 2019, the shareholders approved the conversion of the Bank's perpetual tier 1 convertible capital securities of BD 86.1 million to ordinary shares at a price of 400 fils per share effective 2 May 2019. As a result, the issued shares increased by 215,243,793 shares, the paid up capital increased by BD 21.5 million and share premium increased by BD 64.6 million.

(ii) Treasury stock

Treasury stock represents the Bank purchase of its own shares. At the end of the year, the Bank held 12,380,542 (2018: 6,213,641) of its own shares.

	2019 BD millions	2018 BD millions
Consideration paid	**(5.2)**	(2.5)

(iii) Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB. During the year, share premium was increased by BD 64.6 million [refer to note 15(i)].

(iv) Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (refer to note 42).

(v) Unclaimed dividends

During the year, the Group transferred BD Nil (2018: BD 0.022 million) to equity as unclaimed dividends by the shareholders and paid BD 0.025 million (2018: BD Nil) to its shareholders from the reserve account in the equity. As per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years are transferred to equity, however are available to the respective shareholders for any future claims.

(vi) Perpetual tier 1 convertible capital securities

During the year 2016, the Bank issued BD 86.1 million Basel III compliant Additional Tier I Convertible Perpetual Capital Securities. Distribution Payment Amounts shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Capital Securities at rate of 8.25 percent per annum. These securities were recognised under equity in the consolidated statement of financial position. During the year, these securities were converted into ordinary shares [refer to note 15 (i)].

(vii) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 7.5 million to statutory reserve (2018: Nil). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(viii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

16 CUMULATIVE CHANGES IN FAIR VALUES

	2019 BD millions	2018 BD millions
Fair value through other comprehensive income		
At 1 January	**(25.7)**	(8.6)
Transferred to retained earnings on sale/write-off of equity securities	**1.9**	0.5
Transferred to profit or loss on sale of investment securities (debt)	**(2.8)**	(3.2)
Transferred to profit or loss on impairment (debt)	**0.1**	0.3
Fair value changes on investment securities carried at FVOCI	**38.2**	(14.7)
At 31 December	**11.7**	(25.7)
Cash flow hedges		
At 1 January	**0.6**	0.2
Change in unrealised fair values	**–**	(0.1)
Change in unrealised fair values – associated companies (note 9)	**(1.1)**	0.5
At 31 December	**(0.5)**	0.6
	11.2	(25.1)

17 PROPOSED APPROPRIATIONS

	2019 BD millions	2018 BD millions
Cash dividend	**38.5**	43.0
Stock dividend	**6.5**	–
Transfer to general reserve	**7.5**	–
Donations	**2.0**	1.6
	54.5	44.6

The Board of Directors proposed a final cash dividend of BD 0.040 per share and stock dividend of BD 0.005 per share (including an interim cash dividend of BD 0.010 per share, declared and paid during July 2019), net of treasury stock as of 31 December 2019 (2018: BD 0.040 per share). Further, a transfer of 10% of the Group's annual profit to general reserve amounting to BD 7.5 million (2018: BD Nil) was proposed by the Board of Directors.

During the year, the Bank paid dividends of BD 0.040 per share pertaining to 2018 (2018: BD 0.035 per share pertaining to 2017) and the interim cash dividend of BD 0.010 per share pertaining to 2019 (2018: BD Nil), net of treasury stock.

The above appropriations will be submitted for approval at the forthcoming Annual General Assembly of the Shareholders. The payment of the final cash dividend is subject to the approval of the CBB.

18 NET INTEREST AND SIMILAR INCOME

	2019 BD millions	2018 BD millions
(a) Interest and similar income		
Loans and advances to customers	**104.4**	107.7
Investment securities	**39.8**	33.4
Treasury bills	**16.1**	16.0
Deposits and amounts due from banks and other financial institutions	**16.1**	8.7
	176.4	165.8
(b) Interest and similar expense		
Customers' deposits	**(44.4)**	(39.6)
Deposits and amounts due to banks and other financial institutions	**(24.7)**	(16.3)
	(69.1)	(55.9)
	107.3	109.9

19 FEE AND COMMISSION INCOME – NET

	2019 BD millions	2018 BD millions
Fee and commission income	**49.3**	**49.2**
Fee and commission expense	**(22.7)**	**(21.0)**
	26.6	**28.2**

Included in fee and commission income is BD 0.02 million (2018: BD 0.07 million) relating to trust and other fiduciary activities.

20 OTHER INCOME

	2019 BD millions	2018 BD millions
Dividend income	**3.9**	6.2
Gain on foreign exchange	**5.9**	5.3
Realised gains on investment securities	**3.0**	3.2
Others	**4.8**	4.2
	17.6	18.9

21 TOTAL PROVISIONS – NET

	2019 BD millions	2018 BD millions
Loans and advances to customers	**15.9**	35.0
Investment securities	**0.1**	0.3
Off-balance sheet exposures	**2.3**	(0.4)
Collateral pending sale	**0.6**	0.4
	18.9	35.3

22 TAXATION

	2019 BD millions	2018 BD millions
Consolidated statement of financial position		
Deferred tax asset (note 10)	**1.3**	1.1
Consolidated statement of profit or loss		
Deferred tax expense on foreign operations	**0.2**	0.4
	0.2	0.4

Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period. Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2019 is 43.68% (2018: 43.68%). During 2018, tax was paid as per Minimum Alternate Tax (MAT), under Section 115J of the Income Tax Act, 1961.

The Group is exposed to a contingent tax liability of BD 1.9 million (2018: BD 0.7 million). Based on the opinion of the management, no liability is likely to arise from these ongoing cases with local tax authorities in the relevant country of incorporation of the group entities, in accordance with the tax laws prevailing in those jurisdictions.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank by the weighted average number of shares outstanding during the year.

Diluted earnings per share
Diluted earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank less distribution on perpetual tier 1 convertible capital securities, by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion into ordinary shares.

	2019	2018
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation (BD millions)	**75.4**	67.1
Less: Distribution on perpetual tier 1 convertible capital securities (BD millions)	**(3.6)**	(7.1)
Adjusted net profit for the year attributable to the owners of the Bank (BD millions)	**71.8**	60.0
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,210,868,457**	1,076,676,556
Basic earnings per share (BD)	**0.059**	0.056
Weighted average number of ordinary shares adjusted for the effect of dilution, net of treasury stock, outstanding during the year	**1,210,868,457**	1,291,920,336
Diluted earnings per share (BD)	**0.059**	0.052

24 OPERATING SEGMENTS

Segment information

For management purposes, the Group is organised into four major business segments:

Retail banking

Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.

Corporate banking

Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

International banking

Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

Investment, treasury and other activities

Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate, which approximates the marginal cost of funds on a matched funded basis.

	Retail banking BD millions	Corporate banking BD millions	International banking BD millions	Investment, treasury and other activities BD millions	Total BD millions
Segment information for the year ended 31 December 2019 was as follows:					
Interest income	**33.7**	**40.3**	**40.8**	**61.6**	**176.4**
Interest expense	**(5.1)**	**(16.4)**	**(15.8)**	**(31.8)**	**(69.1)**
Internal fund transfer price	**5.5**	**4.1**	**(4.8)**	**(4.8)**	**–**
Net interest income	**34.1**	**28.0**	**20.2**	**25.0**	**107.3**
Other operating income	**19.4**	**3.7**	**5.7**	**15.4**	**44.2**
Operating income before share of profit from associated companies and joint ventures	**53.5**	**31.7**	**25.9**	**40.4**	**151.5**
Total provisions – net	**0.8**	**0.6**	**(19.6)**	**(0.7)**	**(18.9)**
Segment result	**25.6**	**17.7**	**(9.0)**	**34.9**	**69.2**
Share of profit from associated companies and joint ventures	**5.7**	**–**	**–**	**1.1**	**6.8**
Profit for the year					**76.0**
Profit attributable to non-controlling interest					**(0.6)**
Profit for the year attributable to the owners of the Bank					**75.4**
Segment assets	**629.6**	**620.7**	**1,015.4**	**1,476.3**	**3,742.0**
Investment in associated companies and joint ventures	**40.6**	**–**	**–**	**30.0**	**70.6**
Common assets					**52.4**
Total assets					**3,865.0**
Segment liabilities	**901.4**	**838.8**	**826.6**	**661.7**	**3,228.5**
Common liabilities					**89.5**
Total liabilities					**3,318.0**
Segment information for the year ended 31 December 2018 was as follows:					
Interest income	32.3	41.4	41.4	50.7	165.8
Interest expense	(3.6)	(10.9)	(12.7)	(28.7)	(55.9)
Internal fund transfer price	3.3	(2.1)	(7.8)	6.6	–
Net interest income	32.0	28.4	20.9	28.6	109.9
Other operating income	21.2	3.5	5.2	17.2	47.1
Operating income before share of profit from associated companies and joint ventures	53.2	31.9	26.1	45.8	157.0
Total provisions – net	0.3	(26.4)	(8.9)	(0.3)	(35.3)
Segment result	26.2	(9.2)	1.8	44.8	63.6
Share of profit from associated companies and joint ventures	4.4	–	–	(0.3)	4.1
Profit for the year					67.7
Profit attributable to non-controlling interest					(0.6)
Profit for the year attributable to the owners of the Bank					67.1
Segment assets	643.1	661.3	992.7	1,175.9	3,473.0
Investment in associated companies and joint ventures	37.9	–	–	25.0	62.9
Common assets					45.8
Total assets					3,581.7
Segment liabilities	823.8	702.1	803.3	693.3	3,022.5
Common liabilities					58.8
Total liabilities					3,081.3

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located.

	Domestic BD millions	Others BD millions	Total BD millions
31 December 2019			
Net interest income	**92.9**	**14.4**	**107.3**
Share of profit from associated companies and joint ventures	**5.7**	**1.1**	**6.8**
Other income	**40.0**	**4.2**	**44.2**
	138.6	**19.7**	**158.3**
Non-current assets*	**91.3**	**26.7**	**118.0**

	Domestic BD millions	Others BD millions	Total BD millions
31 December 2018			
Net interest income	94.9	15.0	109.9
Share of profit from associated companies and joint ventures	4.4	(0.3)	4.1
Other income	43.6	3.5	47.1
	142.9	18.2	161.1
Non-current assets*	83.9	20.0	103.9

* Non-current assets represents investment in associated companies and joint venutres, collateral pending sale, and premises and equipment.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated statement of cash flows included the following as at 31 December:

	2019 BD millions	2018 BD millions
Cash in hand and vaults (note 4)	**21.2**	20.3
Current accounts and placements with central banks (note 4)	**266.2**	95.1
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	**249.4**	230.0
	536.8	345.4

26 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associated companies and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. All the loans and advances to related parties are performing and subject to ECL allowances.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2019				
Loans and advances to customers	**–**	**21.9**	**3.0**	**24.9**
Investments in associated companies and joint ventures	**–**	**70.6**	**–**	**70.6**
Customers' current, savings and other deposits	**210.4**	**5.1**	**9.1**	**224.6**
31 December 2018				
Loans and advances to customers	–	23.3	3.0	26.3
Investments in associated companies and joint ventures	–	62.9	–	62.9
Customers' current, savings and other deposits	185.4	3.1	6.8	195.3

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	Major shareholders BD millions	Associated companies and joint ventures BD millions	Directors and key management personnel BD millions	Total BD millions
31 December 2019				
Interest income	**–**	**1.5**	**–**	**1.5**
Interest expense	**4.6**	**0.1**	**0.2**	**4.9**
Share of profit from associated companies and joint ventures	**–**	**6.8**	**–**	**6.8**
31 December 2018				
Interest income	–	1.4	–	1.4
Interest expense	6.1	0.1	0.1	6.3
Share of profit from associated companies and joint ventures	–	4.1	–	4.1

Compensation of the key management personnel is as follows:

	2019 BD millions	2018 BD millions
Short-term employee benefits	**10.9**	10.6
Long-term employee benefits	**1.2**	0.4
	12.1	11.0

For key management personnel interest in the employee share incentive scheme, refer to note 42.

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities given below has been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2019	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	**287.4**	**–**	**–**	**–**	**287.4**	**–**	**–**	**–**	**89.0**	**376.4**
Treasury bills	**69.2**	**190.3**	**127.2**	**97.7**	**484.4**	**–**	**–**	**–**	**–**	**484.4**
Deposits and amounts due from banks and other financial institutions	**248.6**	**–**	**–**	**29.7**	**278.3**	**–**	**–**	**–**	**–**	**278.3**
Loans and advances to customers	**213.7**	**113.8**	**164.8**	**132.2**	**624.5**	**750.7**	**203.6**	**48.4**	**43.7**	**1,670.9**
Investment securities	**38.3**	**32.4**	**39.4**	**29.0**	**139.1**	**295.9**	**305.8**	**20.3**	**113.9**	**875.0**
Investments in associated companies and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**70.6**	**70.6**
Interest receivable and other assets	**62.0**	**–**	**–**	**–**	**62.0**	**12.2**	**–**	**–**	**–**	**74.2**
Premises and equipment	**0.1**	**0.1**	**0.1**	**0.3**	**0.6**	**27.7**	**2.1**	**3.2**	**1.6**	**35.2**
Total assets	**919.3**	**336.6**	**331.5**	**288.9**	**1,876.3**	**1,086.5**	**511.5**	**71.9**	**318.8**	**3,865.0**
Liabilities										
Deposits and amounts due to banks and other financial institutions	**228.7**	**48.9**	**64.5**	**19.2**	**361.3**	**1.8**	**–**	**–**	**–**	**363.1**
Borrowings under repurchase agreement	**3.0**	**10.2**	**–**	**129.2**	**142.4**	**171.0**	**–**	**–**	**–**	**313.4**
Term borrowings	**–**	**144.5**	**–**	**–**	**144.5**	**188.5**	**–**	**–**	**–**	**333.0**
Customers' current, savings and other deposits	**255.2**	**41.5**	**86.2**	**49.5**	**432.4**	**0.2**	**–**	**–**	**1,736.9**	**2,169.5**
Interest payable and other liabilities	**133.2**	**0.1**	**0.1**	**0.3**	**133.7**	**1.3**	**1.9**	**2.1**	**–**	**139.0**
Total liabilities	**620.1**	**245.2**	**150.8**	**198.2**	**1,214.3**	**362.8**	**1.9**	**2.1**	**1,736.9**	**3,318.0**
Net	**299.2**	**91.4**	**180.7**	**90.7**	**662.0**	**723.7**	**509.6**	**69.8**	**(1,418.1)**	**547.0**
Cumulative	**299.2**	**390.6**	**571.3**	**662.0**		**1,385.7**	**1,895.3**	**1,965.1**	**547.0**	

31 December 2018	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	Subtotal BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Assets										
Cash and balances with central banks	115.4	–	–	–	115.4	–	–	–	75.6	191.0
Treasury bills	62.6	123.3	99.2	125.3	410.4	–	–	–	–	410.4
Deposits and amounts due from banks and other financial institutions	195.2	37.8	–	6.2	239.2	–	–	–	–	239.2
Loans and advances to customers	247.2	143.2	108.9	136.0	635.3	812.0	236.2	29.0	60.0	1,772.5
Investment securities	33.7	24.7	29.7	18.7	106.8	299.7	260.3	28.3	105.2	800.3
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	62.9	62.9
Interest receivable and other assets	64.4	–	–	–	64.4	13.5	–	–	–	77.9
Premises and equipment	–	–	–	–	–	24.5	0.3	1.1	1.6	27.5
Total assets	718.5	329.0	237.8	286.2	1,571.5	1,149.7	496.8	58.4	305.3	3,581.7
Liabilities										
Deposits and amounts due to banks and other financial institutions	156.8	79.3	22.6	–	258.7	–	–	–	–	258.7
Borrowings under repurchase agreement	–	–	2.0	–	2.0	197.0	–	–	–	199.0
Term borrowings	–	–	–	–	–	144.5	–	–	–	144.5
Customers' current, savings and other deposits	258.5	34.9	87.7	99.2	480.3	16.1	–	–	1,878.1	2,374.5
Interest payable and other liabilities	104.6	–	–	–	104.6	–	–	–	–	104.6
Total liabilities	519.9	114.2	112.3	99.2	845.6	357.6	–	–	1,878.1	3,081.3
Net	198.6	214.8	125.5	187.0	725.9	792.1	496.8	58.4	(1,572.8)	500.4
Cumulative	198.6	413.4	538.9	725.9		1,518.0	2,014.8	2,073.2	500.4	

28 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2019	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading			
Forward foreign exchange contracts	**0.7**	**0.6**	**174.4**
Derivatives held as fair value hedges			
Interest rate swaps	**0.6**	**26.4**	**595.4**
	1.3	**27.0**	**769.8**

31 December 2018	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading			
Forward foreign exchange contracts	0.5	0.5	125.8
Derivatives held as fair value hedges			
Interest rate swaps	10.8	4.3	586.8
	11.3	4.8	712.6

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back-to-back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices. Also, included under this category are derivatives which do not meet IFRS 9 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 36 and 37 respectively.

As part of its asset and liability management, the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases, the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, fair value through other comprehensive income debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

In these hedge relationships, the main sources of ineffectiveness is the maturity mis-matches or the hedging instruments. The hedged instruments are subject to different counterparty risks, resulting in a change to hedge effectiveness measurement elements.

At 31 December 2019, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Hedge of investment securities					
31 December 2019					
Nominal amount (BD millions)	3.4	**14.3**	**12.8**	**253.4**	**311.5**
Average fixed interest rate	**6%**	**6%**	**5%**	**5%**	**6%**
31 December 2018					
Nominal amount (BD millions)	3.8	–	14.4	255.5	313.1
Average fixed interest rate	3%	0%	5%	5%	6%

The line item in the statement of financial position where the positive fair value of derivatives included is "Interest receivable and other assets".

The amounts relating to items designated as hedged items were as follows:

	2019		2018	
	Carrying amount BD millions	Accumulated fair value hedge adjustments on the hedged item included in the carrying amount BD millions	Carrying amount BD millions	Accumulated fair value hedge adjustments on the hedged item included in the carrying amount BD millions
Bonds (Investment securities)	**583.5**	**22.1**	574.4	(8.0)

For the year ended 31 December 2019, the Group recognised a net gain of BD 32.3 million (2018: net loss of BD 6.3 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 32.6 million (2018: gain of BD 6.5 million).

Cash flow hedges

At 31 December 2019, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

The line item in the statement of financial position where the negative fair value of derivatives included is "Interest payable and other liabilities".

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2019	On demand BD millions	Less than 3 months BD millions	3 to 12 months BD millions	Total BD millions
Contingencies				
Letters of credit	**2.2**	**10.7**	**13.2**	**26.1**
Guarantees	**222.3**	**–**	**–**	**222.3**
				248.4
Commitments				
Undrawn loan commitments	**154.5**	**–**	**–**	**154.5**
				154.5
				402.9

31 December 2018	On demand BD millions	Less than 3 months BD millions	3 to 12 months BD millions	Total BD millions
Contingencies				
Letters of credit	2.4	16.1	13.9	32.4
Guarantees	231.6	–	–	231.6
				264.0
Commitments				
Undrawn loan commitments	120.6	–	–	120.6
				120.6
				384.6

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

For ECL on financial contracts disclosed above, refer to note 14.

30 RISK MANAGEMENT

The activities of the group entails Risk taking on regular basis through its businesses. Risk management involves the identifying, measuring, monitoring and managing of risks on a continuous basis. Efficient and timely management of risks in the Group's activities is critical for the financial soundness and profitability of the Group. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices with aim to manage the overall risk profile of the Group in most efficient and effective way.

The Group's Risk Management framework involves the following major categories:

Credit and Counterparty Risk (including concentration effects): Credit Risk is risk of loss if customer of the Group fail to fulfill their agreed obligations and that the pledged collaterals do not cover the obligations. Credit Risks mainly stem from various forms of lending. They also arise from guarantees and documentary credits, counterparties credit risks in derivative contracts, transfer risks in case of transfer of money and settlement risks. Credit Risk may further amplify by individual, country and sector concentration risk.

Market Risk: is the risk of loss in the Group holdings and transactions due to changes in market rate and parameters that affect the market value. These rates and parameters include but are not limited to exchange rates, credit spreads, interest rates, equity and bond prices and derivative prices.

Liquidity and Funding risk: Liquidity risk is defined the Group's inability to meet its financial obligations at a reasonable cost. Funding risk is defined as the risk of the Group being unable to finance the development of its activities in line with its commercial objectives and at a competitive cost.

Operational Risks: Risk of losses resulting from inadequacies or failures in processes, personnel or systems or from external events. They include – non-compliance (including legal and tax risks), misconduct risks and reputational risks.

Strategic/business risk: Risks resulting from the Group's inability to execute its strategy and business plans.

Risk is measured, monitored and reported according to principles and policies approved by the Board of Directors. The Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks. The Chief Risk Officer (CRO) is head of Risk and Credit Management Division (RCMD). CRO reports to Board Risk Committee, ensuring segregation of duties and management oversight from the Business originating units – a fundamental principle of risk management process.

Whilst the Board approves and periodically reviews risk management policies and strategies based on the recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC), the Country Risk Committee (CRC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to Asset Liability mismatches and liquidity. The CRC reviews country risk, business strategies and macro-economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee (ORMC) manages the overall operational risk for the Bank by instituting Central Bank of Bahrain guidelines and Basel standards and carrying out required oversight.

RCMD of the Group maintains a high standard of risk management by means of applying available techniques and methodology. The control environment is, among other things, based on the principle of segregation of duties and independence. RCMD is responsible for looking into risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing or amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. RCMD in collaboration with Financial Control Division, prepares the Risk Appetite and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank. RCMD is also responsible for ensuring adherence to regulatory and statutory requirements related to risk management such as introducing use of IFRS 9 guidelines, ICAAP etc. in the Bank.

Group Internal Audit makes an independent valuation of the processes regarding risk and capital management in accordance with the annual audit plan.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the notes below.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Credit Risk is risk of loss to the Group due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligationsincludingthe whole and timely payment of principal, interest, collateral and other receivablesThe failure there by causes the Group to incur a financial loss.

The credit risk that BBK Group faces arises from loans and advances together with the counterparty credit risk arising from derivative contracts with clients; trading activities, including debt securities, settlement balances with market counterparties and reverse repurchase loans

Credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk taking in line with the Board of Directors expectations and avoiding undesirable concentrations; and
- monitor credit risk and adherence to agreed controls.

A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry. Policy limits and operating limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated risk appetite. Limits are typically based on the nature of the lending and the amount of the underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure limits to individual counterparties' exposures. Excesses are reported to the appropriate authority as set by Credit Risk Policy.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit as well as at a portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Designated Credit and Investment Officers in RCMD before approval of the appropriate approving authority is obtained. The Bank has a tiered approval authority level matrix depending on the extent of risk, comprising individuals with proven credit and investment credentials, Management Credit Committee and Board Committees. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. All larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer/Designated Investment Officer in RCMD is one of the signatories in the credit/investment approval chain and provides independent view on credit and investment proposals.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the CBB and the local regulators in overseas locations.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return, reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and for commitments and contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2019 BD millions	2018 BD millions
Balances with central banks	**355.2**	170.7
Treasury bills	**484.4**	410.4
Deposits and amounts due from banks and other financial institutions	**278.3**	239.2
Loans and advances to customers	**1,670.9**	1,772.5
Investment securities	**806.0**	733.0
Interest receivable and other assets	**58.6**	62.1
	3,653.4	3,387.9
Contingent liabilities	**248.4**	264.0
Undrawn loan commitments	**154.5**	120.6
	402.9	384.6
	4,056.3	3,772.5

32 CONCENTRATION RISK

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

	2019			2018		
	Assets BD millions	**Liabilities BD millions**	**Credit commitments and contingencies BD millions**	Assets BD millions	Liabilities BD millions	Credit commitments and contingencies BD millions
Geographic region:						
Gulf Co-operation Council countries	**3,151.1**	**2,475.1**	**345.9**	2,968.5	2,581.0	327.5
North America	**99.2**	**7.9**	**0.9**	42.3	12.5	0.3
Europe	**282.9**	**605.8**	**7.5**	250.7	337.8	6.1
Asia	**248.9**	**212.4**	**45.7**	259.9	134.6	49.3
Others	**82.9**	**16.8**	**2.9**	60.3	15.4	1.4
	3,865.0	**3,318.0**	**402.9**	3,581.7	3,081.3	384.6
Industry sector:						
Trading and manufacturing	**647.8**	**147.3**	**192.6**	673.0	102.2	186.4
Banks and other financial institutions	**763.4**	**1,207.8**	**35.6**	695.8	1,344.1	25.0
Construction and real estate	**302.1**	**58.0**	**132.2**	385.1	69.9	135.1
Government and public sector	**1,327.1**	**420.5**	**–**	1,013.5	368.8	1.4
Individuals	**501.9**	**1,077.0**	**0.4**	496.7	934.3	0.4
Others	**322.7**	**407.4**	**42.1**	317.6	262.0	36.3
	3,865.0	**3,318.0**	**402.9**	3,581.7	3,081.3	384.6

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 and 10 as non-performing grades, in line with Basel III guidelines. Grades 1 to 3 represent high grade (undoubted through to good credit risk), 4 to 6 represent standard grade (satisfactory through to adequate credit risk) and 7 to 8 represent sub-standard grade (satisfactory through to high credit risk).

The Group's rating method comprises 19 rating levels for debt instruments. The master scale maps the external credit ratings of rating agencies for debt instruments into high, standard, substandard and past due or individually impaired. Grades 1 to 7 represent high grade (AAA to A-), 8 to 16 represent standard grade (BBB+ to B-) and 17 to 19 represent sub-standard grade (CCC+ to CCC-).

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

33.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit -impaired BD millions	Total BD millions
31 December 2019				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	**212.5**	**3.4**	**–**	**215.9**
Standard (Grade 4 to 6)	**632.3**	**168.8**	**–**	**801.1**
Substandard (Grade 7 to 8)	**3.8**	**115.3**	**–**	**119.1**
Non-performing (Grade 9 to 10)	**–**	**–**	**92.9**	**92.9**
	848.6	**287.5**	**92.9**	**1,229.0**
Expected credit losses	**(3.2)**	**(19.0)**	**(73.3)**	**(95.5)**
Net carrying amount	**845.4**	**268.5**	**19.6**	**1,133.5**
31 December 2018				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	237.3	5.5	–	242.8
Standard (Grade 4 to 6)	669.4	156.4	–	825.8
Substandard (Grade 7 to 8)	9.6	124.5	–	134.1
Non-performing (Grade 9 to 10)	–	–	140.4	140.4
	916.3	286.4	140.4	1,343.1
Expected credit losses	(6.3)	(20.8)	(81.7)	(108.8)
Net carrying amount	910.0	265.6	58.7	1,234.3

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit-impaired BD millions	Total BD millions
31 December 2019				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	**518.5**	**–**	**–**	**518.5**
Standard (Grade 4 to 6)	**–**	**7.3**	**–**	**7.3**
Substandard (Grade 7 to 8)	**–**	**8.0**	**–**	**8.0**
Non-performing (Grade 9 to 10)	–	**–**	**11.4**	**11.4**
	518.5	**15.3**	**11.4**	**545.2**
Expected credit losses	**(1.7)**	**(2.6)**	**(3.5)**	**(7.8)**
Net carrying amount	**516.8**	**12.7**	**7.9**	**537.4**
31 December 2018				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	523.8	–	–	523.8
Standard (Grade 4 to 6)	–	8.4	–	8.4
Substandard (Grade 7 to 8)	–	10.9	–	10.9
Non-performing (Grade 9 to 10)	–	–	10.4	10.4
	523.8	19.3	10.4	553.5
Expected credit losses	(5.1)	(4.7)	(5.5)	(15.3)
Net carrying amount	518.7	14.6	4.9	538.2

	Stage 1: 12-month ECL BD millions	**Stage 2: Lifetime ECL not credit-impaired BD millions**	**Stage 3: Lifetime ECL credit-impaired BD millions**	**Total BD millions**
31 December 2019				
Debt investment securities at FVOCI				
High (AAA to A-)	**150.9**	**–**	**–**	**150.9**
Standard (BBB+ to B-) *	**332.9**	**179.3**	**–**	**512.2**
	483.8	**179.3**	**–**	**663.1**
Expected credit losses	**(0.2)**	**(0.3)**	**–**	**(0.5)**
Net carrying amount	**483.6**	**179.0**	**–**	**662.6**
Debt investment securities at amortised cost				
High (AAA to A-)	**77.9**	**–**	**–**	**77.9**
Standard (BBB+ to B-) *	**531.2**	**18.7**	**–**	**549.9**
	609.1	**18.7**	**–**	**627.8**
Expected credit losses	**–**	**–**	**–**	**–**
Net carrying amount	**609.1**	**18.7**	**–**	**627.8**
Loan commitments and financial guarantees				
High (Grade 1 to 3)	**125.1**	**–**	**–**	**125.1**
Standard (Grade 4 to 6)	**166.7**	**52.4**	**–**	**219.1**
Substandard (Grade 7 to 8)	**–**	**36.7**	**–**	**36.7**
Non-performing (Grade 9 to 10)	–	**–**	**22.0**	**22.0**
	291.8	**89.1**	**22.0**	**402.9**
Expected credit losses	**(0.5)**	**(2.8)**	**–**	**(3.3)**
Net carrying amount	**291.3**	**86.3**	**22.0**	**399.6**

	Stage 1: 12-month ECL BD millions	Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Lifetime ECL credit-impaired BD millions	Total BD millions
31 December 2018				
Debt investment securities at FVOCI				
High (AAA to A-)	144.5	–	–	144.5
Standard (BBB+ to B-) *	308.8	138.2	–	447.0
	453.3	138.2	–	591.5
Expected credit losses	(0.2)	(0.3)	–	(0.5)
Net carrying amount	453.1	137.9	–	591.0
Debt investment securities at amortised cost				
High (AAA to A-)	74.3	–	–	74.3
Standard (BBB+ to B-) *	458.6	18.8	–	477.4
	532.9	18.8	–	551.7
Expected credit losses	–	–	–	–
Net carrying amount	532.9	18.8	–	551.7
Loan commitments and financial guarantees				
High (Grade 1 to 3)	113.0	–	–	113.0
Standard (Grade 4 to 6)	160.6	43.2	–	203.8
Substandard (Grade 7 to 8)	0.6	61.3	–	61.9
Non-performing (Grade 9 to 10)	–	–	5.9	5.9
	274.2	104.5	5.9	384.6
Expected credit losses	(0.5)	(0.5)	–	(1.0)
Net carrying amount	273.7	104.0	5.9	383.6

* Standard grade includes unrated investments amounting to BD 5.2 million (2018: BD 6.1 million).

The non-trading financial assets measured at FVTPL rated as Standard (BBB+ to B-) amounted to BD Nil (2018: BD 0.8 million).

33.2 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and bank guarantees;
- For retail lending, mortgages over residential properties;
- Cash collaterals such as bank deposits; and
- Marketable securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS continued

33.2 Collateral and other credit enhancements continued

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	2019 BD millions	2018 BD millions
Derivative assets held for risk management	**38.9**	9.2
Loans and advances:		
- Cash	**59.3**	60.9
- Mortgage lending	**1,013.6**	978.7
- Financial Instruments	**12.9**	42.4
- Others*	**24.6**	80.6

* Others include assignments of right, bank guarantees, general documents, insurance policies, offering letters, promissory notes, term loan agreements and tugs and ships.

33.3 Inputs, assumptions and techniques used for estimating impairment

(a) Significant increase in credit risk

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 including forward-looking information.

(b) Credit risk grades

The Group allocates each borrower to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using 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. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each borrower is allocated to a credit risk grade at initial recognition based on available information about the borrower. Borrowers are subject to ongoing monitoring, which may result in a brorrower being moved to a different credit risk grade.

(c) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its Credit risk exposures analysed by credit risk grading for Corporate and days-past-due for Retail portfolio. The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include: GDP Growth, Real Interest Rates, Unemployment, Domestic Credit Growth, Oil Prices, Central Government Revenue as Percentage of GDP and Central Government Expenditure as Percentage of GDP.

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

(e) Renegotiated/Modified financial assets

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 derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in the past twelve months will be classified under Stage 2. The twelve month period is sufficient to test the adequacy of the cash flows and to test satisfactory performance under the revised terms of restructuring.

(f) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any security is held);
- The borrower is past due more than 90 days on any credit obligation to the Group; and
- The borrower is rated 9 or 10 as per the Group's credit rating model.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

A financial instrument is considered as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PD's are significantly deviated from the present forecast of the economic conditions, qualitative PD overlays shall be used by management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the Stage 1 and Stage 2 exposures which are considered as performing (Stage 3 are the exposures under the default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

(h) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

(i) Probability of default (PD);

(ii) Loss given default (LGD); and

(iii) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties. If a counterparty or exposure migrates between rating PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimations are estimations of :

1- Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

2- Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

3- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The contractual life have been considered as maturity for ECL computation for the assets with fixed maturity whereas, for revolving and overdraft loans a maturity of 3 years (Stage 2) and 1 year (Stage 1) shall be considered based upon the stage under which asset lies.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics and counterparty type that include:

(i) Credit risk gradings;

(ii) Product type; and

(iii) Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

(i) Banks and financial institutions;

(ii) Sovereign; and

(iii) Investment securities (debt instruments).

34 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

The table below shows the carrying amount for financial assets by class that were restructured during the year and had no significant impact on ECL.

	2019 BD millions	2018 BD millions
Loans and advances to customers		
Commercial loans	**67.6**	42.2
Consumer loans	**4.0**	3.1
	71.6	45.3

35 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset – liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investments (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 36.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December 2019, VaR calculated based on the above parameters was BD 0.2 million (2018: BD 0.2 million).

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the CBB requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

36 INTEREST RATE RISK

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, and foreign exchange agreements to manage interest rate risk. Whilst day to day management of interest rate risk is the responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2019, an increase of 200 basis points in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 20.1 million (2018: increase by BD 22.6 million). However, further downward movement of interest rates by 200 basis points might not be a practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income for the year ended 31 December 2019 is BD 19.6 million (2018: BD 22.4 million).

	Rate Shock Forecasting (+200 bps)		Rate Shock Forecasting (-200 bps)	
	2019 BD millions	2018 BD millions	**2019 BD millions**	2018 BD millions
Bahraini Dinar	**15.7**	12.0	**15.7**	12.0
US Dollar	**5.0**	10.5	**4.5**	10.4
Kuwaiti Dinar	**0.6**	0.9	**0.6**	0.8
Others	**(1.2)**	(0.8)	**(1.2)**	(0.8)
Total	**20.1**	22.6	**19.6**	22.4

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on capital of approximately 3.4% amounting to BD 18.3 million (2018: 4.6%, BD 24.2 million). Similarly, a decrease of 200 basis points in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 3.4% amounting to BD 18.3 million (2018: 4.6%, BD 24.2 million).

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2019 BD millions Equivalent long (short)	2018 BD millions Equivalent long (short)
US Dollar	**92.8**	82.8
Euro	**3.7**	3.4
GCC currencies (excluding Kuwaiti Dinars)	**13.0**	12.7
Kuwaiti Dinars	**(2.4)**	(0.6)
Others	**(1.2)**	(1.1)

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US$), positions in US$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities			Effect on equity	
	2019 BD millions	2018 BD millions	% change in Index	**2019 BD millions**	2018 BD millions
Bahrain Bourse	**9.6**	11.5	±15%	**1.4**	1.7
Other stock exchanges	**32.5**	26.8	±15%	**4.9**	4.0
				6.3	5.7

39 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time bucket of the maturity ladder, cumulative outflow of cash limits for time buckets and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Head of the Treasury and Investment Division, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2019	On demand BD millions	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Deposits and amounts due to banks and other financial institutions	**55.0**	**199.9**	**49.3**	**77.7**	**19.7**	**2.1**	**–**	**–**	**–**	**403.7**
Borrowings under repurchase agreement	**–**	**3.6**	**11.7**	**2.7**	**134.4**	**181.6**	**–**	**–**	**–**	**334.0**
Term borrowings	**–**	**5.3**	**147.1**	**–**	**5.3**	**230.5**	**–**	**–**	**–**	**388.2**
Customers' current, savings and other deposits	**1,180.0**	**140.2**	**221.2**	**320.8**	**263.5**	**51.5**	**–**	**–**	**–**	**2,177.2**
Total undiscounted financial liabilities	**1,235.0**	**349.0**	**429.3**	**401.2**	**422.9**	**465.7**	**–**	**–**	**–**	**3,303.1**
Letter of guarantees	**222.3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**222.3**
Undrawn loan commitments	**154.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**154.5**
Derivative financial instruments										
Contractual amounts payable	**–**	**(6.8)**	**(19.3)**	**(9.5)**	**(27.2)**	**(355.9)**	**(318.0)**	**(43.3)**	**(54.1)**	**(834.1)**
Contractual amounts receivable	**–**	**6.5**	**18.8**	**8.9**	**26.1**	**347.7**	**310.7**	**38.9**	**52.5**	**810.1**
	–	**(0.3)**	**(0.5)**	**(0.6)**	**(1.1)**	**(8.2)**	**(7.3)**	**(4.4)**	**(1.6)**	**(24.0)**

31 December 2018	On demand BD millions	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	More than 20 years BD millions	Total BD millions
Deposits and amounts due to banks and other financial institutions	109.8	47.1	70.7	32.7	0.2	1.2	–	–	–	261.7
Borrowings under repurchase agreement	–	0.6	0.8	3.9	3.3	208.6	–	–	–	217.2
Term borrowings	–	–	2.6	–	2.6	147.1	–	–	–	152.3
Customers' current, savings and other deposits	1,104.2	243.0	161.7	366.7	446.1	100.8	–	–	–	2,422.5
Total undiscounted financial liabilities	1,214.0	290.7	235.8	403.3	452.2	457.7	–	–	–	3,053.7
Letter of guarantees	231.6	–	–	–	–	–	–	–	–	231.6
Undrawn loan commitments	120.6	–	–	–	–	–	–	–	–	120.6
Derivative financial instruments										
Contractual amounts payable	–	(7.2)	(4.7)	(15.6)	(22.6)	(359.3)	(303.9)	(57.4)	(56.6)	(827.3)
Contractual amounts receivable	–	7.3	4.7	16.2	24.0	366.9	305.6	57.5	56.6	838.8
	–	0.1	–	0.6	1.4	7.6	1.7	0.1	–	11.5

40 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2019, there was a legal case pending against the Group aggregating to BD 1.2 million (2018: BD 0.8 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Operational Risk Department operates independently from other units of the Bank and reports to the Chief Risk Officer. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III/CBB guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The significant inputs for valuation of equities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five percent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2019 and 2018:

31 December 2019	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	**660.5**	**–**	**–**	**660.5**
Equities	**42.1**	**8.4**	**17.8**	**68.3**
Managed funds	**–**	**0.7**	**–**	**0.7**
Derivatives held for trading	**–**	**0.7**	**–**	**0.7**
Derivatives held as fair value hedges	**–**	**0.6**	**–**	**0.6**
	702.6	**10.4**	**17.8**	**730.8**
Financial liabilities				
Derivatives held for trading	**–**	**0.6**	**–**	**0.6**
Derivatives held as fair value hedges	**–**	**26.4**	**–**	**26.4**
	–	**27.0**	**–**	**27.0**

31 December 2018	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	587.1	–	0.1	587.2
Equities	38.3	6.5	21.7	66.5
Managed funds	–	0.8	–	0.8
Derivatives held for trading	–	0.5	–	0.5
Derivatives held as fair value hedges	–	10.8	–	10.8
	625.4	18.6	21.8	665.8
Financial liabilities				
Derivatives held for trading	–	0.5	–	0.5
Derivatives held as fair value hedges	–	4.3	–	4.3
	–	4.8	–	4.8

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2019 and 2018, there were no transfers into or out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	2019		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	**333.0**	**339.7**	**6.7**
Financial assets			
Investment securities	**145.5**	**146.1**	**(0.6)**

	2018		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	144.5	140.6	(3.9)
Financial assets			
Investment securities	145.8	144.1	1.7

The above financial liabilities and assets are Level 1 fair value.

As at 31 December 2019 and 2018, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE – BASED PAYMENTS

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the newly revised remuneration framework mandated by the CBB and is referred to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan

Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2019 BD millions	2018 BD millions
Expense arising from equity-settled share-based payment transactions	**2.6**	1.3
Shares vested during the year	**(2.0)**	(1.9)

The movement in the number of shares in the Bank's LTIP and STIP was as follows:

	Number of shares 2019	Number of shares 2018
Opening balance of shares granted but not vested	**11,547,534**	11,564,615
Equity shares transferred to trust	**964,270**	1,028,457
Shares released during the year to the participants	**(1,469,713)**	(1,045,538)
	11,042,091	11,547,534

The market price of the Bank's shares as at 31 December 2019 was BD 0.573 (2018: BD 0.454) per share.

43 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Group is as follows:

	2019 BD millions	2018 BD millions
CET1 capital	**535.7**	404.6
Additional Tier 1 capital	**–**	86.1
Tier 2 capital	**28.5**	29.7
Total capital base (a)	**564.2**	520.4
Credit risk weighted exposure	**2,282.6**	2,378.3
Operational risk weighted exposure	**267.9**	242.3
Market risk weighted exposure	**47.4**	37.6
Total risk weighted exposure (b)	**2,597.9**	2,658.2
Capital adequacy (a/b*100)	**21.72%**	19.58%
Minimum requirement	**14.00%**	14.00%

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO

In August 2018, the Central Bank of Bahrain (CBB) issued its regulations on Liquidity Risk Management (LM). Amongst other things, the LM regulations mandated banks to implement Net Stable Funding Ratio (NSFR) effective 31 December 2019. The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

The consolidated NSFR calculated in accordance with the guidelines of the CBB rulebook, for the Group is as follows:

	2019
Total available stable funding (BD millions)	**2,544.5**
Total required stable funding (BD millions)	**1,977.8**
Group's consolidated NSFR	**128.7%**
Minimum NSFR requirement	**100.0%**

As the effective date for NSFR regulations in the Kingdom of Bahrain is 31 December 2019, no comparative figures were provided for year ended 31 December 2018.

45 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible "natural persons" (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution as mandated by CBB is paid by the Bank under the scheme.

46 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employees of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2019, the total contribution fund including the earned income stands at BD 19.0 million (2018: BD 17.2 million). Out of the total fund amount, payment of the principal amount equal to BD 16.4 million (2018: BD 15.1 million) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 4.9 million (2018: BD 8.2 million) is invested in Bahrain sovereign bonds and GCC bonds.

47 FIDUCIARY ASSETS

Funds under management as at 31 December 2019 amounted to BD 66.0 million (2018: BD 61.3 million). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position. The total market value of all such funds at 31 December 2019 was BD 68.3 million (2018: BD 60.8 million).

48 CLASSIFICATION OF ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2019	Designated as at FVTPL BD millions	FVOCI – debt instruments BD millions	FVOCI – equity instruments BD millions	Amortised cost/others BD millions	Total BD millions
Cash and balances with central banks	–	–	–	376.4	376.4
Treasury bills	–	2.1	–	482.3	484.4
Deposits and amounts due from banks and other financial institutions	–	–	–	278.3	278.3
Loans and advances to customers	–	–	–	1,670.9	1,670.9
Investment securities	0.7	660.5	68.3	145.5	875.0
Investments in associated companies and joint ventures	–	–	–	70.6	70.6
Interest receivable and other assets	–	–	–	74.2	74.2
Premises and equipment	–	–	–	35.2	35.2
Total assets	0.7	662.6	68.3	3,133.4	3,865.0
Deposits and amounts due to banks and other financial institutions	–	–	–	363.1	363.1
Borrowings under repurchase agreement	–	–	–	313.4	313.4
Term borrowings	–	–	–	333.0	333.0
Customers' current, savings and other deposits	–	–	–	2,169.5	2,169.5
Interest payable and other liabilities	–	–	–	139.0	139.0
Total liabilities	–	–	–	3,318.0	3,318.0

31 December 2018	Designated as at FVTPL BD millions	FVOCI – debt instruments BD millions	FVOCI – equity instruments BD millions	Amortised cost/others BD millions	Total BD millions
Cash and balances with central banks	–	–	–	191.0	191.0
Treasury bills	–	4.6	–	405.8	410.4
Deposits and amounts due from banks and other financial institutions	–	–	–	239.2	239.2
Loans and advances to customers	–	–	–	1,772.5	1,772.5
Investment securities	1.6	586.4	66.4	145.9	800.3
Investments in associated companies and joint ventures	–	–	–	62.9	62.9
Interest receivable and other assets	–	–	–	77.9	77.9
Premises and equipment	–	–	–	27.5	27.5
Total assets	1.6	591.0	66.4	2,922.7	3,581.7
Deposits and amounts due to banks and other financial institutions	–	–	–	258.7	258.7
Borrowings under repurchase agreement	–	–	–	199.0	199.0
Term borrowings	–	–	–	144.5	144.5
Customers' current, savings and other deposits	–	–	–	2,374.5	2,374.5
Interest payable and other liabilities	–	–	–	104.6	104.6
Total liabilities	–	–	–	3,081.3	3,081.3

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2018 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, hereafter referred to as "CBB". The report has been designed to provide BBK Group's stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2019 presented in accordance with the International Financial Reporting Standards (IFRSs). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

Basel III focuses on increasing both the quantity and quality of bank's capital. To this end, Tier 1 capital "T1" must be the main component of capital, and the predominant form of T1 capital must be common shares and reserves. Deductions from capital and prudential filters are generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital "T2" instruments are restricted and have a limit on their contribution to total regulatory capital. Furthermore, Basel III introduced a number of capital buffers to promote the conservation of capital (Capital Conservation Buffer or "CCB") and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer) and the high loss absorbency buffer for Domestic Systemically Important Banks (DSIBs).

CBB minimum required total capital adequacy ratio (including CCB) has increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are newly introduced limits and minima by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB. BBK had been designated as a DSIB by the CBB. Consequently, BBK is required to maintain an effective minimum total capital adequacy ratio above 14 percent including 1.5 percent as a DSIB buffer.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

(i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. Credit risk constitutes nearly 90 percent of the overall risk for the Bank. The Bank has a robust credit risk management architecture which is explained in greater detail in note 30 and 31 of the Annual Report. The credit RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

(ii) Market Risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB and the model is subject to periodic independent internal and external validation.

(iii) Operational Risk

All banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach whereby, the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

2 INTRODUCTION TO THE BASEL III FRAMEWORK (continued)

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain total capital adequacy ratio above 12.5 percent, except those assigned as DSIB where the minimum capital is 14 percent.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed an ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' funds and the corresponding capital requirement are estimated by the bank as part of the 3 years strategy approved by the Board. In addition, the bank also forecasts the Capital Base whenever there is likely reduction in the capital components, and necessary actions are taken in order to ensure regulatory compliance. In addition, the Bank has a Dividend Policy in place as part of capital management strategy. The Bank has implemented the CBB requirements for ICAAP, in line with the timelines specified by CBB.

The Bank uses the Risk-Adjusted Return On Capital (RAROC) model in its credit decisions in order to assess risk-reward matrix for each credit exposure. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

BBK conducts stress testing of its portfolio. The Bank has implemented the CBB requirements for Stress Testing, in line with the timelines specified by CBB.

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The Bank publishes regulatory disclosures periodically and in the Annual Report.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

Regulatory Reforms

During the second half of 2018, the CBB issued its regulations on Liquidity Risk Management and Leverage Ratio effective 2019. The minimum Liquidity Coverage Ratio, Net Stable Funding Ratio and Leverage Ratio is part of the Pillar 1 framework.

The bank computes expected credit losses on its financial assets and credit related commitments as per the International Financial Reporting Standard - Financial Instruments (IFRS 9).

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRSs. For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

Subsidiaries	Domicile	Ownership	Consolidation basis
CrediMax B.S.C. (c)	Kingdom of Bahrain	100.00%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100.00%	Risk Weighted
Invita Claims Management Company*	Kingdom of Bahrain	70.00%	Risk Weighted
Invita – Kuwait*	State of Kuwait	60.00%	Risk Weighted
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	55.00%	Full Consolidation
Associates			
Bahrain Liquidity Fund	Kingdom of Bahrain	24.27%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C.	Kingdom of Bahrain	23.03%	Risk Weighted
The Benefit Company B.S.C (c)	Kingdom of Bahrain	22.00%	Risk Weighted
Joint Venture			
Aegila Capital Management Limited	United Kingdom	50.00%	Risk Weighted
Magnum Partners Holding Limited	Jersey	49.96%	Risk Weighted
LSE Jersey Holdings Limited Partnership	Jersey	45.00%	Risk Weighted
BBK Geojit Securities K.S.C.	State of Kuwait	40.00%	Risk Weighted
Evoque Holdings Jersey Limited	Jersey	24.99%	Risk Weighted

** Shareholding through Invita Subsidiary*
*** Shareholding through CrediMax Subsidiary*

There are no restrictions on the transfer of funds or regulatory capital within the Group.

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of financial position as in published financial statements BD millions	Statement of financial position as per Regulatory Reporting BD millions	Reference
Assets			
Cash and balances with central banks	**376.4**	**376.4**	
Treasury bills	**484.4**	**484.4**	
Deposits and amounts due from banks and other financial institutions	**278.3**	**278.2**	
Loans and advances to customers	**1,670.9**	**1,670.9**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)	28.5	28.5	a
Of which net loans and advances (gross of Expected Credit Loss)	1,642.4	1,642.4	
Investment securities	**875.0**	**875.0**	
Of which investments in financial entities under CET1		26.2	b
Of which investments in financial entities under Tier 2		2.4	c
Of which related to other investments		846.4	
Investments in associated companies and joint ventures	**70.6**	**73.4**	
Of which Investment in own shares	0.8	0.8	d
Of which equity investments in financial entities	41.0	41.0	e
Of which other investments	28.8	31.6	
Interest receivable and other assets	**74.2**	**73.2**	
Of which deferred tax assets due to temporary differences	1.3	1.3	f
Of which Intangibles	4.2	4.2	g
Of which Interest receivable and other assets	68.7	67.7	
Premises and equipment	**35.2**	**34.5**	
Total assets	**3,865.0**	**3,866.0**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**363.1**	**363.1**	
Borrowings under repurchase agreement	**313.4**	**313.4**	
Term borrowings	**333.0**	**333.0**	
Customers' current, savings and other deposits	**2,169.5**	**2,173.0**	
Interest payable and other liabilities	**139.0**	**137.5**	
Total liabilities	**3,318.0**	**3,320.0**	
Equity			
Share capital	**129.7**	**129.7**	h
Treasury stock	**(5.2)**	**(5.2)**	i
Share premium	**105.6**	**105.6**	j
Statutory reserve	**61.6**	**61.6**	k
General reserve	**54.1**	**54.1**	l
Cumulative changes in fair values	**11.2**	**11.2**	
of which cumulative changes in fair values on bonds and equities	11.6	11.6	m
of which Fair value changes in cash flow hedges	(0.5)	(0.5)	n
Foreign currency translation adjustments	**(12.2)**	**(12.2)**	
Of which related to unconsolidated subsidiary		(0.1)	o
Of which related to Parent		(12.1)	p
Retained earnings	**144.6**	**144.1**	
Of which employee stock options	3.0	3.0	
Of which retained earnings	141.6	141.1	q
Appropriations	**54.5**	**54.5**	r
Attributable to the owners of the Bank	**543.9**	**543.4**	
Non-controlling interest	**3.1**	**2.6**	
Total equity	**547.0**	**546.0**	
Total liabilities and equity	**3,865.0**	**3,866.0**	

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION continued

Legal entity included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Name	Principle activities	Total assets BD millions	Total equity BD millions
Invita Company B.S.C. (c)	Business processing and outsourcing services	5.4	3.9

5 CAPITAL COMPONENTS – CONSOLIDATED

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1". CET1 capital consists of: (a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes, (b) Disclosed reserves including: i) General reserves; ii) Legal/statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses (including net profit/loss for the reporting period, whether reviewed or audited), (c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1. AT1 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in AT1, (b) Share premium resulting from the issue of instruments included in AT1, (c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and (d) Regulatory adjustments applied in the calculation of AT1. T2 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in T2, (b) premium resulting from the issue of instruments included in T2, (c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1, (d) Expected Credit Loss reserve for stage 1 and 2 exposures, (e) Asset revaluation reserves which arise from the revaluation of fixed assets and investment properties from time to time in line with the change in market values, and (f) Regulatory adjustments applied in the calculation of T2. At present, the T2 capital of BBK consists solely of Expected Credit Losses reserve for Stage 1 and 2 exposures.

The CBB applies various limits and minima to the components of the regulatory capital, as shown in the below table. There is also a restriction on the amount of Expected Credit Losses (ECL) reserve that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

	Optional	Minimum Ratio
Components of Consolidated CAR		
Core Equity Tier 1 (CET 1)		6.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		8.00%
Tier 2 (T2)	2.00%	
Total Capital		10.00%
Capital Conservation Buffer (CCB)		2.50%
Domestically Systemic Important Bank (D-SIB) Buffer		1.50%
CAR including Buffers		
CET 1 plus Buffers		10.50%
Tier 1 plus Buffers		12.00%
Total Capital plus CCB		12.50%
Total Capital plus CCB and DSIB Buffer		14.00%

	Optional	Minimum Ratio
Components of Solo CAR		
Core Equity Tier 1 (CET 1)		4.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		6.00%
Tier 2 (T2)	2.00%	
Total Capital		8.00%
Capital Conservation Buffer (CCB)		–

In accordance with the CBB's Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. The CBB's Basel III capital adequacy framework requires that most of the deductions to be made from the CET1.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure that minimum regulatory capital requirements are met for subsidiary companies.

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in the previous table between accounting and regulatory statement of financial positions.

	Component of regulatory capital BD millions	Source based on reference letters of the statement of financial positions under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	230.1	h+i+j
Retained earnings	195.4	o+q+r
Accumulated other comprehensive income and losses (and other reserves)	114.7	k+l+m+n+p
Common Equity Tier 1 capital before regulatory adjustments	**540.2**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	4.2	g
Cash flow hedge reserve	(0.5)	n
Investments in own shares	0.8	d
Total regulatory adjustments to Common equity Tier 1	**4.5**	
Common Equity Tier 1 capital (CET1)	**535.7**	
Additional Tier 1 capital (AT1)	**–**	
Tier 1 capital (T1 = CET1 + AT1)	**535.7**	
Tier 2 capital: instruments and provisions		
Provisions	28.5	
Tier 2 capital before regulatory adjustments	**28.5**	
Total regulatory adjustments to Tier 2 capital	–	
Tier 2 capital (T2)	**28.5**	
Total capital (TC = T1 + T2)	**564.2**	
Total risk weighted assets	**2,597.9**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	20.62%	
Tier 1 (as a percentage of risk weighted assets)	20.62%	
Total capital (as a percentage of risk weighted assets)	**21.72%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.50%	
of which: capital conservation buffer requirement	2.50%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	1.50%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	20.62%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.50%	
CBB Tier 1 minimum ratio	12.00%	
CBB total capital minimum ratio	14.00%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	28.6	b+c
Significant investments in the common stock of financials	41.0	e
Deferred tax assets arising from temporary differences (net of related tax liability)	1.3	f
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	30.7	
Cap on inclusion of provisions in Tier 2 under standardised approach	28.5	a

6 CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as 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 manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and other discretionary payments and the issue of new shares and other capital instruments.

As per its ICAAP, BBK aims to maintain a minimum total capital adequacy ratio in excess of the capital assessed as per its ICAAP document of 15.74 percent (considering DSIB and CCB). The CBB's current minimum total capital adequacy ratio (including CCB and DSIB) for banks incorporated in Bahrain is set at 14 percent. The total capital adequacy ratio of the Group as at 31 December 2019 was 21.72 percent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

Capital ratios – consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK – Consolidated	21.72%	20.62%
CrediMax	76.90%	76.90%

7 CREDIT RISK – PILLAR III DISCLOSURES

This section describes the BBK's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel III capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel III capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. 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 sovereigns portfolio and treated as exposures with a zero percent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency – which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk weighted according to their external ratings.

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. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on certain investment firms which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

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 zero percent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75 percent, except for past due portfolio.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims secured by mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent, unless subject to the following treatments. The amount of any significant investments in commercial entities (A "significant investment" in a commercial entity is defined as any investment in the capital instruments of a commercial entity by the bank which is equivalent to or more than 10 percent of the issued common share capital of the issuing commercial entity) above 15 percent (individually) and 60 percent (collectively) of the bank's capital (the "Total Capital materiality thresholds") must be risk weighted at 800 percent. Moreover, significant investments in the common shares of unconsolidated financial entities must be risk weighted at 250 percent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100 percent if listed, and 150 percent if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for more than ninety days or more. The risk weighting applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 percent, whereas securitisation exposures are risk weighted at 20 percent to 1,250 percent, depending on the external rating.

All BBK's holding of securitisations, if any is reported part of the Bank's investment portfolio.

Large exposures

The excess amount of any exposure above 15 percent of the bank's regulatory capital to any counterparty or a group of closely related counterparties must be risk weighted at 800 percent, unless it is an exempted exposure in accordance with the requirements of the CBB Rulebook.

External rating agencies

BBK uses ratings issued by Moody's and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel III

The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel III framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- In case of Over-the-Counter (OTC) derivative contracts, in addition to the default risk capital requirements for counterparty credit risk, the bank must add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments or CVA).
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel III capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel III guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

8 CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

	Gross credit exposures (before risk mitigation) BD millions	Eligible financial collateral BD millions	Credit risk after risk mitigation BD millions	Risk weighted asset BD millions	Regulatory capital required 14.0% BD millions
Sovereign	1,260.5	–	1,260.5	53.0	7.4
Public sector entities	10.2	–	10.2	–	–
Banks	523.2	–	523.2	299.7	42.0
Corporates	1,404.2	26.6	1,377.6	1,121.2	156.0
Regulatory retail	464.4	4.0	460.4	345.3	48.3
Mortgage	86.3	0.1	86.2	64.6	9.0
Investment in securities	103.9	–	103.9	170.0	23.8
Past due exposures	27.1	0.1	27.0	28.8	4.0
Real estate	67.7	–	67.7	120.2	16.8
Other assets and cash items	99.8	–	99.8	79.8	11.2
Total Credit Risk	**4,047.3**	**30.8**	**4,016.5**	**2,282.6**	**318.5**
Market Risk	–	–	–	47.4	6.6
Operational Risk *	–	–	–	267.9	37.5
Total Risk Weighted Exposure	**4,047.3**	**30.8**	**4,016.5**	**2,597.9**	**362.6**

* The Bank is currently using the Basic Indicator Approach whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years adjusted for exceptional income. The amount of adjusted average gross income for the year 2019 is BD 142.9 million.

Credit Risk Mitigation and Collateral Valuation Policy

BBK employs a range of techniques to mitigate risk in its credit portfolio. Credit risk mitigation includes an objective assessment of the counterparty's capacity and willingness to meet its commitments in the normal course. The bank strives to optimize facility structure, collateral, lending covenants, terms and conditions.

The Bank has detailed policies and procedures for valuing collateral/ securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security. More frequent valuations are also considered if warranted by market volatility and declining trends in valuations are observed. The collaterals and support include mortgages, cash collaterals, marketable securities, personal and corporate guarantees and guarantees from sovereigns and financial institutions. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

9 FUNDED, UNFUNDED AND AVERAGE CREDIT EXPOSURE

Total gross credit exposures	Total funded credit exposure BD millions	Total un-funded credit exposure BD millions	Average quarterly credit exposure BD millions
Sovereign	1,260.3	0.2	1,165.1
Public sector entities	10.2	–	11.0
Banks	509.0	14.2	529.7
Corporates	1,254.7	149.5	1,431.0
Regulatory retail	464.4	–	456.1
Mortgage	86.3	–	87.7
Investment in securities	103.9	–	102.6
Past due exposures	27.1	–	51.3
Real estate	67.7	–	66.4
Other assets and cash items	99.8	–	100.3
Total credit risk	**3,883.4**	**163.9**	**4,001.2**

10 CONCENTRATION OF CREDIT RISK BY REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	GCC BD millions	North America BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	370.4	–	–	6.0	–	**376.4**
Treasury bills	482.3	–	–	2.1	–	**484.4**
Deposits in banks and other financial institutions	139.6	87.5	33.8	17.4	–	**278.3**
Loans and advances to customers	1,410.3	–	123.2	113.9	49.6	**1,697.0**
Investments in associated companies and joint ventures	48.4	–	21.4	–	–	**69.8**
Investment securities	624.9	11.7	102.4	102.4	33.6	**875.0**
Other assets	92.8	–	2.3	7.4	–	**102.5**
Total funded exposure	**3,168.7**	**99.2**	**283.1**	**249.2**	**83.2**	**3,883.4**
Unfunded commitments and contingencies	136.7	0.4	9.3	16.7	0.8	**163.9**
Total credit risk	**3,305.4**	**99.6**	**292.4**	**265.9**	**84.0**	**4,047.3**

11 CONCENTRATION OF CREDIT RISK BY INDUSTRY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
Cash and balances with central banks	–	21.2	–	355.2	–	–	**376.4**
Treasury bills	–	–	–	484.4	–	–	**484.4**
Deposits in banks and other financial institutions	–	278.3	–	–	–	–	**278.3**
Loans and advances to customers	553.0	239.4	264.0	7.8	506.1	126.7	**1,697.0**
Investments in associated companies and joint ventures	–	48.4	21.4	–	–	–	**69.8**
Investment securities	113.7	175.6	18.7	479.7	–	87.3	**875.0**
Other assets	–	–	–	–	–	102.5	**102.5**
Total funded exposure	**666.7**	**762.9**	**304.1**	**1,327.1**	**506.1**	**316.5**	**3,883.4**
Unfunded commitments and contingencies	85.4	20.0	37.7	0.7	0.1	20.0	**163.9**
Total credit risk	**752.1**	**782.9**	**341.8**	**1,327.8**	**506.2**	**336.5**	**4,047.3**

12 CONCENTRATION OF CREDIT RISK BY MATURITY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Within 1 month BD millions	1 to 3 months BD millions	3 to 6 months BD millions	6 to 12 months BD millions	1 to 5 years BD millions	5 to 10 years BD millions	10 to 20 years BD millions	Above 20 years BD millions	Total BD millions
Cash and balances with central banks	287.4	–	–	–	–	–	–	89.0	**376.4**
Treasury bills	69.2	190.3	127.2	97.7	–	–	–	–	**484.4**
Deposits in banks and other financial institutions	248.6	–	–	29.7	–	–	–	–	**278.3**
Loans and advances to customers	217.2	115.6	167.4	134.3	762.1	206.8	49.2	44.4	**1,697.0**
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	69.8	**69.8**
Investment securities	41.4	32.4	41.3	28.9	296.0	300.3	20.3	114.4	**875.0**
Other assets	59.8	0.1	0.1	0.3	35.3	2.1	3.2	1.6	**102.5**
Total funded exposure	**923.6**	**338.4**	**336.0**	**290.9**	**1,093.4**	**509.2**	**72.7**	**319.2**	**3,883.4**
Unfunded commitments and contingencies	40.7	33.8	29.8	42.3	14.3	2.2	0.1	0.7	**163.9**
Total credit risk	**964.3**	**372.2**	**365.8**	**333.2**	**1,107.7**	**511.4**	**72.8**	**319.9**	**4,047.3**

13 IMPAIRED LOANS AND PROVISIONS

	Impaired loans BD millions	Stage 3: Lifetime ECL credit-impaired BD millions	Stage 1: 12 month ECL and Stage 2: Lifetime ECL not credit-impaired BD millions	Net specific charges during the year BD millions	Write-offs during the year BD millions
Trading and manufacturing	51.4	36.2	19.3	9.2	28.1
Banks and other financial institutions	8.4	5.2	0.3	–	–
Construction and real estate	16.3	16.9	2.0	5.2	4.0
Government and public sector	16.2	8.9	–	–	–
Individuals	8.1	7.2	4.2	0.5	4.0
Others	3.9	2.4	0.7	1.0	1.2
Total	**104.3**	**76.8**	**26.5**	**15.9**	**37.3**

14 AGEING OF IMPAIRED AND PAST DUE LOANS BY REGION

	GCC BD millions	North America BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
3 months up to 1 year	28.1	–	–	3.0	–	**31.1**
1 to 3 years	65.6	–	3.1	0.7	–	**69.4**
Over 3 years	3.8	–	–	–	–	**3.8**
Total past due and impaired loans	**97.5**	**–**	**3.1**	**3.7**	**–**	**104.3**
Stage 3: Lifetime ECL credit- impaired	73.5	–	2.2	1.1	–	**76.8**
Stage 1: 12-month ECL and Stage 2: Lifetime ECL not credit- impaired	25.9	–	–	0.4	0.2	**26.5**

15 AGEING OF IMPAIRED AND PAST DUE LOANS BY INDUSTRY

	Trading and manufacturing BD millions	Banks and other financial institutions BD millions	Construction and real estate BD millions	Government and public sector BD millions	Individuals BD millions	Others BD millions	Total BD millions
3 months up to 1 year	8.6	4.2	12.3	–	6.0	–	**31.1**
1 to 3 years	42.4	4.3	2.4	16.2	0.3	3.8	**69.4**
Over 3 years	0.3	–	1.6	–	1.8	0.1	**3.8**
Total past due and impaired loans	**51.3**	**8.5**	**16.3**	**16.2**	**8.1**	**3.9**	**104.3**

16 RESTRUCTURED LOANS

	BD millions
Loans restructured during the year	71.6
Impact of restructured facilities and loans on provisions	6.4

The above restructurings did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

The “Market Risk Internal Model” is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading Book. The VaR Model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99 percent confidence level, on a 10-day horizon.

BBK maintains a prudent approach to Manage Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore, BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period from January 2019 to December 2019 is as follows:

VaR Results for 2019 (10 day 99%)
Global (BAHRAIN and KUWAIT)

1 January 2019 to 31 December 2019

Asset class	Limit BD millions	VaR 31 December 2019 BD millions	High VaR BD millions	Low VaR BD millions	Average VaR BD millions
Foreign exchange	0.6	0.2	0.3	0.2	0.2
Interest rate	0.2	–	–	–	–
	0.8	**0.2**	**0.3**	**0.2**	**0.2**

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit and Loss basis and also hypothetical Profit and Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period from January 2019 to December 2019 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS continued

Stress Testing

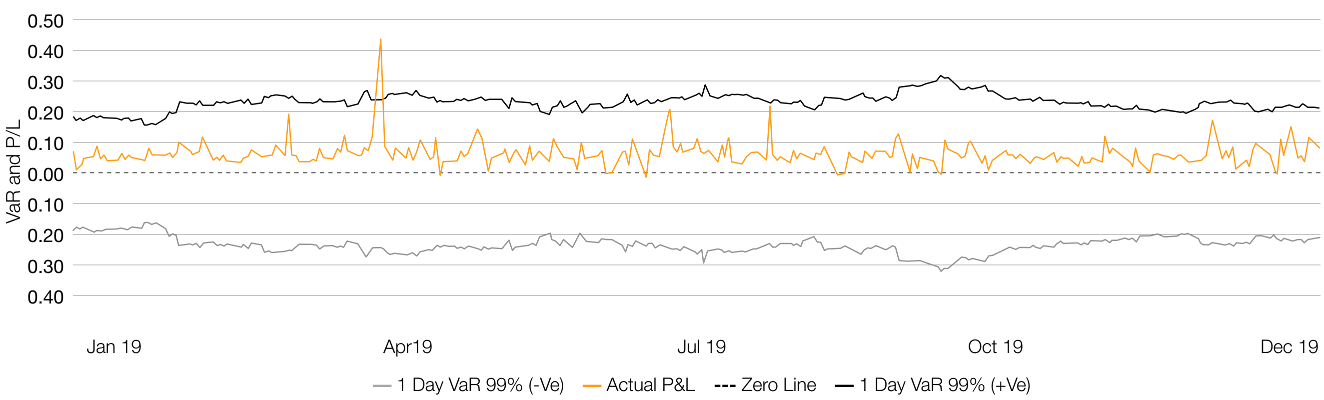
The Bank conducts stress testing of VaR, under various 'What If' scenarios such as increasing volatility and varying correlations. The stress testing methodology uses historical data capturing periods of significant disturbance and covering all types of risks associated with the asset classes which are included in the trading book of the Bank.The stress VaR are then tabulated under each "what if" scenario and compared with corresponding Capital Adequacy Ratio (CAR). It was observed that the CAR was within the norm prescribed by CBB, under each stressed scenario.

Month end VaR (10 day 99%)

Month	VaR in BD millions
January 2019	0.2
February 2019	0.3
March 2019	0.3
April 2019	0.3
May 2019	0.2
June 2019	0.3
July 2019	0.2
August 2019	0.3
September 2019	0.3
October 2019	0.2
November 2019	0.2
December 2019	0.2

The following graph shows that the daily average Profit and Loss (Actual Average P&L basis) vis-à-vis one day VaR, for the review period.

Value-at-Risk Backtesting from January 2019 to December 2019



18 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD millions
Sovereign	1,094.1
Total	**1,094.1**

19 CREDIT DERIVATIVES EXPOSURE

BBK is not exposed to any credit derivatives as at 31 December 2019.

20 EQUITY POSITIONS IN THE BANKING BOOK

	BD millions
Publicly traded equity shares	46.8
Privately held equity shares	21.5
Total	**68.3**
Capital required	9.6

21 GAINS ON EQUITY INSTRUMENTS

	BD millions
Realised gains / losses in statement of profit or loss	–
Realised gains / losses in retained earnings	(1.9)
Unrealised gains / losses in CET1 Capital	(4.0)

Part IV

Minutes

These meetings are conducted in Arabic, hence the minutes are recorded in Arabic.