50 YEARS OF
INNOVATION IN ACTION

Annual Report 2021

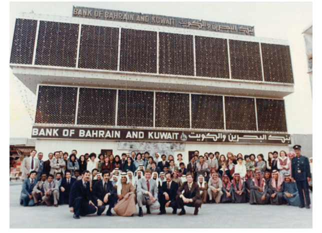
50 YEARS OF
INNOVATION IN ACTION

Pioneering financial services for five decades, BBK has led the evolution of banking through technological innovation – building solutions around the needs of our customers.

At every stage of our journey, we have been driven by a yearning to embrace change, to pivot towards the new as a means to delivering value for our clients, shareholders and the communities we serve.

While we look back at a proud 50-year legacy, we also look forward to what lies ahead for all our stakeholders as we forge an inclusive future of finance that unlocks opportunity and success for all.

1970's



February 1972

BBK commences operations from its head office and main branch located at Suk-al-Tujar in Manama.

April 1978

BBK opens a full-service branch in Kuwait.

November 1979

BBK finances the $70 million pot line expansion of ALBA (Aluminium Bahrain), and the leasing of two Tri-Star jet aircraft to Gulf Air.

March 1971

Bank of Bahrain & Kuwait B.S.C. (BBK) is incorporated by charter from His Highness, the Amir of Bahrain, and authorized to operate as a bank by Government Decree on 26th July 1971.

The original authorised and fully-paid capital of BD 1 million is 50% subscribed by 3,738 Bahraini citizens, and 50% by a group of six Kuwaiti banks. The Bahraini public's 50% share offering is oversubscribed 2.5 times.

December 1979

With the opening of the Muharraq branch, BBK's local retail network expands to eight locations.

June 1986

BBK opens its first Indian branch in Mumbai. In the years that follow, three more Indian branches will be established in Hyderabad, Aluva and New Delhi.

October 1987

BBK completes its relocation to a new purpose-built Head Office at 43 Government Avenue in downtown Manama.

1980's

January 1987

Murad Ali Murad becomes the first Bahraini CEO of the Bank.

December 1988

BBK's first ten ATMs are installed, the Bank joins the System for Worldwide Interbank Financial Telecommunications (SWIFT), and the VISA Classic and Premier charge cards are introduced.

1990's

July 1991

BBK issues Bahrain's first credit card.

August 1992

BBK introduces the Visa Electron debit card for use at ATMs and point-of-sale terminals globally.

December 1993

BBK participates in major syndications including ALBA, ASRY (Arab Shipbuilding and Repair Yad), GARMCO (Gulf Aluminium Rolling Mill Company), GPIC (Gulf Petrochemical Industries Corporation), and Gulf Air.

November 1996

BBK Dubai Representative Office is opened.

April 1999

Launch of CrediMax, Bahrain's first credit card issuer and acquirer.

June 1999

Inauguration of the BBK pedestrian footbridge – with construction costs donated by BBK – over Bahrain's King Faisal Highway.

December 1999

BBK total assets exceed BD 1 billion for the first time, making BBK the largest commercial bank in Bahrain.

BD 1bn

June 2000

Launch of eBank, Bahrain's first fully interactive internet banking service.

January 2001

Launch of Al Hayrat, BBK's unique savings certificate programme offering attractive monthly and annual cash prizes.

November 2006

BBK's call centre is spun off as a separate company, Invita, with state-of-the-art technology providing support and remote services to Group companies and third-party clients.

2000's

December 2004

BBK receives the Bahrainisation Award from the GCC Ministers of Labour and Social Affairs.

May 2005

BBK's new brand identity is launched, reflecting the vision of a bright future for all.

March 2006

BBK becomes the first commercial bank in Bahrain to establish a US$ 1 billion Euro Medium Term Deposit Note (EMTDN) program.

May 2006

BBK's first new-concept financial mall opens. Today, seven financial malls across Bahrain provide convenient services, personal financial advisors, and a host of digital facilities.

November 2009

BBK wins the Hawkamah Award for Corporate Governance. This is followed in 2010, 2012, 2013 and 2018 with further awards recognizing BBK's local and regional leadership in governance.

October 2011

The first BBK Health Centre opens in Bahrain's Hidd area, an outstanding facility that improves access to healthcare for local people.

2010's

December 2015

BBK's technology leadership is recognised at the Banker Middle East Awards, winning the Best Mobile Web Services Award.

December 2015

BBK's Alumni Club is established and convenes its first reunion event.

December 2016

Launch of Turkey Representative Office

January 2019

Launch of BBK Privé, the ultimate offering to BBK's high-end clients, presenting an array of banking and lifestyle solutions in private banking and wealth management.

2020's

January 2020

The first **BBK**PLUS digital branch opens at Bahrain City Center Mall. Over the next two years, four more digital branches open, featuring a range of self-service technologies.

July 2020

Launch of the **BBK**PLUS app, offering a host of services for customers on the go, including easy, fast and secure account and loan applications.

December 2021

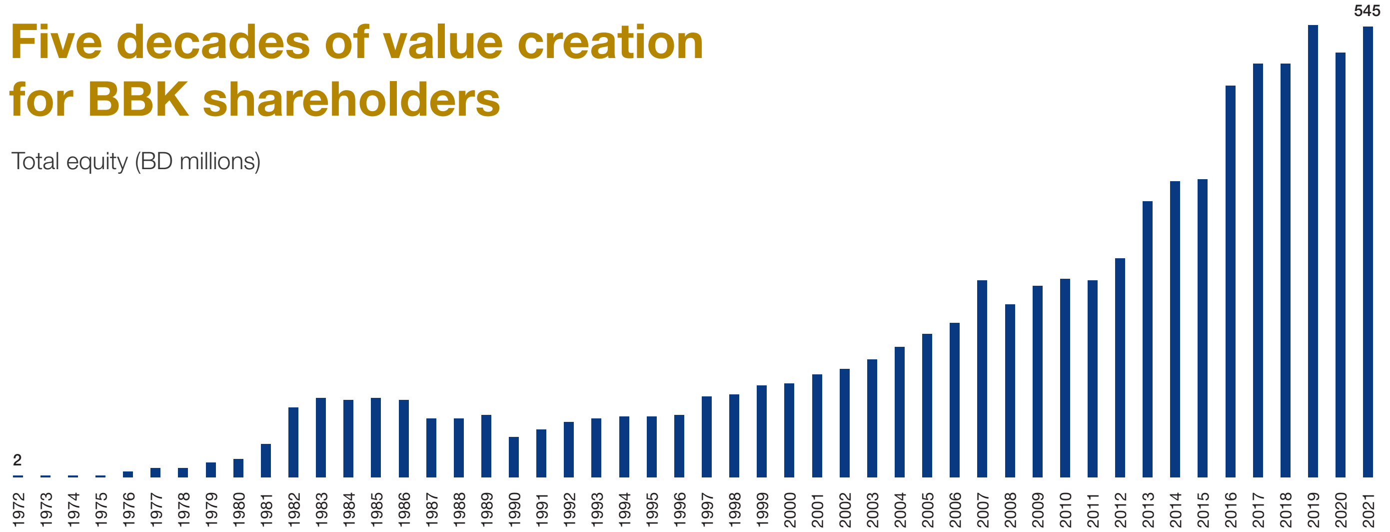
BBK adopts the Bank's Sustainability Framework.

December 2021

Female employees reach 40.4% of the Group's total workforce.

Five decades of value creation for BBK shareholders

Total equity (BD millions)



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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 Nawaf Al Ahmad Al Jaber 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

	2021	2020	2019	2018	2017
Income statement highlights (BD millions)					
Net interest income	**82.6**	80.8	107.3	109.9	90.9
Other income	**34.7**	37.8	51.0	51.2	52.2
Operating expenses	**60.8**	60.7	63.2	57.7	54.0
Net profit	**53.1**	52.0	75.4	67.1	58.7
Cash dividend	**20%**	20%	40%	40%	35%
Stock dividend	**10%**	10%	5%	-	-
Financial statement highlights (BD millions)					
Total assets	**3,673**	3,760	3,865	3,582	3,763
Loans and advances	**1,607**	1,556	1,671	1,773	1,741
Investments	**1,051**	1,023	946	863	796
Customer deposits	**2,126**	2,167	2,170	2,375	2,624
Term borrowings	**245**	189	333	145	199
Total equity	**545**	515	547	500	501
Profitability					
Diluted earnings per share (fils)	**36**	35	53	45	39
Cost / income	**51.8%**	51.2%	40.0%	35.8%	37.8%
Return on average assets	**1.4%**	1.3%	1.9%	1.8%	1.6%
Return on average equity	**10.1%**	11.4%	14.9%	13.7%	12.1%
Profit per employee (BD)	**41,390**	37,596	54,139	50,351	49,902
Capital					
Capital adequacy	**23.6%**	21.8%	21.7%	19.6%	20.0%
Equity / total assets	**14.8%**	13.7%	14.2%	14.0%	13.3%
Term borrowings / equity	**45.0%**	36.6%	60.9%	28.9%	39.7%
Liquidity and business indicators					
Loans and advances / total assets	**43.8%**	41.4%	43.2%	49.5%	46.3%
Loans and advances / customer deposits	**75.6%**	71.8%	77.0%	74.6%	66.3%
Investments / total assets	**28.6%**	27.2%	24.5%	24.1%	21.2%
Liquid assets / total assets	**32.6%**	34.8%	34.4%	27.6%	34.7%
Liquidity coverage ratio*	**323.7%**	289.7%	407.1%	–	–
Net stable funding ratio*	**136.9%**	134.2%	128.7%	–	–
Non-performing ratio	**5.2%**	6.3%	5.9%	8.0%	5.8%
Net yield ratio	**2.3%**	2.1%	3.0%	3.1%	2.7%
Number of employees	**1,282**	1,384	1,392	1,333	1,176

* The effective date for the liquidity coverage ratio and the net stable funding ratio was during year 2019.

Dear Shareholders

As the global economy resumed its recovery in 2021, BBK returned to growth, buoyed by the deployment of new enterprise technologies, financial technology (FinTech) solutions, and a conservative fiscal strategy.

Achieving net profit growth of 2.1 percent after the hiatus of COVID-19 represents a significant achievement. We completed our 2019-21 strategy, defined by investment in digital and technology solutions and a proactive approach to acquisition opportunities.

As the domestic, regional and international economies continue to show more signs of recovery, we are optimistic that the Government of Kingdom of Bahrain will be successful in implementing its recovery plan, helped by stronger world commodity prices such as oil and aluminium, and the development of several mega projects.

As we enter our 50th year, we look ahead to growing as a diversified group of companies that pioneers Bahrain's traditional and digital economies, with mergers and acquisitions top-of-mind.

On behalf of the Board, I extend appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Nawaf Al Ahmad Al Jaber 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 acknowledge the vital role of our Board of Directors, and that of all our stakeholders, for their support and commitment during 2021 and I look forward to our continued collaboration and sustained achievements.

Murad Ali Murad
Chairman

The Board of Directors is honoured to present the 50th annual report and consolidated financial statements of the Bank of Bahrain and Kuwait (BBK) and its subsidiaries (the Group) for the year ended 31 December 2021.

Securing growth through resilience

As we close a year of gradual recovery and look ahead to 2022, we celebrate BBK's Golden Jubilee. This milestone is especially pertinent in the age of the pandemic, reflecting the Group's resilience through economic cycles.

Over five decades, BBK has not only endured multiple world events – from domestic and regional stock market turbulences and the global slowdown of the 1980s to regional conflict and the global financial crises of 2008 – it has thrived. Notwithstanding this latest worldwide crisis, we have successfully delivered on the goals outlined in our 2019-2021 strategic plan.

In 2021 specifically, we have achieved several strategic milestones, especially on digitisation. We also launched the framework for our environmental, social, and governance (ESG) activities and enhanced our liquidity position. This success has been achieved in the face of external pressures – including COVID-19 and market volatility – and the gradual recovery of economies.

Strategic cycle

The Group's ability to deliver on its 2019-2021 plan was underpinned by pre-pandemic business continuity planning, reduced exposure to wholesale and higher-risk assets, a strong liquidity position, and the maintenance of healthy operational margins.

We have made excellent progress in our digital transformation, rolling-out four additional state-of-the-art **BBK**PLUS digital branches or zones that provide customers with a range of self-service technologies. Plans are in place to launch the fifth **BBK**PLUS branch at Diyar Al Muharraq in 2022. These services reflect BBK's focus on staying close to customers through multiple platforms, whenever and wherever they are.

We have also launched an asset-based mobile onboarding capability for retail banking and a unified mobile application.

The 2021 formation of 973 Lab, the Group's new technology innovation firm, has been led by two subsidiaries – CrediMax and Invita – a strategic move designed to support BBK's digital transformation. The new company will focus on exploring, creating, and delivering digital added-value services. At the core of the venture is a commitment to transforming the user experience, aided by collaboration with a range of partners across the FinTech ecosystem.

The Group's next three-year cycle will be driven by continued innovation in digital products and platforms, a proactive acquisition strategy, and a sharp focus on customer-centric service delivery.

The further diversification of assets will also remain a strategic priority. Following our halted acquisition discussions with Ithmaar Holding B.S.C. in 2021, we enter 2022 with an appetite for the significant expansion of our retail, commercial, treasury, and financial institution services at home and abroad.

Environment, social and governance
The Group's Environmental, Social and Governance (ESG) framework underpinned our corporate strategy in 2021, reflecting our role as a contributor to responsible and inclusive social and economic growth in Bahrain and all locations where we operate.

Ongoing education and training initiatives during the year included the Crown Prince International Scholarship Program, the Isa bin Salman Educational Charitable Endowment, the BBK Lab for virtual and augmented reality at the e-learning centre of the University of Bahrain, sporting events and environment-related projects.

With women representing around 40 percent of Group employees, the Bank continued to improve its gender diversity in 2021 and we look forward to growing this even further through BBK's women's empowerment policy.

As we enter 2022, BBK will continue to develop its ESG strategy to meet pressing community needs, support inclusive SME development, boost job creation, enhance customer services, support and develop our employees, and apply relevant corporate governance protocols in all that we do. The Board addresses governance issues through its Nomination, Remuneration, and Governance Committee and this forum has enabled BBK to implement its governance strategies over the past ten years.

Financial highlights
BBK achieved a net profit of BD 53.1 million in 2021, 2.1 percent higher than 2020, equating to basic earnings per share of 36 fils (2020: 35 fils). Net interest income was BD 82.6 million, while shareholders' equity attributable to owners of the Bank stood at BD 542.8 million (2020: BD 511.8 million) at the end of 2021.

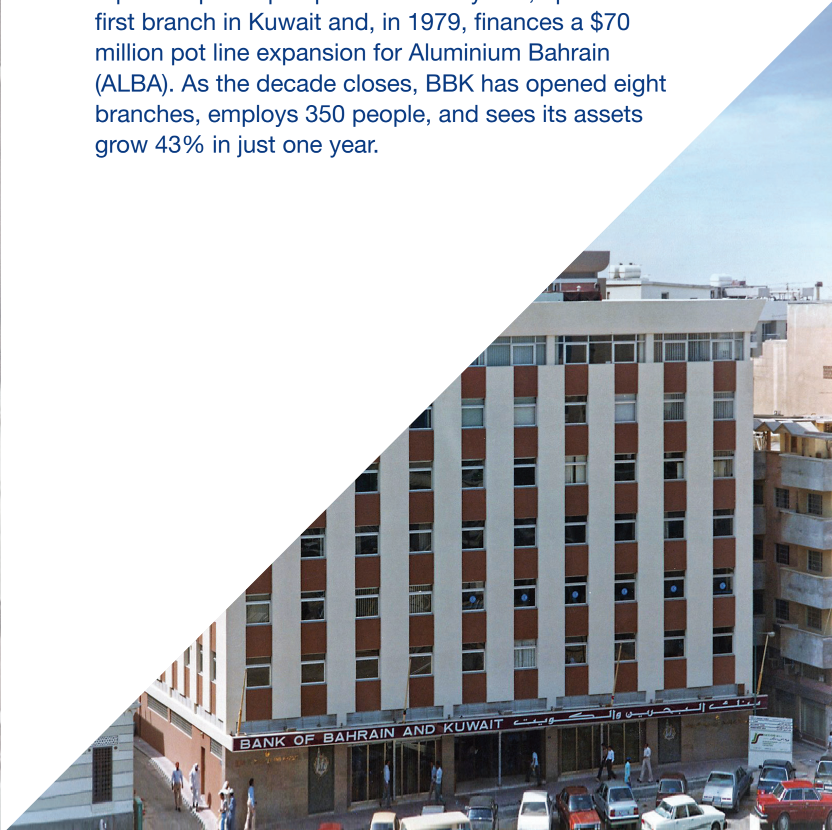
The significant improvement in financial performance is due to the reduction in net provisions from BD 5.6 million in 2020 to BD 2.9 million in 2021 representing a decrease of 48.2 percent, in addition to the growth in share of profit from associated companies and joint ventures to BD 1.7 million compared to a loss of BD 0.1 million during the year ended 2020. The Group also successfully reduced its interest rate exposure and restructured its balance sheet to increase the profitability of lower-performing assets.

Based on the positive financial results for the year, the Board of Directors recommends paying annual cash dividends of 20 fils per share and stock dividends of 10 percent per share – equivalent to 1 share for every 10 shares – for shareholders registered on the due date, subject to the approval of regulatory authorities and the Bank's upcoming AGM.

1970's

INNOVATION IN ACTION

Newly incorporated in 1971, BBK sets out to become a pioneer in the region's banking sector. The Bank triples its paid-up capital after four years, opens its first branch in Kuwait and, in 1979, finances a $70 million pot line expansion for Aluminium Bahrain (ALBA). As the decade closes, BBK has opened eight branches, employs 350 people, and sees its assets grow 43% in just one year.



1980's

INNOVATION IN ACTION

A decade of investment and expansion sees BBK open its second overseas branch, in India. Murad Ali Murad is appointed as the first Bahraini CEO, and the head office relocates to a new purpose-built tower in downtown Manama. By 1988, the Bank's Bahrainisation ratio reaches 91%; it has installed its first ten ATMs, and BBK transforms customer services by introducing VISA Classic and Premier charge cards.

Appointment of auditors

At the Bank's Annual General Meeting held on 24 March 2021, Ernst & Young were reappointed as external auditors to BBK for the financial year ending 31 December 2021.

Appropriations

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

Retained earnings as at 1 January 2021	125.6
Profit for the year 2021	53.1
Other movements in retained earnings	2.8
Transfer to statutory reserve	(5.3)
Retained earnings as at 31 December 2021 available for distribution (before proposed appropriations)	176.2
Proposed appropriation for donations	(2.2)
Proposed cash dividends (20% of paid-up capital) net of treasury stock	(29.7)
Proposed stock dividends (10% of paid-up capital)	(15.0)
Retained earnings as at 31 December 2021 (after proposed appropriations)	129.3

Looking ahead

As we enter our 50th year, the Board will look to secure sustainable growth by enhancing its resilience and efficiency, adapting to new challenges and protecting the Group's capital position. BBK will also continue to support the long-term interests of employees, customers and the communities in which we operate.

With a conservative risk appetite, strong balance sheet and increasingly diversified portfolio of assets, BBK will be exceptionally well placed to deliver value to shareholders and Bahrain's economy in 2022. By bringing digital innovation and development in-house with a range of exciting initiatives, we will proactively engage with parties across the region's FinTech ecosystem.

Appreciation

On behalf of the Board, I extend our sincere thanks to BBK shareholders for their continued support and confidence in a year of growth through resilience. I also thank our customers for their ongoing loyalty and patronage and offer my deepest thanks to the management team and employees for their enduring hard work. Their ability to adapt and create new solutions in the face of major external challenges has enabled us to continue to serve our valued customers each and every day.

On behalf of the Board of Directors.

Murad Ali Murad
Chairman

Ratings

On 26 July 2021, Fitch Ratings affirmed BBK's Long-term Issuer Default Rating (IDR) at B+ with a Stable Outlook, and the Bank's Viability Rating (VR) at b+.

BBK's IDRs are driven by the Bank's standalone strength, as reflected by its VR. The Bank's Viability Rate is capped by the Bahraini operating environment and, more specifically, by Bahrain's sovereign rating of B+.

On 10 May 2021, Moody's affirmed BBK's Long-term Deposit Rating at B2, driven by the Bank's b2 Baseline Credit Assessment (BCA), which is at the same level as the Government of Bahrain's Issuer Rating (B2).

BBK's b2 BCA captures its strong domestic franchise, which supports its stable funding and solid liquidity. The Bank also reports adequate capital levels, supported by its recurring profitability.

Fitch

Long-term Issuer Default Rating

B+

Long-term Issuer Default Rating	B+
Short-term Issuer Default Rating	B
Viability Rating	b+
Support Rating	4
Support Rating Floor	B
Senior Unsecured Debt	B+
Outlook	Stable

Report issue date: 26 July 2021

Moody's

Long-term Bank Deposits

B2

Long-term Debt	B2
Long-term Deposit	B2
Counterparty Risk Rating	B1/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)
Senior Unsecured	B2
Subordinate	(P)B3
Outlook	Negative

Report issue date: 10 May 2021

1990's

INNOVATION IN ACTION

Multiple BBK innovations include the launches of Bahrain's first credit cards, BBK Online and CrediMax. Global partnerships deliver the Visa and MasterCard Gold cards, Western Union cash transfer services, and syndicated deals, including corporates such as ALBA, ASRY, GARMCO, GPIC and Gulf Air. The Dubai representative office opens, and the Bank's total assets exceed BD 1 billion for the first time.

Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman of Audit and Compliance Committee

Chairman of the Independent Directors' Committee

Director since 21 March 1999 (Independent)

Qualifications and experience

Fellow member of the Chartered Institute of Management Accountants, London, United Kingdom. Over 49 years' experience in the banking sector and has own business for the past 19 years.

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Deputy Chairman

Director since 2 March 2008 (Non-Executive)

Qualifications and experience

Bachelor of Business Administration, George Washington University, United States of America. 20 years' experience in the banking and investment sector.

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 experiences in the banking sector.

Edrees Musaed Ahmad
Board Member

Director since 29 March 2017 (Non-Executive)

Qualifications and experience

Master of Economics, Kuwait University, State of Kuwait. Economics of Science, Virginia Tech University, United States of America.

Over 16 years' experience in investment sector.

Ashraf Adnan
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, The London School of Economics, UK. Over 22 years' experience in Investment Management and over 32 years in the insurance and financial services insurance sector.

Nominated by:

Ithmaar Bank

Mishal Ali Al Hellow
Board Member

Director since 13 March 2019 (Non-executive)

Qualifications and experience

MBA from the Open University of Malaysia and a B.Sc. in Computer Science from the University of Bahrain. Over 21 years of public and private sector experience, including roles in government, financial and investment entities.

Nominated by:

Social Insurance Organization (SIO)

Hani Ali Al Maskati
Board Member

Chairman of Risk Committee

Director since 29 March 2017 (Non-Executive)

Qualifications and experience

Master of Business Administration, The University of Hull, England. Over 37 years' experience in transaction banking.

Nominated by:

Ithmaar Bank

Jassem Hasan Ali Zainal
Board Member

Director since 22 November 1994 (Independent)

Qualifications and experience

Master in Civil Engineering, Kuwait University, State of Kuwait. 37 years' experience in the banking sector, 4 years in the government sector, 10 years with finance companies, 28 years with investment companies and has own business for 13 years.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005 (Independent)

Qualifications and experience

Master in Business Administration, Johns Hopkins University, United States of America.

Master in Social and Public Policy, Georgetown University, United States of America. 12 years experience in the government sector (investment field) and 13 years in the diplomatic sector.

Naser Khaled Al Raee
Board Member

Director since 13 March 2019 (Non-executive)

Qualifications and experience

Certified Internal Auditor, Institute of Internal Auditors, United States of America. Bachelor of Business Administration, Finance Concentration, University of Texas, United States of America. Over 12 years of experience in the audit and risk advisory field with variety of industry exposure including the banking and investment sector.

Nominated by:

Social Insurance Organization (SIO)

Dr. Ghaneya Mohsen Al Durazi
Board Member

Director since 24 March 2020 (Independent)

Qualifications and experience

Doctorate of Business Administration, Durham University, UK. Over 21 years' experience in the banking industry and has had her own business for 2 years.

Nour Nael Al Jassim
Board Member

Director since 24 March 2020 (Non-Executive)

Qualifications and experience

Bachelor in Accounting and Finance, Kuwait University, State of Kuwait. Over 14 years' experience in investment sector and risk management.

With better economic certainty and stability, and a recovery in consumer spending, BBK recorded positive results in 2021. The Bank deployed multiple digital platforms during the year and successfully protected our margin and cash position by restructuring its balance sheet and international operations.

The global macro-economic landscape was buoyed by a steady decline in COVID-19 cases, offset to some extent by the emergence of the Omicron variant towards the end of the year. A successful vaccination rollout boosted a return to confidence among consumers and the business community. As the year progressed, the global economy struggled with rising demand for goods and raw materials, leaving many central banks pondering interest rate rises.

BBK successfully managed the course of 2021 through the successful defence of market share and the diversified growth of our international investment portfolio. These, coupled with the balance sheet optimisation programme, improved profitability and reduced exposure to external events.

Supporting the Kingdom's economic growth, the Bank underwrote major transactions for Bahrain government entities. These included a BD 50 million facility for the Electricity and Water Authority (EWA). Providing financial facilities to EWA reflects the Government's trust in BBK as a Bahraini national institution and as an important partner in major development projects over the past half-century. Similarly, financial facilities worth BD 50 million was also extended to the Bahrain Tourism and Exhibition Board in order to support the tourism sector projects and exhibitions implemented by the authority in various areas of the Kingdom of Bahrain and enhance the national economy.

Moreover, we have adopted a finely detailed and conservative approach to cost control, with a sharp focus on achieving efficiencies through digital transformation and the preservation of capital and margins.

BBK Bahrain

In 2021, BBK maintained a consistent rate of new customer acquisition. This followed the introduction of a new digital onboarding facility allowing customers fast and simple account opening and loan applications. These achievements, in addition to the finalisation of the Bank's new ESG framework, leave us well placed for sustainable, responsible and inclusive growth over the coming period.

An integral part of our digital transformation strategy has been redesigning BBK's customer-facing digital channels. A new platform was launched in 2021, supporting mobiles, tablets, and other devices in a truly omnichannel offering. It includes enhanced security features such as seamless two-factor authentication and onboarding measures such as biometrics. The platform provides scope for additional functionality in the future, including integration with financial ecosystems. Accounts and financial services and products can be opened from a mobile device, and corporate customers can now fulfill their banking needs online and the mobile application using our state-of-the-art cash management system.

We have begun introducing robotics to handle repetitive tasks, with two such robots introduced during the year. We are also piloting workflow systems and new AI-based cheque processing technologies and have introduced new counter-fraud systems to limit risk and flag unusual customer behaviors.

We also launched support for digital payment platforms like Apple Pay, Fitbit Pay, and Garmin Pay.

BBKPLUS branches represent a major shift in the banking industry in Bahrain, revolutionizing the branch model and experience. The concept, enabling customers to conduct a wide range of self-service transactions, was first launched in City Center Mall in 2020. Three more **BBK**PLUS branches or zones were opened in 2021: Tala Plaza, Liwan Project; and BBK Budaiya Financial Mall.

Our digital branch concept represents not only an important bridge between legacy branches and digital-only platforms but the future of physical networks across the entire banking ecosystem.

Although digital transformation and the shift towards a cashless society are crucial for economic growth and financial inclusivity, BBK is committed as a service provider to ensuring that it has convenient services for all customers, including the vital SME segment.

International branches and offices

BBK's International Banking Division continued to perform well, supporting Group customers overseas and providing a diversified liability and asset business in several countries.

In Kuwait, we saw growth in the client base, including reputable companies in the medical and cleaning sectors. BBK Kuwait also expanded its payment and cash management business and boosted its financing to the public sector and other sectors.

Aligned to the Group's overall digital transformation strategy, BBK India successfully launched its BBKonnect mobile app in August, providing a seamless banking experience for local customers.

CrediMax

CrediMax experienced ongoing market pressures during the year due to COVID-19 and regulatory commission caps. Despite these dynamics, the company succeeded in protecting its market share as a dominant player by launching a suite of new products, services, and digital solutions. These included the launch of the eCrediMax app for the digital onboarding of credit and prepaid card accounts and the integration of Apple Pay and wearables, including Fitbit Pay and Garmin Pay.

CrediMax also progressed in its diversification strategy by targeting new customer segments, with products including a new privilege card for mid-level premium customers, a parent-child card aimed at teenagers, and a new installment feature allowing cardholders to make purchases with flexible repayments.

Invita

Invita has completed 15 successful years as the BBK Group's omnichannel contact centre solutions provider. In 2021, Invita implemented robotic process automation, digital archiving, AI-driven chatbots, and fraud monitoring.

Our people

BBK has continued to prioritise the development of its human capital and the attraction of new talent by providing an exemplary work environment that encourages people to innovate and achieve their goals.

The Group Chief Executive Annual Awards ceremony was convened in August to honor employees' achievements over the past year. This event is part of the Group's ongoing Employee Recognition Scheme, commemorating outstanding performance and efforts that contribute to BBK's goals in meeting the aspirations of its customers and shareholders.

Awards were also made to teams that fulfilled key roles in digital transformation, creativity and innovation, digitization, operational efficiency, service excellence, and exceptional business achievement. Their collective resilience and hard work ensured that BBK was able to serve customers without any interruption to services.

2000's

INNOVATION IN ACTION

BBK's array of firsts includes the launch of fully interactive online banking and 25-year home loans, and establishing a US$ 1 billion Euro MTDN programme. The new-concept financial mall redefines retail banking in Bahrain, and the Bank's call centre is spun-off to become Invita. Ahead of its time, in 2009 BBK wins the prestigious Hawkamah Corporate Governance Award.

2010's

INNOVATION IN ACTION

Digital innovation gathers pace in a decade that sees BBK win 'Best Mobile Web Services' at the Banker Middle East Awards. BBK Privé offers private banking and wealth management for high-end clients, and international expansion includes the opening of a representative office in Istanbul. In supporting local community healthcare, the first BBK Health Centre opens in Hidd, recognised with multiple CSR awards.

BBK continued to ensure that all employees were protected from exposure to COVID-19 throughout 2021, with ongoing access to full remote working for higher-risk and women employees.

Awards

Global Business Magazine (GBM) and IBS Intelligence both recognised BBK's significant contribution to Bahrain's financial services sector in 2021. GBM presented the 'Best Retail Bank' award and IBS presented the 'Best Transaction Banking Implementation' award. Global Economics also bestowed an award, naming BBK as 'Most Customer-Centric Retail Bank'.

In light of its commitment to the Kingdom of Bahrain and the society as a whole during the recent pandemic, the Bank was honoured to receive for the 'Best Corporate Banking COVID-19 Response Initiative' award from World Economic Magazine.

From an operation perspective, BBK again received an award from JP Morgan Chase after the Bank recorded an STP (straight-through processing) rate of over 99 percent. The US Dollar Clearing Quality Award is presented to leading banks worldwide who achieve outstanding efficiency in the payments space.

Business continuity

BBK enforces a robust business continuity programme across the Group, protecting the interests of customers, shareholders, and employees while maintaining BBK's reputation and financial sustainability.

In 2021, our business continuity plan was successfully deployed to counter the COVID-19 risk, and all services continued with no discernible disruption. BBK also successfully tested its IT disaster recovery site, simulated a cyber-attack, and deployed countermeasures successfully.

Outlook

As BBK looks to boost growth in the post-pandemic era, we will seek to accelerate our digital transformation in 2022. Our new three years strategy further incorporates the deployment of digital-only platforms and continued innovation of services and products that will enable business success and assist our customers in their daily lives through convenience and added capabilities.

Consolidation and further strengthening of our digital services provide an even greater capacity for in-house innovation, co-creation with fintech partners, and the enhancement of crucial security, safety, and design areas. As we move through this period of economic recovery, we will naturally maintain our traditionally conservative risk appetite while diversifying our reach in terms of services, customer segments, and geography.

Appreciation

On behalf of my management colleagues, I express appreciation to our Board of Directors for the ongoing support they extend to us. The Board's strategic contributions during an ambitious year of change, growth, and investment have served the Group and its shareholders exceptionally well.

I also extend my thanks to the supervisory authorities that have guided us wherever we operated in 2021 – and send my deepest gratitude to our loyal customers and exceptional employees for their respective loyalty and enduring commitment.

AbdulRahman Ali Saif
Group Chief Executive

Executive management

AbdulRahman Ali Saif
Group Chief Executive

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

Hassaan Mohammed Burshaid
Group Chief Human Resources & Administration Officer

Qualifications and experience:
MSc, Human Resources Management, DePaul University, United States of America (2006).
27 years' experience in the field of human resources.
Joined BBK in 1998.

Mohammed Abdulla Isa
Group Chief Financial Officer
Financial Planning & Control

Qualifications and experience:
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).
30 years' experience in the field of finance.
Joined BBK in 2001.

Hassan Ahmed Abouzeid
Group Chief IT & Operations Officer

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

Abhik Goswami
Group Chief Risk Officer
Risk and Credit Management

Qualifications and experience:
Bachelor of Technology (Hons) in Mechanical Engineering, Indian Institute of Technology Kharagpur (1990). Graduate Diploma in Management, Indian Institute of Management, Bangalore (1992). Financial Risk Manager (FRM), The Global Association of Risk Professionals, USA (2002). Chartered Financial Analyst (CFA), CFA Institute, USA (2004).
29 years' banking experience.
Joined BBK in 2021.

Adel Abdulla Salem
General Manager
Retail Banking

Qualifications and experience:
PhD in Management, Monarch Business School – Switzerland (2015),
34 years' banking experience in retail banking, business of cards and telecoms.
Joined BBK in 2017.

Nadeem A.Aziz Al Kooheji
General Manager
Credit Assessment and Recovery

Qualifications and experience:
BA in Finance and International Business, University of Texas, United States of America (1988).
24 years' banking experience and 12 years' audit.
Joined BBK in 1999.

Raj Kumar Dugar
General Manager
Internal Audit

Qualifications and experience:
ACA, Institute of Chartered Accountants of India (1987),
32 years' banking experience, of which 21 years in internal audit.
Joined BBK in 2000.

Mohamed Ahmed Al Rayes
General Manager
Treasury and Investment

Qualifications and experience:
MBus, Finance, University of Otago, New Zealand (2008).
13 years' banking experience.
Joined BBK in 2013.

Ahmed Abdulqader Taqi
General Manager
Corporate Banking

Qualifications and experience:
Master of Business Administration (MBA) - University of Glamorgan, United Kingdom (2012).
20 years' banking experience.
Joined BBK in 2014.

Ewan Stirling
General Manager
International Banking

Qualifications and experience:
Bachelor of Law (Hons), University of Wales, United Kingdom (1985).
35 years' banking experience.
Joined BBK in 2020.

Simone Carminati
Chief Business Development

Qualifications and experience:
Master's in International Relations, University of Kent, United Kingdom (1998).
29 years' experience including 13 years in banking.
Joined BBK in 2014.

Nadeen Nabeel Al Shirawi
Head of Group Compliance & MLRO

Qualifications and experience:
Msc in Development Studies, London School of Economics, United Kingdom (2002).
18 years' experience including 14 years in Compliance & AML.
Joined BBK in 2008.

41.6%
Independent Board members

86%
Locally sourced suppliers

95%
Bahrainisation

40.4%
Female employees

Sustainability lies at the very heart of BBK, guiding our management approach and the future direction of our business.

For BBK, sustainability is about meeting the needs of the present without compromising the ability of future generations to meet their needs.

To conceptualise these vital issues, we rely on BBK's sustainability framework to define and manage our environmental, social and governance (ESG) impacts. This allows us to focus and prioritise our efforts and, ultimately, to promote sustainable development throughout the Kingdom of Bahrain.

Our framework is based on four pillars: good corporate governance, responsible and responsive employer, long-term positive customer relationships and experiences, and social responsibility mindset. Within the four pillars are eight themes covering 15 key issues.

Aligning with national and international priorities

BBK has aligned its priorities with the goals of Bahrain National Vision 2030 to build a robust economy and a motivated and innovative society.

We have also aligned our priorities with the United Nations Sustainable Development Goals (SDGs), a set of 17 areas spearheaded by the UN to end poverty, fight inequality, and tackle climate change.

BBK's first sustainability report will be published in 2022, available at www.bbkonline.com.

Our sustainability performance highlights in 2021

Promoting good corporate governance

- Five out of 12 BBK Board members are independent and comprise 41.6% of the Board, which exceeds the 33.3% requirement of the Central Bank of Bahrain (CBB).
- BBK is striving to diversify the composition of its governance body by ensuring that the Board, which currently has two female members comprising 16.6% of its membership, has adequate female representation. BBK also places emphasis on compositions of its subsidiaries governance bodies where females on the Board of CrediMax make up 16.6% and Invita 20%.

BBK plans to conduct board and corporate governance training for senior female employees so diverse nominees can be included in the upcoming Board elections.

- The Board has decided to include sustainability KPIs in executive management's annual goals to ensure that ESG and the newly adopted sustainability framework are embedded in the Bank's day-to-day activities. BBK feels strongly about treating each transaction with caution, underlining the importance of its ESG-related commitments.
- In its fight against corruption, BBK is proud to note that 100% of its frontline employees receive annual corruption and anti-money laundering training, while all other employees receive it every other year.
- BBK ensures that all employees receive training on Consumer Protection and Conduct Risk topics. This training program aims to expand the awareness of Conduct risk, the Regulatory approach and expectations, Governance requirements, Assessment. It also aims to have a positive reinforcement for adhering to prescribed standards of conduct such as Code of Ethics, Conflict of Interest and related party transactions, Gift and Bribery Policy, Fraud Responses Framework and Whistleblowing policy.

Being a responsible and responsive employer

- Investing in training our employees is of vital importance, which is why BBK is trying to increase the number of annual training hours that each employee receives. In 2021, each employee received an average of 23 hours.
- National representation in BBK is also important as we believe in maximising local talent and ensuring that nationals have a good opportunity to thrive. In 2021, Bahrainisation reached almost 95%.
- We are also proud to announce that females currently make up 40.4% of the Group's Bahrain-based workforce.
- In 2021, the percentage of women in middle and senior management positions accounted for 34% and 18%, respectively. BBK plans to ensure growth in this area by introducing new career development programmes for female executives.

Fostering long-term positive customer relationships and experiences

- It is important to identify and address customer complaints early and directly to ensure prompt resolution and to avoid possible escalation. In 2021, BBK resolved all customer complaints within 1.4 days, significantly less than the CBB requirement of four weeks.
- BBK values infrastructure investments and e-channel services to ensure that customers feel comfortable using alternative channels to conduct their transactions without having to visit a branch. In 2021, e-channels accounted for 78% of all transactions.
- One of the Bank's key objectives is to help customers meet a social or environmental challenge, or to invest in sustainable products. Consequently, we can provide our customers with the following:

1. Solar panel loans for customers who wish to install solar panels in their houses to limit energy use.
2. BBK Lite branches offer products and services for those on low incomes and blue-collar expatriates.
3. Mazaya loans allow beneficiaries to own their dream home via a real estate finance facility subsidised by the Bahraini Government.

Instilling a social responsibility mindset

- Minimising its environmental impact by monitoring and making investments in sustainable measures to limit energy wastage, particularly relating to electricity and water.
- Supporting local suppliers to ensure local economic growth and maintain community relations. In 2021, 86% of all sourced suppliers were local.
- In 2021, 4.2% of pre-tax profits were assigned for community and societal initiatives underlining the importance of taking part in the Kingdom's economic and societal growth and development.

Ongoing Corporate Social Responsibility
BBK is truly committed to giving back to the community, and therefore, we do not miss an opportunity to harness our resources to support initiatives that address the most pressing needs in society. In 2021 an appropriation of BHD 2.2 million was dedicated to environmental and societal investments with a special focus on 'Renewable Energy and Environment' with initiatives such as:

- Solar Panel pre-packaged loans for customers.
- Support 'Greener Bahrain' national campaign.
- Adoption of energy saving solutions within the Bank's premises
- Supporting public sector initiatives related to saving energy.

INNOVATION IN ACTION

Digital transformation presents vast opportunities – a new customer-centric era powered by automation and the need for social, environmental and business sustainability. Recognising the shifting reality, BBK redefines retail banking once again with its first state-of-the-art **BBK**PLUS digital branch and mobile app. The Bank launches its sustainability framework and reaffirms its 50-year commitment to the communities in which the Bank operates.

Part II

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The Bank takes pride in ensuring that exceptional standards of corporate governance are met according to international standards of best practice. Sound corporate governance is central to achieving BBK's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

Corporate governance vision

BBK and its wholly owned subsidiaries 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 High-Level Controls module of the CBB RuleBook – but also formulate and adhere to strong corporate governance practices. BBK and its wholly owned subsidiaries shall also continuously strive to best serve the interests of all other stakeholders, including clients, employees, regulators 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.

Compliance with Corporate Governance regulatory requirements:

The Bank ensures compliance with the Corporate Governance Code of the Kingdom of Bahrain, the CBB requirements in this regard and has ensured full compliance with the same during 2021.

Initiatives 2021

BBK implemented a number of initiatives during the year ended to fulfil its corporate governance strategy and other requirements emerging during the year.

- The evaluation process for the Board and its committees was successfully completed and recommendations were made for improvement. The main recommendations made are mentioned under Board and Committee evaluation section of this report.
- The Board also reviewed the recommendations of past years' evaluations to see the stage of completion from the previous years' evaluations.
- The Board adopted the new Sustainability framework and a Management Committee and sub-committees were formed to develop/review the relevant polices and statements. The Nomination, Remuneration and Governable Committee was delegated to follow up on the issues.
- The Board reviewed the independence of Directors through an annual exercise, taking into consideration the regulatory requirements, Board determination as well as best practice.
- Three layers of compliance with the regulatory corporate governance requirements, were done to ensure full compliance, by the Internal Audit Department, the Compliance Department and Corporate Secretariat Department. The following few non-compliance issues were observed and the same were addressed during the year:

1. Procedural matters related to disclosures related to the elections of the Board of Directors, which should be clearer in the call of elections.
2. Minor amendments to the terms of reference of some committees, although even if the terms of reference were not amended the Bank was committed to the regulatory requirements.
3. The formation of a risk committee to be adjusted to increase the number of independent members to have at least 3 independent, majority independent Directors and the Chairman to be independent.

- Enhanced the use of technology by having fully paperless functions for the Board and Board Committees including adopting electronic signatures on Board minutes and other documents for the Bank and its wholly owned subsidiaries using the cloud-based solution.
- It was ensured that the Management committees adopt paperless meetings, which were developed in-house.
- An Investors Relations (IR) Unit within the Corporate Secretariat was developed and the Bank launched a revamped IR platform taking into consideration international best practice to keep all Investors abreast of all relevant disclosures.
- The Directors Development Program was enhanced to be distributed over the year with a focus on the issues relevant to the Bank's strategy, Risk Management and sustainability. A list of all sessions covered during the year is included in the report.
- A session was arranged by the Head of Group Corporate Secretariat for the lady Directors and Lady Executive Managers entitled: "The Board and the fundamentals of Corporate Governance" as part of the women empowerment program at the Bank.
- The Board had a special meeting regarding formation of the new strategy to know what has been achieved from the current strategy and exchange views between the Board of Directors and Executive Management regarding the general directions for the new strategy. The strategy session for the next cycle 2022-2024 was held in November 2021.

Risk appetite statement

The Bank's risk appetite is set annually by the Board of Directors with the goal of aligning risk-taking with statutory requirements, strategic business objectives and capital planning. The Board of Directors has a key role in the implementation of the Bank's risk appetite by steering utilization of different forms of financing, the Bank's geographical operating areas and markets, funding and liquidity management, amongst other risk management requirements. The Board of Directors also monitors BBK's adherence to the Risk Appetite Statement and makes necessary modifications to capture changes in the Bank's strategic priorities, operating environment, and risk profile.

The vision documents annual and three-year strategy, along with the Bank's internal policies, mandated framework, rules and guidelines which create the overall framework for the Bank's risk-taking. The Risk Appetite Statement complements these key documents by outlining the main considerations in the Bank's risk-taking, risk mitigation and risk avoidance.

The purpose of the Risk Appetite Statement is to state clearly the general principles for the Bank's risk-taking, to raise risk awareness across the organisation, and to guide the staff accordingly. The Risk Appetite Statement is implemented through the Bank's risk policies and procedures, monitoring metrics, limit system, Key Performance / Risk Indicators (KPIs / KRIs) and internal controls. The Risk Appetite Statement is thus embedded in the Bank's core processes and impacts affects the operations of the Bank in a holistic way.

BBK is subject to banking supervision and prudential regulations. The Bank's risk management systems and policies / procedures are reviewed and refined on an ongoing basis in order to comply strictly with regulations in all jurisdictions it operates in; as well as with what the Bank identifies as the relevant market standards, recommendations and best practices. This principle also applies to the Bank's risk appetite framework.

The basic objectives of the Risk Appetite Statement are the following:

- To provide a clear articulation of the Bank's risk-taking, risk mitigation and risk avoidance, and to define the risk-taking at the aggregate level. The Risk Appetite Statement creates a foundation for effective communication of risk among internal and external stakeholders;
- To increase understanding of BBK's material risk exposures and raise risk awareness across the organisation; and
- To positively impact the defined risk culture of the Bank.

The Bank's risk-taking is primarily in its core activity of lending. BBK primarily finances its activities through retail, corporate deposits, issuing bonds on the international capital markets, market borrowings and through equity. The funding base is diversified across currencies, maturities and geographic areas. BBK's operating model is supported by the ability to obtain funding at a favorable cost, which enables lending, on attractive terms, to its clients. BBK's funding advantage builds on its sound financial profile and strong shareholder support.

To support its lending and funding operations, the Bank maintains a portfolio of liquid assets. The primary objective of the liquid portfolio is to ensure that the Bank is able to operate and continue its core activities, even during stressed market conditions. The composition and maturity profile of the liquidity portfolio are aligned with this objective, in addition to a liquidity buffer through holding High-Quality Liquid Assets (HQLA).

The Risk Appetite Statement sets the tolerance for risk-taking in BBK's operations within the Bank's Risk capacity. Risk limits and risk profile assessment are other key elements in the implementation of the Bank's risk appetite framework.

Risk capacity is limited by the financial and non-financial resources that the Bank has at its disposal. The risk appetite is set to a level within the risk capacity to ensure that the Bank's risk exposure remains sustainable.

Financial resources mainly consist of the Bank's paid-in capital and retained earnings, together with customer deposits, funds raised through bonds, borrowings from Central Bank and other Financial Institutions. Non-financial resources are the skills and competences of the employees, IT systems, internal procedures and control systems. The Bank's risk-bearing capacity builds on a careful customer selection process, individual credit mandate reviews and a thorough credit-granting process. Therefore, financial resources and robust governance contribute both to maintaining the Bank's competitive position and its strong capital and liquidity position.

Risk limits are used to allocate the aggregate risk-taking mandate to business lines and portfolios. The main risk limits are established in the Bank's risk management policies and approved by the Board of Directors. The limit system sets boundaries for the accepted level of credit, market, liquidity, earnings, capital and operational risk within the established risk appetite. The actual position through the risk limits are reviewed at various levels (Board Risk Committee, Risk Management Committee 'RMC', Asset Liability Management Committee 'ALMC', Country Risk Committee 'CRC', Senior Management, etc.) depending on the nature of limits and as specified in the relevant Risk Policies. The Board and Senior Management have overall responsibility for determining the Risk Appetite of the Bank, which will be measured and monitored by the Business verticals in their operational activities.

Risk profile assessment aims to ascertain that the Bank's risk profile is within Risk limits and consequently within the Risk Appetite and Risk Capacity. Risk profile assessment is a point-in-time evaluation of the level and types of the Bank's risk exposures. The assessment includes an evaluation of the Bank's material risks, such as, credit, market, liquidity, earnings, capital and operational risk.

Credit Risk

BBK is exposed to risk primarily in its core activity of lending to individuals, corporations, small/medium enterprises, governments, public sector entities, financial institutions, etc. Lending exposes the Bank to credit and concentration risks and to variations in the business cycle. Each lending is thoroughly analysed from several perspectives (for example: default risk, financial risks, customer due diligence, legal risk, currency risks, etc.) to ensure that financing decisions have sound foundations. The overall target of the credit risk management is to maintain high portfolio quality with appropriate risk diversification in order to avoid excessive risk concentrations. Account grade rating, industry concentration limits, risk pricing, etc. are set and monitored.

Market Risk and Treasury

Funding, asset and liability management and management of the portfolio of liquid assets are an integral part of the Bank's business operations.

The funding base of BBK is diversified across currencies, maturities and geographic areas. The Bank effectively manages the risk exposures arising mainly through maturity mismatches between assets (loans and treasury investments) and liabilities (deposits, borrowings and equity). The Bank maintains a robust liquidity portfolio to ensure that the Bank is able to operate and continue its core activities, even during stressed market conditions.

BBK manages its interest rate risk by financing/investing in a combination of fixed or floating-rate assets, and this allows the Bank to generate stable earnings and to preserve its capital base in the long term. BBK's liquidity portfolio is invested in high quality assets and in doing so, BBK takes limited credit risk (credit default and spread risk).

BBK mitigates its currency risk and most of interest rate risk arising from funding and lending operations by hedging with derivatives. The use of derivatives exposes BBK to counterparty credit risk, liquidity risk, currency basis risk and operational risks. BBK uses netting and collateral agreements to manage its risk towards derivatives counterparties.

Triggers/policy limits are set as per the Bank's internal risk policies and procedures. This includes FX Net Open Position and VAR, Market Risk VAR, Interest Rate Risk (Gap, Stop Loss & VAR), Earnings at Risk, Economic Value of Equity, amongst others.

Earnings

Banking involves well-judged risk-taking, where all transactions should provide a reasonable margin to compensate for the risk taken. BBK offers financing on competitive market terms and aims for stable earnings, enabling the formation of capital reserves, organic growth, and reasonable return on capital in the long term.

Lending operations, the primary source of credit risk, should provide appropriate return for the level of risk assumed.

Treasury operations, through cost-effective funding and prudent asset and liability management, should contribute to the Bank's overall returns in line with the defined business objectives and the core objective of safeguarding the Bank's liquidity.

Earning targets are set and monitored at global, division and business unit level.

Capital

An adequate capital management framework, with an Internal Capital Adequacy Assessment Process (ICAAP), is an essential part of BBK's operations. BBK is committed to maintaining a strong risk-based capital position.

The Bank complements risk-based capital adequacy measures with a volume-based leverage ratio measure. It protects the Bank from risks that relate to excessive growth of the balance sheet.

BBK aims to maintain a strong capital position in relation to the aggregate risk exposure at all times. The Bank uses risk-based approaches to assess the capital needs, including stress testing, and the Bank holds robust capital buffers on top of the minimum capital requirement.

The growth of the Bank's balance sheet should be stable in the long run, while some variation is accepted in the medium term to account for natural changes in the business cycles.

Liquidity

The Bank maintains a robust liquidity portfolio. The primary objective of the liquidity portfolio is to ensure that the Bank is able to operate and continue its core activities without disruption, even during stressed market conditions. BBK maintains a liquidity portfolio where a large majority of the assets are of high quality to support the Bank's operations and liquidity position. Having a strong liquidity position enables the Bank to carry out our core activities under severely stressed market conditions without access to new funding.

BBK diversifies funding in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources.

Liquidity parameters are set to maintain minimum levels as per regulatory guidelines.

Implementation and Review

The primary responsibility for the correct implementation of the Risk Appetite Statement remains with the Risk Management Division.

This Risk Appetite Statement is reviewed at least annually.

Shareholder information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,497,909,965 equity shares, each with a face value of 100 fils. All shares are fully paid.

During 2021, BBK distributed bonus shares to its shareholders at 10% of the paid-up capital, equivalent to 10 shares for every 100 shares held, for a total of BD 13,617,363. Therefore, the Bank's paid-up capital after the distribution increased to BD 149,790,997 divided into 1,497,909,965 shares.

Annual Ordinary General Meeting, Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and an Extraordinary General Meeting (EGM) were held on 24 March 2021 under high level precautionary measures as required by the relevant authorities due to the COVID-19 pandemic outbreak and in meeting halls connected via video and a maximum of 20 persons, taking into consideration social distancing and other measures to keep all participants safe.

Apart from normal AGM discussions, the AGM discussed and took decisions regarding the below mentioned items:

1. Disclosing any transactions during the year ended 31 December 2020 with related parties as per note No.26 of the financial statements and in line with Article 189 of the CCL.

2. Discussing the Bank's Corporate Governance report for the year 2020 and the compliance to the requirements of the Central Bank of Bahrain (CBB).

3. Approving the Board's recommendation of allocating BD 552,500 as Board membership remunerations for 2020.

4. Appointing External Auditors for the Bank for the financial year 2021 upon receiving the approval of the CBB and delegate the Board to determine their fees.

5. Absolving the Board Members of liability for any of their actions during the year ended 31 December 2020.

The EGM held on 24 March 2021 approved the following:

• The Board's recommendation to the EGM by increasing the issued and paid-up capital from BD 136,173,633 divided into 1,361,736,332 shares to BD 149,790,997 divided into 1,497,909,965 shares as a result of distributing bonus shares.

The full set of the AGM and EGM minutes and the decisions made at the meeting are published in this annual report.

Annual disclosures at the AGM:

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

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 and other important disclosures as elaborated hereunder. The total amount paid to Directors and Executive Management is also included in this annual report.

Shareholder's composition

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and Others	–	326,165,850	21.77%
Ithmaar Holding B.S.C.	Kingdom of Bahrain	390,316,394	26.06%
Social Insurance Organisation (SIO)			
– Formerly Pension Fund Commission	Kingdom of Bahrain	288,685,463	19.27%
– Formerly General Organisation for Social insurance (GOSI)	Kingdom of Bahrain	205,180,563	13.70%
Kuwait Investment Authority	State of Kuwait	287,561,695	19.20%

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	328,446,705	2,574	21.93%
1% to less than 5%	–	–	–
5% to less than 10%	97,293,575	1	6.50%
10% to less than 20%	681,853,291	3	45.52%
20% to less than 50%	390,316,394	1	26.05%
50% and above	–	–	–

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 independence requirements are reviewed on an annual basis taking into consideration the CBB criteria and Board of Directors determination of the same. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to the 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 2020 and ends in March 2023. Directors are elected/appointed by the shareholders at the AGM.

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 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 Bachelor of Science in Commerce 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 25 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors approves and 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, determine remuneration of auditors subject to AGM approval 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 re-appointment. 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

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.

Directors' professional development

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. The full list of programs prepared for the Board of Directors of the Bank and its wholly owned subsidiaries during 2021 is disclosed in this report.

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.

The recommendation emanating from the evaluation process during 2021 were as follows:

• Relying more on technology and digitization for the work of the Board of Directors and its committees

• Reconstitute the Board committees periodically to benefit all members and gain experience in other committees

• Consider holding more meetings of the Independent Members Committee

• Consider reducing the time period for Board meetings to focus on priority issues

• Enhancing the Video Conferencing technology

Remuneration of Directors

The Bank has adopted a policy approved by the Board of Directors to apply to the Directors' remunerations and compensation for their involvement in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. For details please refer to the remuneration report.

Insurance coverage

The Bank provides personal accident insurance coverage for Board Members during travel on Bank assignments. The Bank also has a Directors and Officers 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 and Compliance Committee oversees this policy. The whistle-blowing policy is published on the Bank's website.

Key persons (KP) policy

The Bank has established a KP policy to ensure that KP 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. KP are defined to include the Directors, Executive Management, designated employees, and persons under guardianship or control of KP. The KP policy is entrusted to the Board's Audit Committee. The KP 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 Group Chief Executive.
3. As part of the annual reporting, the Group 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 clear policies based on domestic laws and regulations and international best practices to deal with issues related to conflict of interest. This is also stipulated in the Directors Appointment Letters signed between the Board members and the Bank. These policies are posted on the Bank's website and reviewed periodically or whenever needed.

During Board meetings or Board committees and during discussions on topics related to credit applications, investment or other transactions where there may be conflict of interest, the concerned Board member is required to leave the meeting room and any correspondence or documents related to the application will not be sent to him/her. Decisions are made by the Board of Directors or its Committees without the presence of the member concerned and such transactions are recorded in the minutes of the Board meeting or its committees.

In addition, it is the responsibility of the member of the Board and he/she must immediately disclose to the Board that there is a conflict of interest related to his / her activities and obligations with other parties and not to participate in the discussion and voting, and these disclosures include documents relating to contracts or transactions related to the member concerned.

During 2021, the Executive Committee discussed a number of credit and investment applications relating to accounts of some major shareholders. The Board also discussed some projects related to Aegila Capital Management Limited, a joint venture with Osool, and also held a number of Board meetings to discuss the opportunity to acquire some of the assets of Ithmaar Holding, which is a major shareholder of the Bank, and in all these cases this policy has been implemented without exception.

Development programmes arranged for board members during 2021

1) Early Warning Signals, COVID-19 14/02/2021
2) Sustainable Banking14/02/2021
3) Enhanced use of Diligent Boards application 24/06/2021
4) Branches Strategy 06/09/2021
5) Digital Currencies 04/10/2021
6) Post COVID-19 03/11/2021

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

Board members	Total no. of hours
Murad Ali Murad	34
Sh. Abdulla bin Khalifa bin Salman Al-Khalifa	27
Mohamed Abdulrahman Hussain	19
Hani Ali Al Maskati	25
Jassem Hasan Ali Zainal	15
Sh. Khalifa bin Duaij Al Khalifa	15
Edrees Musaed Ahmad	15
Ashraf Adnan Bseisu	20
Mishal Ali Al Hellow	19
Naser Khaled Al Raee	19.5
Nour Nael Al Jassim	17
Ghaneya Mohsen Al Durazi	36

Environmental, Social and Governance (ESG)

The Board is active in making decisions to broaden the role of BBK regarding Sustainability and ESG. The Bank began the implementation of new Sustainability and ESG management in 2021. For details, please refer to the sustainability review section in part 1.

In 2022, BBK will further develop its Sustainability and ESG strategy to meet pressing community needs, support inclusive SME development, boost job creation, enhance customer services, support and develop our employees, and apply relevant corporate governance protocols.

BBK has aligned its priorities with the goals of Bahrain National Vision 2030 to build a robust economy and a motivated and innovative society. We have also aligned our priorities with the United Nations Sustainable Development Goals (SDGs), a set of 17 areas spearheaded by the UN to end poverty, fight inequality, and tackle climate change.

Disclosures relating to the Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company B.S.C.	Kingdom of Bahrain
Chairman of the Committee	Nomination Remuneration and Governance Committee – Bahrain Kuwait Insurance Company B.S.C.	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 W.L.L. (Family company)	Kingdom of Bahrain
Sh. Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management B.S.C.	Kingdom of Bahrain
Chairman	Securities and Investment Company (SICO) B.S.C.	Kingdom of Bahrain
Chairman	Bahrain Telecommunication Company (Batelco)	Kingdom of Bahrain
Board Member	Supreme Council for Youth and Sports	Kingdom of Bahrain
Mohamed Abdulrahman Hussain		
Vice-Chairman and Chairman of Executive Committee	Eskan Bank B.S.C.	Kingdom of Bahrain
Independent Board Member	A.M. Yateem Brothers W.L.L.	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
Jassem Hasan Ali Zainal		
Vice Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Chairman and CEO	Addax B.S.C. Closed	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Miami International Securities Exchange L.L.C. (MIAX)	United States of America
Sh. Khalifa bin Duaij Al Khalifa		
President Adviser	Court of HRH the Crown Prince, the Prime Minister	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 W.L.L.	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Republic of Lebanon
Chairman	Bahrain Financial Markets Associations (ACI)	Kingdom of Bahrain
Chairman	Bahrain Middle East Bank	Kingdom of Bahrain
Edrees Musaed Ahmad		
Division Manager, European Equities Marketable Securities Sector	Kuwait Investment Authority (KIA)	State of Kuwait
Ashraf Adnan Bseisu		
Group Chief Executive	Solidarity Group Holding Company B.S.C. (c)	Kingdom of Bahrain
Chairman	Solidarity First Insurance Company (P.L.C.)	Hashemite Kingdom of Jordan
Vice Chairman	Solidarity Bahrain Company (B.S.C.)	Kingdom of Bahrain
Board Member	Aljazira Takaful Taawuni Co.	Kingdom of Saudi Arabia
Board Member	Bahrain Institute of Banking & Finance (BIBF)	Kingdom of Bahrain
Board Member	United Insurance Company B.S.C. (c)	Kingdom of Bahrain
Mishal Ali Al Hellow		
Board Member	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management B.S.C.	Kingdom of Bahrain
Director	Arcapita Group	Kingdom of Bahrain
Chairman	Technology and Business Society	Kingdom of Bahrain
Naser Khaled Al Raee		
Head of Internal Audit	Osool Asset Management B.S.C.	Kingdom of Bahrain
Nour Nael Al Jassim		
Investment Manager	Kuwait Investment Authority (KIA)	State of Kuwait

Directors and related parties' interests

The number of securities held by Directors was as follows:

Name of Director	Type of shares	31 December 2020	31 December 2021
Murad Ali Murad	Ordinary	1,415,843	**1,557,427**
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	6,352	**6,987**
Jassem Hasan Ali Zainal	Ordinary	278,550	**306,405**
Mohamed Abdulrahman Hussain	Ordinary	187,322	**206,054**
Sh. Khalifa bin Duaij Al Khalifa	Ordinary	145,242	**159,766**
Ashraf Adnan Bseisu	Ordinary	44,004	**–**

Related parties

1. Al Janabeya Company W.L.L. (a family company owned by Mr Murad Ali Murad and his family) owns 1,404,641 shares, and is related to the Chairman of the Board.

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 worth of BD 42M + FD of BD 3M (32% coverage)
			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 179,500/- and outstanding amount at 31 December 2021 of BD 43,939.895

Directors' trading of BBK shares during 2021

As per "Directors and related parties' interests" table above.

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 and there is an Independent Directors' Committee.

Board meeting attendance

During 2021, 9 Board meetings were held in the Kingdom of Bahrain in the following manner:

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

Board meetings 2021

	Quarterly meetings				Other meetings				
Members	15 Feb	26 Apr	27 Jul	27 Oct	24 March	13 June	28 July	30 Nov	2 Dec
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hani Ali Al Maskati	⊙	⊙	⊙	⊙	⊙	⊖	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	○
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙	⊖	⊙	⊙	⊙
Mishal Ali Al Hellow	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Naser Khaled Al Raee	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ghaneya Mohsen Al Durazi	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Nour Nael Al Jassim	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Major issues discussed by the Board during 2021

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

Date of meeting	Subject
15 February 2021	1. AGM and EGM invitation and recommendation to distribute 2020 dividends 2. Corporate Governance report to AGM 3. Quarterly Liquidity Report 4. Investment portfolio performance 5. Financial results and appropriation for 2020 6. Re-appointment of external auditors and their fees for 2021 7. Anti-money laundering annual report 2020 8. Succession plan 9. Risk policies for review 10. BBK Digital Strategy 11. Business Continuity Report 2020 12. HC Module Compliance Testing
24 March 2021	1. Board Chairmanship and Board Committees' Composition 2. Proposals for the 50th anniversary of the establishment of the Bank 3. Developing the process of providing training courses to the Board of Directors 4. Board Evaluation
26 April 2021	1. Financial results for first quarter of 2021 2. Review of the Board Charter 3. Cyber security 4. Investment strategy 5. Risk policies for review 6. Developing the Investor Relations Unit at the Corporate Secretariat 7. Review the Strategy 2022 – 2024 8. Branches performance report 9. Investment Portfolio performance
13 June 2021	1. Acquisition of an Islamic Bank
27 July 2021	1. Financial results for second quarter of 2021 2. Independent Board Member evaluations 3. Follow up BBK Digital Strategy 4. Investment strategy 5. Quarterly liquidity report 6. Risk policies for review
28 July 2021	1. Discuss the achievement done from the current strategy and the directions of the upcoming strategy 2022-2024
27 October 2001	1. Financial results for third quarter of 2021 2. Quarterly liquidity report 3. Risk policies for review 4. Human Resources Policy Review 5. Training & Development of National Talent Plan – Kuwait
30 November 2021	1. BBK Strategy for 2022-2024
2 December 2021	1. Performance of BBK – India 2. Follow up BBK Digital Strategy 3. Review of BBK Strategy 2022-2024 4. BBK Budget for the year 2022

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 2021, the Board ad-hoc committee established by the Board to study an acquisition opportunity for the Bank raised its recommendations to the Board.

The terms of reference for the Board committees (Executive; Audit and Compliance; Nomination, Remuneration and 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 (Independent) **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Deputy Chairman **Ashraf Adnan Bseisu** Member **Mishal Ali Al Hellow** Member **Nour Nael Al Jassim** Member	• No fewer than five members are appointed for a one- year term. • Minimum number of meetings required each year: eight (actual meetings in 2021: 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 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 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 Ali Zainal** 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: four (actual meetings in 2021: four). • 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 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 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 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) **Edrees Musaed Ahmad** 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: three (actual meetings in 2021: four). • 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 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
Jassem Hasan Ali Zainal Chairman (Independent) **Hani Ali Al Maskati** Deputy Chairman **Ghaneya Mohsen Al Durazi** Member **Naser Khaled Al Raee** Member **Sh. Khalifa Bin Duaij Al Khalifa** Member (Independent)	• 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 2021: 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 (Independent) **Jassem Hasan Ali Zainal** Member (Independent) **Sh. Khalifa bin Duaij Al Khalifa** Member (Independent) **Mohammed Abdulrahman Hussain** Member (Independent) **Ghaneya Mohsen Al Durazi** 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 2021

Members	10 Jan	8 Feb	7 Mar	20 Apr	3 May	30 May	15 Jul	15 Aug	5 Sep	25 Oct	21 Nov	28 Nov
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Ashraf Adnan Bseisu	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Mishal Ali Al Hellow	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Nour Nael Al Jassim	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Audit and Compliance Committee meetings in 2021

Members	7 Feb	19 Apr	18 Jul	20 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙
Edrees Musaed Ahmad	⊙	⊙	⊙	⊙

Nomination, Remuneration and Governance Committee meetings in 2021

Members	7 Feb	28 Feb	12 Sept*	21 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙
Sh. Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙
Edrees Musaed Ahmed	⊙	⊙	⊙	⊙

* Unscheduled meeting

Risk Committee meetings in 2021

Members	10 Feb	19 Apr	15 Jul	18 Oct
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Hani Ali Al Maskati	⊙	⊙	⊙	⊙
Naser Khaled Al Raee	⊙	⊙	⊙	⊙
Ghaneya Mohsen Al Durazi	⊙	⊙	⊙	⊙
Sh. Khalifa Bin Duaij Al Khalifa	⦸	⦸	⦸	⊙

Independent Directors' Committee meetings in 2021

Members	15 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 8th September 2021.

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 24 March 2020 approved forming the Shariah Supervisory Board and nomination of its members for three renewable years. The Shariah Supervisory Board members and the meetings during 2021 are as follows:

Shariah Supervisory Board attendance in 2021

Members	3 Mar	4 Aug	12 Dec
Dr Osama Bahar (Chairman)	⊙	⊙	⊙
Sh. Abdulnasser Al Mahmood (Member)	⊙	⊙	⊙
Dr. Adel Al Marzooqi (Member)	⊙	⊙	⊙

Compliance and Anti-Money Laundering (AML)

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 Compliance and AML Department at BBK consists of four primary sections, including; (a) Financial Crime; (b) Fraud; (c) Regulatory Compliance and Advisory, part of which is the Data Privacy team; and (d) Compliance Assurance. The Function performs its duties and responsibilities in accordance to an established Annual Risk Based Plan approved by the Audit and Compliance Committee of the Board. The Compliance and AML Function is independent from the other functions of the Bank. It has sufficient seniority and authority and reports directly to the Board of Directors through the Board's Audit and Compliance Committee.

The Compliance and AML 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'/KP 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 2021.

The Bank has deployed a risk-based automated transaction monitoring system in keeping with the anti-money laundering and combating financing of terrorism and proliferation regulations of the CBB. The automated AML system of the Bank was upgraded in September 2018. Further enhancements were developed in the AML system, including enhancements as related to the established AML Risk Assessment Model and behavioural/trend analysis to facilitate more effective identification of financial crime risks.

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 follow-up examination by the Central Bank was concluded in June 2020, and a follow-up assessment report was submitted to the regulator in September 2021. Additionally, the Bank's anti-money laundering measures are reviewed by independent external auditors every year. The respective Group external review reports have been issued and submitted to CBB in September 2021, which included a review of BBK, its subsidiary and overseas branches.

Furthermore, as a Domestic Systemically Important Bank, BBK is subject to annual inspections by the CBB, the most recent of which was conducted in May 2021.

In 2021, BBK has successfully implemented fraud monitoring systems for scrutiny of customers' payments and card transactions in order to proactively and effectively protect our customers against fraud. A 24/7 fraud monitoring team is established to monitor and promptly handle any fraud suspicions.

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 Financial Action Task Force (FATF) recommendations, 'Customer Due Diligence for Banks' paper of the Basel Committee, and best international practices.

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 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.

Remuneration report

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. Therefore, we 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

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 Governance Committee (NRG).

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 Governance Committee (NRG) role and focus

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

The responsibilities of the NRG 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.
- Evaluate the approved persons and material risk-takers performance in light of the Bank's corporate goals, agreed strategy, objectives and business plans.
- 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 the same short-run profit but take a 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 backtesting results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses, and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions, the mix of fixed and variable remuneration is weighted in favor 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.

NRG 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 NRG members are independent including the Chairman of the Committee. The NRG comprises the following members:

NRG member name	Appointment date	Number of meetings attended	
		2021	2020
Murad Ali Murad	20 June 2004	4	5
Sh Khalifa bin Duaij Al Khalifa	6 March 2011	4	5
Mohamed Abdulrahman Hussain	29 March 2017	4	5
Edrees Musaed Ahmad	24 March 2020	4	2

The aggregate remuneration paid to NRG members during the year in the form of sitting fees amounted to BD 9,000 [2020: BD 9,750].

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 AGM. 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.

The Bank has adopted a policy approved by the Board of Directors to apply to the Directors' remunerations and compensation for their involvement in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The following are established bases relating to the directors' compensation and Remuneration:

- Members of the Board should be treated equitably when they are compensated for additional work or effort in their participation in Board ad hoc, temporary or permanent committees.
- The principle of participation is to attend meetings as much as possible and therefore no payment will be made for non-attendance of meetings of committees. Attendance of the meeting via Telephone/Video conference shall be considered an attendance of the meeting.
- The payment of Director's remuneration is governed by Commercial Companies Law No. 21 for the year 2001 and any amendments thereto and therefore such payment must comply with the provision of the Law.
- The Director's Remuneration which is a recommendation by the Board of Directors to the Annual General Assembly will be paid equally to the members with the exception of the Chairman of the Board who will receive 200% of that paid to ordinary directors due to his additional responsibility. The Director is entitled for a one time excuse for not attending a meeting during a year, BD 500/- will be deducted for each additional absence of the scheduled meetings.
- Directors shall receive BD 500 as sitting fees for attending any Board Committee meeting. The Chairman of a Board Committee shall receive 150% of the said amount due to his additional responsibility. Directors shall receive BD 600 for any Bank related assignment up to 3 days within the region covering all expenses during travel other than return flight air fare.
- There are no other remuneration methods for Board members and salaries, performance shares, bonuses are not applicable to Board members.

Board of Directors Remuneration

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others (Travel Allowance only)	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Mr. Murad Ali Murad	85,000	6,000	–	0	91,000	–	–	–	–	–	–	91,000	–
Sh. Abdulla Bin Khalifa Al Khalifa	42,500	5,000	–	0	47,500	–	–	–	–	–	–	47,500	–
Mr. Jassem Hasan Ali Zainal	42,500	4,250	–	0	46,750	–	–	–	–	–	–	46,750	–
Sh. Khalifa Bin Duaij Al Khalifa	42,500	4,000	–	0	46,500	–	–	–	–	–	–	46,500	–
Mr. Mohamed A.Rahman Hussain	42,500	9,500	–	0	52,000	–	–	–	–	–	–	52,000	–
Dr. Ghaneya Mohsin Al Derazi	42,500	2,000	–	0	44,500	–	–	–	–	–	–	44,500	–
Second: Non-Executive Directors:													
Mr. Ashraf Adnan Bseisu	42,500	5,000	–	0	47,500	–	–	–	–	–	–	47,500	–
Mr. Hani Ali Rashed Al Maskati	42,500	2,750	–	0	45,250	–	–	–	–	–	–	45,250	–
Mr. Edrees Musaed Ahmed	42,500*	4,000*	–	1,800	48,300	–	–	–	–	–	–	48,300	–
Mr. Mishal Ali Al Hellow	42,500**	5,000	–	0	47,500	–	–	–	–	–	–	47,500	–
Mr. Nasser Khalid Al Raee	42,500**	5,000	–	0	47,500	–	–	–	–	–	–	47,500	–
Mrs. Noor Nael Al Jassim	42,500*	5,000*	–	0	47,500	–	–	–	–	–	–	47,500	–
Third: Executive Directors:													
There are no Executive Directors at the Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	552,500	57,500		1,800	611,800							611,800	

Note:
1. All amounts are in Bahraini Dinars.
2. The remuneration for membership of the Board of Directors was accrued in 2021 and will be paid in the year 2022 after obtaining the approval of the Ordinary General Assembly in March 2022.

* Amount to be paid to Kuwait Investment Authority (KIA).

** Amount to be paid to Social Insurance Organization (SIO).

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 NRG 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 NRG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRG demonstrates that its decisions are consistent with 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 NRG.

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

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and 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 NRG, 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.

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 Group CE, 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 NRG, 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

	2021	2020
Sitting fees and travel allowance	**83,300**	66,255
Remuneration*	**552,500**	649,500
Others	**16,737**	9,636

* The amount received during the year for the performance of the previous year.

(b) Board of Directors of subsidiaries

	2021	2020
Sitting fees and travel allowance	**8,100**	8,400
Remuneration*	**91,399**	110,999
Others	**–**	–

(c) Employees

1 Employee remuneration

	2021									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
BD 000's	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	**13**	**2,152**	**–**	**–**	**726**	**20**	**126**	**729**	**–**	**3,753**
Approved Persons Control and support	**10**	**1,669**	**–**	**–**	**427**	**72**	**–**	**301**	**–**	**2,469**
Other material risk-takers	**33**	**3,344**	**–**	**–**	**672**	**128**	**8**	**562**	**–**	**4,714**
Other Staff Bahrain Operations	**563**	**13,625**	**–**	**–**	**2,468**	**–**	**–**	**–**	**–**	**16,093**
Other Staff Branches and Subsidiaries	**663**	**8,785**	**–**	**–**	**591**	**–**	**–**	**–**	**–**	**9,376**
Total	**1,282**	**29,575**	**–**	**–**	**4,884**	**220**	**134**	**1,592**	**–**	**36,405**

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

Other adjustments to staff cost accruals amounting to BD 89,147 have not been included in the table above.

Board Representation Allowance paid during 2021 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 187,234 have been included in the table above.

The total amount of remuneration includes severance payments during the year amounted to BD 565,776 of which the highest paid to a single person amounted to BD 226,944.

	2020									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
BD 000's	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	13	2,408	–	–	594	18	96	580	–	3,696
Approved Persons Control and support	12	1,594	–	–	385	65	-	268	–	2,312
Other material risk-takers	34	3,121	–	–	601	110	13	504	–	4,349
Other Staff Bahrain Operations	556	12,702	–	–	1,799	–	–	–	–	14,501
Other Staff Branches and Subsidiaries	769	9,424	–	–	640	–	–	–	–	10,064
Total	1,384	29,249	–	–	4,019	193	110	1,352	–	34,922

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

Other adjustments to staff cost accruals amounting to BD 394,906 have not been included in the table above.

Board Representation Allowance paid during 2020 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 180,454 have been included in the table above.

2 Deferred awards

	2021			
		Shares		
	Cash BD '000	Number	BD '000	Total BD '000
Opening balance	**508**	**14,744,157**	**6,257**	**6,765**
Awarded during the period*	**134**	**3,588,426**	**1,812**	**1,946**
Paid out/released during the period	**(197)**	**(4,580,897)**	**(2,078)**	**(2,275)**
Service, performance and risk adjustments	**–**	**–**	**–**	**–**
Bonus share adjustment	**–**	**1,098,385**	**–**	**–**
Closing balance	**446**	**14,850,071**	**5,991**	**6,436**

* The number of shares for the 2021 Deferred Awards has been calculated using the year-end closing share price at BD 0.505 fils per share, as the award price will be determined 14 days after the AGM.

	2020			
		Shares		
	Cash BD '000	Number	BD '000	Total BD '000
Opening balance	596	15,743,685	6,753	7,349
Awarded during the period**	110	3,286,364	1,545	1,654
Paid out/released during the period	(197)	(4,881,346)	(2,041)	(2,238)
Service, performance and risk adjustments	–	43,892	–	–
Bonus share adjustment	–	551,562	–	–
Closing balance	509	14,744,157	6,257	6,765

** The number of shares for the 2020 Deferred Awards have been recomputed based on the share price 14 days after the AGM of the Bank at BD 0.470 per share, and updated for the actual awards distributed to staff during 2020.

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

3 Top 6 Remuneration for Executives, Including Group Chief Executive and Group Chief Financial Officer

Executive management	Total paid salaries and allowances 2021	Total paid remuneration (Bonus) 2021	Any other cash/ in kind remuneration for 2021	Aggregate Amount 2021
Top 6 remunerations for executives, including CE and Chief Financial Officer	1,384,370	1,130,328*	194,881**	2,709,579

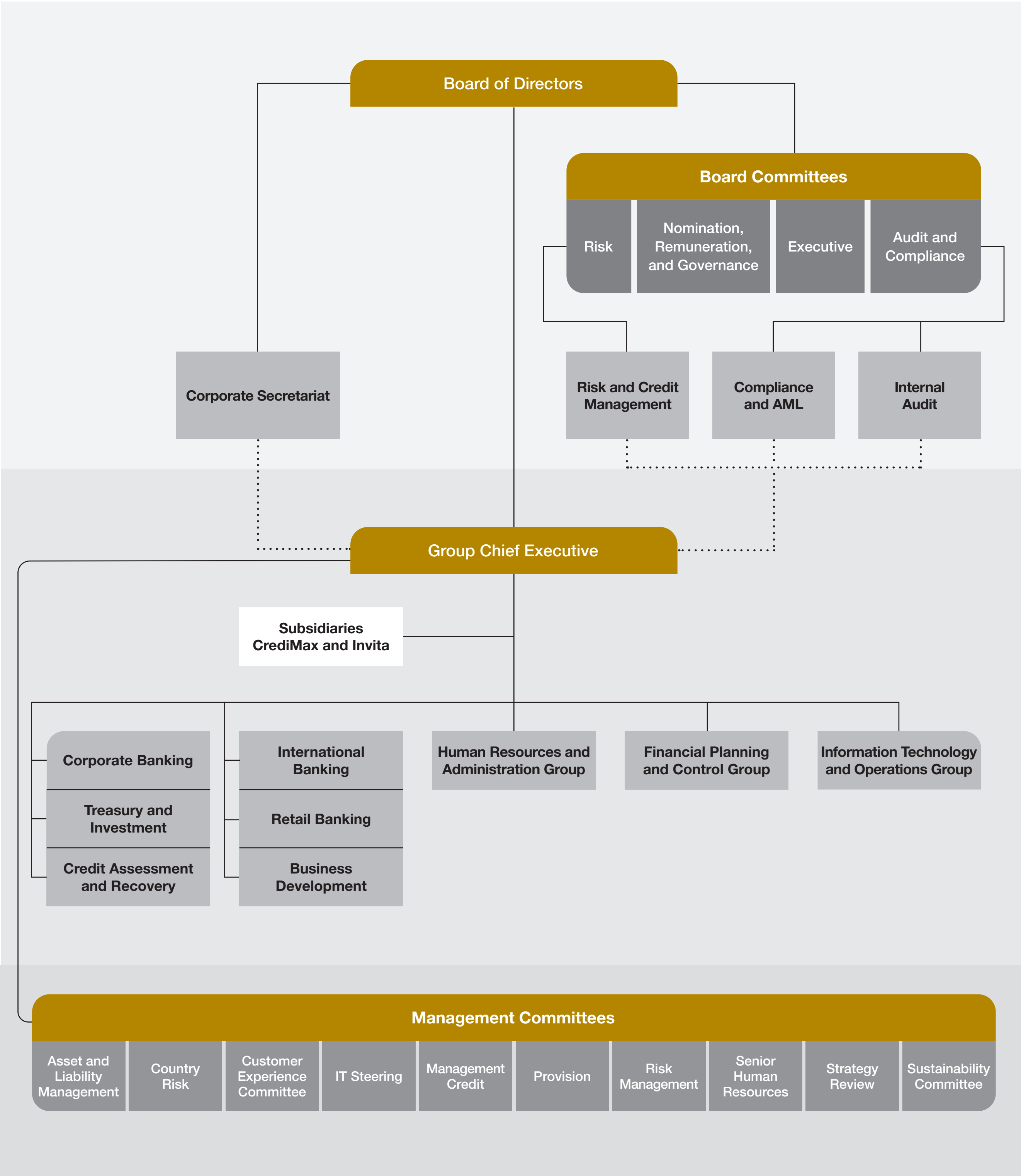
Note: All amounts are in Bahraini Dinars.

* Out of this amount, BD 715,821 was paid in Cash and BD 414,507 was paid in Shares during the year 2021.

** This represents the value of number of long term shares vested during the year 2021.

Organisation information

Organisation structure



Executive management interests

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

Name	Type of shares	31 Dec 2021	31 Dec 2020	Bonds 31 Dec 2021	Bonds 31 Dec 2020
Dr. Abdulrahman Ali Saif	Ordinary	**1,077,882**	979,893	**–**	–
Hassaan Mohammed Burshaid	Ordinary	**789,805**	486,318	**–**	–
Mohammed Abdulla Isa	Ordinary	**80,047**	183,750	**–**	–
Hassan Mohamed Abouzeid	Ordinary	**–**	–	**–**	–
Nadeem A. Aziz Kooheji	Ordinary	**181,134**	160,102	**–**	–
Adel Abdulla Salem	Ordinary	**279,021**	82,425	**–**	–
Raj Dugar	Ordinary	**121,608**	103,180	**–**	–
Ajay Jaiswal	Ordinary	**–**	–	**–**	–
Mohamed Ahmed Noor AlRayes	Ordinary	**30,165**	8,054	**–**	–
Alexandar Ewan Stirling	Ordinary	**–**	–	**–**	–
Ahmed Taqi	Ordinary	**143,794**	81,719	**–**	–
Abhik Goswami	Ordinary	**–**	–	**–**	–

Executive Senior Management trading of the Bank's shares and bonds during 2021

Name	Trading through Bahrain Bourse	Date of trading
Mohammed Abdulla Isa	Sold 100,000 Shares	29 March 2021
	Sold 150,000 Shares	7 September 2021
	Sold 100,000 Shares	12 September 2021
	Sold 100,000 Shares	13 September 2021
	Sold 680 Shares	14 September 2021
	Sold 47,580 Shares	15 September 2021
	Sold 102,420 Shares	19 September 2021
Nadeem Al Kooheji	Sold 100,000 Shares	7 September 2021

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:
Asset and Liability Management – ALMC	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month
Country Risk Committee – CRC	Reviews and approves the country wise strategy and exposure limits for currency, industry sector, type, secured/unsecured exposures.	Minimum 6 meetings in a year
Customer Experience Committee	Customer Experience Committee to monitor customer satisfaction, feedback, complaints, and suggestions across all channels, including in-branch, social media, call center, website, and mobile, to identify key business drivers and improve customer satisfaction loyalty.	Once every quarter
IT Steering Committee	Direct, review, and approve IT strategic plans, oversee major initiatives, prioritizes initiatives across the Bank as a whole, and review/assess the Bank's technology maturity on an ongoing basis.	Every two months
Management Credit Committee – MCC	Approves credit and investment proposals above a specific limit. Also reviews and recommends any proposal is requiring Executive Committee or Board approval.	Once a week
Provision Committee – PC	Reviews and establishes provisioning requirements for loans, advances, and investments.	Once every quarter
Risk Management – RMC	Identifies, measures, monitors, and controls risk by establishing risk policies and procedures.	Once every quarter
Senior Human Resources Committee – SHRC	Establishes appropriate policies, procedures, and guidelines for the management of human resources.	Once every other month
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year
Sustainability Committee	Implement policies, strategies, and programs related to sustainability, set and review KPIs on key sustainability topics and ensure their incorporation in the Banks strategies, capture material issues affecting the business from an unexpected risks and opportunities perspective, and provide data and information to support the production of an annual sustainability report.	Once every quarter

Major BBK shareholdings as of 31 December 2021

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 2021	31 Dec 2020
Bahrain Kuwait Insurance (BKIC)	Bahrain	B.S.C.	2006	6.82	**10,237,379**	9,759,636
SICO	Bahrain	B.S.C. (c)	2006	7.91	**33,896,140**	33,896,140
Bahrain Commercial Facilities Company	Bahrain	B.S.C.	1994	23.03	**47,023,363**	47,023,363

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

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares	
					31 Dec 2021	31 Dec 2020
Ithmaar Holding B.S.C.	Bahrain	B.S.C.	2008	26.06	**390,316,394**	354,833,086
Social Insurance Organization (Pension Fund Commission)	Bahrain	Governmental Institution	1986	19.27	**288,685,463**	262,441,331
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	19.20	**287,561,695**	261,419,723
Social Insurance Organization (GOSI)	Bahrain	Governmental Institution	1986	13.70	**205,180,563**	186,527,785

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 2021	31 Dec 2020
CrediMax	Bahrain	B.S.C. (c)	1999	100.00	**10,000,000**	10,000,000
Invita	Bahrain	B.S.C. (c)	2006	100.00	**1,000,000**	1,000,000
Global Payment Services (1)	Bahrain	W.L.L.	2005	70.00	**12,728**	12,728
The Benefit Company	Bahrain	B.S.C. (c)	1997	22.00	**6,843**	6,843
Naseej Company	Bahrain	B.S.C.	2009	15.15	**130,909,096**	130,909,096
Alosra Bank	Bahrain	B.S.C.	2009	10.00	**2,000,000**	2,000,000
Diyaar Al Harameen Al Ola Limited	Cayman Islands	W.L.L.	2011	35.00	**16,450,000**	16,450,000
BBK Geojit Securities K.S.C.	Kuwait	K.S.C.	2012	40.00	**2,000,000**	2,000,000
Invita – Kuwait (2)	Kuwait	K.S.C. (c)	2014	40.00	**400,000**	600,000
Aegila Capital Management Limited	United Kingdom	L.T.D.	2015	50.00	**2,800,000**	2,800,000
Bahrain Liquidity Fund	Bahrain	L.T.D.	2016	24.27	**9,046**	9,046
Magnum Partners Holding Limited	Jersey	L.T.D.	2018	49.96	**6,958,001**	6,958,001
Evoque Holdings Jersey Limited	Jersey	L.T.D.	2018	24.99	**6,082,500**	6,082,500
LSE Jersey Holdings Limited Partnership	Jersey	L.T.D.	2019	45.00	**1**	1
Invita Claims Management Company (2)	Bahrain	B.S.C. (c)	2017	70.00	**350,000**	350,000

(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

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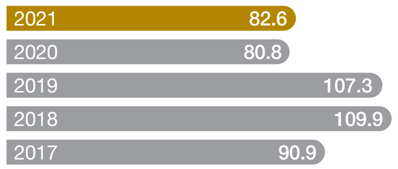
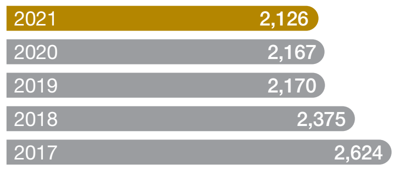
Net interest income
BD millions



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 1.4 percent and a return on average equity of 10.1 percent.

Overview
The COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. However, despite these events, the Group has demonstrated financial strength and operational resilience as evidenced by the Group's healthy financial results, robust liquidity position and strong capitalization, which will aid the future strategic development of the Group.

The Group managed to achieve a net profit, attributable to the owners of the Bank, of BD 53.1 million for the year ended 31 December 2021, representing an increase by 2.1 percent over 2020 results.

The key financial indicators of the Group remain strong with a return on average assets of 1.4 percent and a return on average equity of 10.1 percent. The basic and diluted earnings per share amounted to 36 fils compared to 35 fils during the previous year. The Group managed to maintain a comfortable liquidity position with its liquid assets to total assets at 32.6 percent by end of the year 2021 compared to 34.8 percent by end of the year 2020.

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 as modified by CBB, and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions law, the CBB rulebook 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.

Operating results
The net profit attributable to the owners of the Bank for 2021 increased by 2.1 percent from last year, amounting to BD 53.1 million. The total operating income (including share of results from associated companies and joint ventures) reported for the year decreased by BD 1.3 million or 1.1 percent (standing at BD 117.3 million), mainly due to the drop in net fees and commission income as a result of the impact of concessionary measures taken in response to COVID-19 to support the domestic business community and the impact of new regulatory caps on fees and charges. Furthermore, the decrease in investment and other income attributed to the overall decrease in total operating income.

BBK's continuous investment in boosting the management of credit risk, active management of distressed exposures and step-up in remedial efforts resulted in a significant reduction in net provision charges from BD 5.6 million during 2020 to BD 2.9 million during 2021, a decrease of 48.2 percent.

Net interest income
Net interest income increased by 2.2% percent to BD 82.6 million (2020: 80.8 million) due to active balance sheet management.

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

Total other income (including share of results from associated companies and joint ventures) reported for the year 2021 stood at BD 34.7 million compared to BD 37.8 million reported for the year 2020. Net fees and commission stood at BD 15.9 million, compared to BD 19.6 million reported last year. The drop is mainly due to the impact of concessionary measures taken in response to the pandemic and due to the new regulations on capping fees and charges. Other income relating to foreign exchange and investment income decreased from BD 18.3 million to BD 17.1 million during the year 2021. The Bank's share of profit from associated companies and joint ventures increased to BD 1.7 million compared to a loss of BD 0.1 million last year.

Summary of the consolidated statement of profit or loss

BD millions	2021	2020	Variance BD millions	Change percent
Net interest income	**82.6**	80.8	1.8	2.2%
Other income	**34.7**	37.8	(3.1)	-8.2%
Total income (Including share of result from associated companies and joint ventures)	**117.3**	118.6	(1.3)	-1.1%
Operating expenses	**(60.8)**	(60.7)	(0.1)	0.2%
Net Provisions	**(2.9)**	(5.6)	2.7	-48.2%
Profit before taxation	**53.6**	52.3	1.3	2.5%
Taxation and non-controlling interest	**(0.5)**	(0.3)	(0.2)	66.7%
Net profit attributable to owners of the Bank	**53.1**	52.0	1.1	2.1%

Operating expenses
Due to the continuous investment in human capital resources, technologies, implementation and achievement of various strategic initiatives, including digitalization and enhancing banking channels for better customer experience, the Group's operating expenses increased slightly by 0.2 percent, from BD 60.7 million to BD 60.8 million. Staff costs increased by 3.4 percent, while non-staff related costs decreased by 4.3 percent to reach BD 24.5 million (2020: BD 25.6 million). Nevertheless, the Bank's prudent cost control policy and strong revenue-generating capability enabled it to maintain a cost to income ratio of 51.8 percent (2020: 51.2 percent).

Net provisions
The Group follows the International Financial Reporting Standard 9 (IFRS 9) with regards to accounting for the impairment of financial assets. IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The Group applies a three-stage approach to measuring expected credit losses on financial assets carried at amortised cost and debt instruments classified as FVOCI (fair value through other comprehensive income). Assets migrate through three stages based on the significant change in credit risk since initial recognition. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the value of assets.

The net provision charges during 2021 amounted to BD 2.9 million, compared to BD 5.6 million in 2020. The decrease was due to active management of credit risk and distressed exposures and higher recovery efforts.

Comprehensive income
The Bank's total comprehensive income, attributable to the owners of the Bank, stood at BD 59.5 million for the year ended 31 December 2021, compared to BD 28.9 million for the year ended 31 December 2020. This is mainly due to the increase in valuation of investment securities as financial markets continued to recover from the shocks resulting from the COVID-19 outbreak last year.

Financial position
The Group maintained its strong financial position and comfortable liquidity.

As at end of 2021, the total assets of the group stood at BD 3,672.7 million (2020: BD 3,760.4 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 75.6 percent as of end of 2021 (2020: 71.8 percent).

Assets
Total assets stood at BD 3,672.7 million as at 31 December 2021, a decrease of 2.3 percent over BD 3,760.4 million recorded in the previous year. Net loans and advances increased by 3.3 percent to stand at BD 1,607.2 million (2020: BD 1,555.8 million), while the investment securities portfolio registered a healthy increase of 3.0 percent to stand at BD 985.8 million compared to BD 957.3 million as end of December 2020.

Liabilities
Customer deposits remained the main source of funding, representing 68.0 percent of total liabilities. The Group continued to grow its retail customer base, increasing its retail liabilities to BD 1,062.4 million (2020: BD 1,053.3 million), while the total customer deposits largely maintained its levels to stand at BD 2,125.6 million as of end of December 2021 (2020: BD 2,167.4 million). Borrowing under repurchase agreements and term borrowings remain integral parts of the bank's medium and stable funding sources, with the former standing at BD 383.2 million at the end of the year (2020: BD 399.2 million), and the latter standing at BD 245.1 million at the end of the year (2020: BD 188.5 million) as a result of the new term debt facility of USD 150 million during the fourth quarter of 2021.

Consolidated statement of financial position

BD millions	2021	2020	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**284.8**	256.5	28.3	11.0%
Treasury bills	**279.2**	487.8	(208.6)	-42.8%
Deposits and amounts due from banks and other financial institutions	**337.5**	318.9	18.6	5.8%
Loans and advances to customers	**1,607.2**	1,555.8	51.4	3.3%
Investment securities	**985.8**	957.3	28.5	3.0%
Interest receivable, derivative and other assets	**78.5**	83.1	(4.6)	-5.5%
Investments in associated companies and joint ventures	**65.0**	65.5	(0.5)	-0.8%
Premises and equipment	**34.7**	35.5	(0.8)	-2.3%
Total assets	**3,672.7**	3,760.4	(87.7)	-2.3%
Liabilities and Equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**254.9**	330.3	(75.4)	-22.8%
Borrowings under repurchase agreement	**383.2**	399.2	(16.0)	-4.0%
Term borrowings	**245.1**	188.5	56.6	30.0%
Customers' current, savings and other deposits	**2,125.6**	2,167.4	(41.8)	-1.9%
Interest payable, derivative and other liabilities	**118.7**	160.5	(41.8)	-26.0%
Total liabilities	**3,127.5**	3,245.9	(118.4)	-3.6%
Equity attributable to the owners of the Bank	**542.8**	511.8	31.0	6.1%
Non-controlling interests	**2.4**	2.7	(0.3)	-11.1%
Total equity	**545.2**	514.5	30.7	6.0%
Total liabilities and equity	**3,672.7**	3,760.4	(87.7)	-2.3%

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 542.8 million at the end of 2021 (2020: BD 511.8 million). The increase of 6.1 percent is mainly relating to the current year profit and improvement in the valuation of investment securities. The Group's capital adequacy ratio stood at 23.6 percent, compared to 21.8 percent at the end of the previous year, 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.

The strong and healthy results achieved by the Group reflects our solid business model, our unwavering commitment to support and continuously add value to our shareholders and our ability to adapt to the dynamic environment and the unprecedented challenges of the pandemic.

Independent auditor's report to the shareholders

Building a better working world

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 2021, 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Expected credit loss on loans and advances

Key audit matter	How the key audit matter was addressed in the audit
The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 – Financial Instruments ("IFRS 9") is a significant and complex area. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. The key areas of judgement applied by the management in the determination of the ECL include: • Determining whether the risk of default on a customer has increased significantly, specifically as a result of regulatory payment holidays due to COVID-19 provided by the Group; • Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables; and • The effects of COVID-19 pandemic impacting the management's determination of ECL as it required the application of a significant level of judgment and estimation uncertainty, which may materially change the estimates of ECL for Stage 1 and Stage 2 in future periods. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition to the impact of the COVID-19 pandemic and the Group's exposure to loans and advances, which account for 41% of the Group's total assets, the audit of ECL for loans and advances is a key area of focus.	Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. With the involvement of our internal specialists, our key audit procedures focused on the following: • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including approvals for any changes to the model, ongoing monitoring/validation, model governance and mathematical accuracy. We have also tested the completeness and accuracy of the data used in the measurement of the ECL. • We assessed and evaluated: - the Group's IFRS 9 based ECL policy including the Group's determination of the significant increase in credit risk and its' impact on the staging criteria with the requirements of IFRS 9 and regulatory guidelines issued in relation to COVID-19; - the basis of determination of the management overlays considering the impact of the COVID-19 pandemic against the requirements of the Group's ECL policy; and - the key management assumptions related to the determination of the future macroeconomic scenarios including forward-looking information and assigning probability weights.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS continued

Key audit matters continued

Expected credit loss on loans and advances continued

Key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2021, the Group's gross loans and advances amounted to BD 1,698.5 million and the related ECL amounted to BD 91.3 million, comprising BD 31.1 million of ECL against Stage 1 and 2 exposures and BD 60.2 million against exposures classified under Stage 3. Refer to the summary of significant accounting policies, estimates and judgments applied in the measurement of the ECL, disclosures of loans and advances and credit quality in notes 3, 7 and 33 to the consolidated financial statements.	• We reviewed a sample of credit files and performed procedures to assess: - timely identification of exposures with a significant increase in credit risk and evaluated the staging keeping in view the effects of COVID-19; - the process of collateral valuation; and - the ECL recalculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and advances as per the applicable financial reporting standards.

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

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

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

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

(c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 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
23 February 2022
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2021

	Notes	2021 BD millions	2020 BD millions
ASSETS			
Cash and balances with central banks	4	**284.8**	256.5
Treasury bills	5	**279.2**	487.8
Deposits and amounts due from banks and other financial institutions	6	**337.5**	318.9
Loans and advances to customers	7	**1,607.2**	1,555.8
Investment securities	8	**985.8**	957.3
Interest receivable, derivative and other assets	9	**78.5**	83.1
Investments in associated companies and joint ventures	10	**65.0**	65.5
Premises and equipment	11	**34.7**	35.5
TOTAL ASSETS		**3,672.7**	3,760.4
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**254.9**	330.3
Borrowings under repurchase agreement		**383.2**	399.2
Term borrowings	12	**245.1**	188.5
Customers' current, savings and other deposits	13	**2,125.6**	2,167.4
Interest payable, derivative and other liabilities	14	**118.7**	160.5
Total liabilities		**3,127.5**	3,245.9
Equity			
Share capital	15	**149.8**	136.2
Treasury stock	15	**(5.0)**	(5.2)
Share premium	15	**105.6**	105.6
Statutory reserve	15	**72.1**	66.8
General reserve	15	**64.2**	61.6
Cumulative changes in fair values	16	**(7.9)**	(11.4)
Foreign currency translation adjustments		**(12.2)**	(12.8)
Retained earnings		**129.3**	125.6
Proposed appropriations	17	**46.9**	45.4
Attributable to the owners of the Bank		**542.8**	511.8
Non-controlling interests		**2.4**	2.7
Total equity		**545.2**	514.5
TOTAL LIABILITIES AND EQUITY		**3,672.7**	3,760.4

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
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 2021

	Notes	2021 BD millions	2020 BD millions
Interest and similar income	18a	**118.4**	137.7
Interest and similar expense	18b	**(35.8)**	(56.9)
Net interest and similar income		**82.6**	80.8
Fee and commission income – net	19	**15.9**	19.6
Investment and other income	20	**17.1**	18.3
TOTAL OPERATING INCOME		**115.6**	118.7
Staff costs		**(36.3)**	(35.1)
Other operating expenses		**(24.5)**	(25.6)
TOTAL OPERATING EXPENSES		**(60.8)**	(60.7)
Net provisions and credit losses	21	**(2.9)**	(5.6)
NET OPERATING INCOME		**51.9**	52.4
Share of profit / (loss) from associated companies and joint ventures	10	**1.7**	(0.1)
PROFIT FOR THE YEAR BEFORE TAX		**53.6**	52.3
Tax (expense) / write-back	22	**(0.1)**	0.3
NET PROFIT FOR THE YEAR		**53.5**	52.6
Attributable to:			
Owners of the Bank		**53.1**	52.0
Non-controlling interests		**0.4**	0.6
		53.5	52.6
Basic and diluted earnings per share (BD)	23	**0.036**	0.035

Murad Ali Murad
Chairman

Abdulla bin Khalifa bin Salman Al-Khalifa
Deputy Chairman

Dr. AbdulRahman Saif
Group Chief Executive

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

Consolidated statement of other comprehensive income

For the year ended 31 December 2021

	Notes	2021 BD millions	2020 BD millions
Net profit for the year		**53.5**	52.6
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to profit or loss			
Net change in fair value of equity investments measured at fair value through other comprehensive income		**8.7**	0.8
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
Foreign currency translation adjustments		**0.6**	(0.6)
Movement in hedging reserve:			
Effective portion of changes in fair value	16	**0.5**	(0.7)
Movement in fair value reserve:			
Net change in fair value	16	**0.3**	(19.2)
Net amount transferred to profit or loss	16	**(3.7)**	(3.4)
Other comprehensive income/(loss) for the year		**6.4**	(23.1)
Total comprehensive income for the year		**59.9**	29.5
Attributable to:			
Owners of the Bank		**59.5**	28.9
Non-controlling interests		**0.4**	0.6
		59.9	29.5

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 2021

		Attributable to the owners of the Bank											
	Notes	Share capital BD millions	Treasury stock 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 interests BD millions	Total equity BD millions
Balance at 1 January 2020		129.7	(5.2)	105.6	61.6	54.1	11.2	(12.2)	144.6	54.5	543.9	3.1	547.0
Profit for the year		–	–	–	–	–	–	–	52.0	–	52.0	0.6	52.6
Other comprehensive loss		–	–	–	–	–	(22.6)	(0.6)	0.1	–	(23.1)	–	(23.1)
Total comprehensive income		–	–	–	–	–	(22.6)	(0.6)	52.1	–	28.9	0.6	29.5
Share-based payments	42	–	–	–	–	–	–	–	0.4	–	0.4	–	0.4
Modification loss net of government assistance	2.5	–	–	–	–	–	–	–	(20.9)	–	(20.9)	–	(20.9)
Dividends paid	17	–	–	–	–	–	–	–	–	(38.5)	(38.5)	(0.1)	(38.6)
Stock dividends	17	6.5	–	–	–	–	–	–	–	(6.5)	–	–	–
Donations	17	–	–	–	–	–	–	–	–	(2.0)	(2.0)	–	(2.0)
Transfer to statutory reserve	15	–	–	–	5.2	–	–	–	(5.2)	–	–	–	–
Transfer to general reserve	15	–	–	–	–	7.5	–	–	–	(7.5)	–	–	–
Movement in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(0.9)	(0.9)
Proposed appropriations	17	–	–	–	–	–	–	–	(45.4)	45.4	–	–	–
Balance at 31 December 2020		136.2	(5.2)	105.6	66.8	61.6	(11.4)	(12.8)	125.6	45.4	511.8	2.7	514.5
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53.1**	**–**	**53.1**	**0.4**	**53.5**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**3.5**	**0.6**	**2.3**	**–**	**6.4**	**–**	**6.4**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**3.5**	**0.6**	**55.4**	**–**	**59.5**	**0.4**	**59.9**
Share-based payments	42	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**	**–**	**0.5**
Dividends paid	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27.0)**	**(27.0)**	**0.2**	**(26.8)**
Stock dividends	17	**13.6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13.6)**	**–**	**–**	**–**
Donations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**	**–**	**(2.2)**
Movement in treasury stock	15	**–**	**0.2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Transfer to statutory reserve	15	**–**	**–**	**–**	**5.3**	**–**	**–**	**–**	**(5.3)**	**–**	**–**	**–**	**–**
Transfer to general reserve	15	**–**	**–**	**–**	**–**	**2.6**	**–**	**–**	**–**	**(2.6)**	**–**	**–**	**–**
Movement in non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.9)**	**(0.9)**
Proposed appropriations	17	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(46.9)**	**46.9**	**–**	**–**	**–**
Balance at 31 December 2021		**149.8**	**(5.0)**	**105.6**	**72.1**	**64.2**	**(7.9)**	**(12.2)**	**129.3**	**46.9**	**542.8**	**2.4**	**545.2**

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

Consolidated statement of cash flows

For the year ended 31 December 2021

	Notes	2021 BD millions	2020 BD millions
OPERATING ACTIVITIES			
Profit for the year before tax		**53.6**	52.3
Adjustments for non-cash items:			
Depreciation	11	**7.0**	7.1
Net provisions and credit losses	21	**2.9**	5.6
Share of (profit)/loss from associated companies and joint ventures	10	**(1.7)**	0.1
Investment (income)/loss		**(1.0)**	0.2
Realised gains on sale of investment securities	20	**(3.6)**	(3.5)
Accrual on term borrowings		**10.4**	12.9
Operating profit before changes in operating assets and liabilities		**67.6**	74.7
(Increase)/decrease in operating assets			
Mandatory reserve deposits with central banks		**(2.5)**	37.5
Treasury bills having original maturity of ninety days or more		**208.6**	(3.4)
Deposits and amounts due from banks and other financial institutions		**5.0**	22.6
Loans and advances to customers		**(54.0)**	92.1
Interest receivable, derivative and other assets		**5.0**	(7.4)
Increase/(decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**(75.4)**	(32.8)
Borrowings under repurchase agreements		**(16.0)**	85.8
Customers' current, savings and other deposits		**(41.8)**	(2.1)
Interest payable, derivative and other liabilities		**(52.2)**	3.0
Income tax paid		**(0.1)**	(0.1)
Net cash flows from operating activities		**44.2**	269.9
INVESTING ACTIVITIES			
Purchase of investment securities		**(370.5)**	(538.2)
Proceeds from redemption/sale of investment securities		**350.3**	437.6
Net investment in associated companies and joint ventures	10	**0.4**	3.0
Dividends received from associated companies and joint ventures	10	**1.0**	3.1
Purchase of premises and equipment		**(6.2)**	(7.5)
Net cash flows used in investing activities		**(25.0)**	(102.0)
FINANCING ACTIVITIES			
Payment of dividends and other appropriations	17	**(29.2)**	(40.5)
Repayment of term borrowings	12	**–**	(144.5)
Additional term borrowings	12	**56.6**	–
Movement in treasury stock	15	**0.2**	–
Movement in share-based payments	42	**0.5**	0.4
Net cash flows from/(used in) financing activities		**28.1**	(184.6)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**47.3**	(16.7)
Foreign currency translation adjustments – net		**1.9**	(2.4)
Cash and cash equivalents at beginning of the year		**517.7**	536.8
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**566.9**	517.7
Additional cash flow information:			
Interest received		**118.7**	138.3
Interest paid		**31.5**	65.7

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

Notes to the consolidated financial statements

31 December 2021

1 ACTIVITIES

Bank of Bahrain and Kuwait B.S.C. ("BBK" 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 ("MOICT") under Commercial Registration ("CR") number 1234 dated 16 March 1971. The Bank operates in the Kingdom of Bahrain under a conventional retail banking license under Volume 1 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. It also engages in 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 23 February 2022.

2 BASIS OF PREPARATION

2.1 Framework and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the CBB, including CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, required the adoption of all International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, directly in equity instead of profit or loss as required by IFRS 9 – Financial Instruments ("IFRS 9"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and

(b) recognition of financial assistance received from the government and/or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20").

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as "IFRS as modified by CBB".

For the purpose of these consolidated financial statements, the financial information of the Bank's subsidiaries has been adjusted to align with the above framework.

2.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS as modified by the CBB and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book 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.

2.3 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at Fair Value Through Other Comprehensive Income (FVTOCI), trading investments and financial assets designated at Fair Value Through Profit and Loss (FVTPL), 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 (BD), which is also the functional and presentation currency of the Group. Furthermore, all values are rounded-off to the nearest millions, unless where otherwise indicated.

2.4 Basis of consolidation

The 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:

Held directly by the Bank	Ownership 2021	2020	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

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

Held indirectly by the Bank	Effective ownership 2021	2020	Subsidiary held through	Country of incorporation	Activity
Global Payment Services W.L.L.	**70%**	70%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Cards processing and backup services
Invita Kuwait K.S.C.C.	**40%**	60%	Invita Company B.S.C. (c)	State of Kuwait	Business processing and outsourcing services
Invita Claims Management Company B.S.C.	**70%**	70%	Invita Company B.S.C. (c)	Kingdom of Bahrain	Third party administrators services

* Effective 1 January 2021, the Group divested 20% shareholding in its subsidiary, Invita Kuwait K.S.C.C. thereby reducing its holding to 40%. Refer note 10.

During 2020, the Bank and Ithmaar Holding B.S.C. ("Ithmaar Holding") executed a memorandum of understanding to streamline the formal process of the potential acquisition by the Bank of certain assets belonging, directly or indirectly, to Ithmaar Holding. Phase one of the due diligence started in January 2021, and was completed by June 2021. Subsequently, the two parties engaged in negotiations for determining the assets to be acquired and the terms of acquisition. After considerate thought, the Bank and Ithmaar Holding decided to halt further negotiations. Although both parties were interested in finalising this promising transaction, they could not agree on terms favorable to both institutions to continue with negotiations.

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.

2 BASIS OF PREPARATION continued

2.4 Basis of consolidation continued

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.

2.5 Accounting for modified financing assets and government grants

During the year ended 31 December 2020, based on a regulatory directive issued by the CBB (refer note 2.1) as concessionary measures to mitigate the impact of COVID-19, and similar directive issued by the Central Bank of Kuwait, the one-off modification losses amounting to BD 24.5 million arising from the 6-month payment holidays provided to financing customers without charging additional interest had been recognised directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the carrying value of the financial assets as of the date of modification. The Group provided payment holidays on financing exposures amounting to BD 789.8 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD 3.6 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the governments and/or regulators during the year ended 31 December 2020, in response to its COVID-19 support measures, had been recognised directly in equity.

The net debit of above two adjustments amounting to BD 20.9 million to the Group's consolidated statement of changes in equity includes one-off modification losses of BD 3.5 million and financial assistance from government amounting to BD 0.4 million, as a result of equity accounting of the Group's investment in an associated company.

3 ACCOUNTING POLICIES

3.1 Standards and amendments effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new standards and amendments, which are effective for annual periods beginning on or after 1 January 2021:

(a) Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some Interbank Offered Rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be reformed as part of this market-wide initiative. The Group is in the process of amending or preparing to amend contractual terms in response to IBOR reform. The Group anticipates that IBOR reform will have significant operational, risk management and accounting impacts across all of its business lines.

IBORs, such as the London Interbank Offered Rate ("LIBOR"), used to play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative Risk-Free Benchmark Reference Rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

Interest Rate Benchmark Reform – Phase 2 amendments have become effective from 1 January 2021, which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting. The Group has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2), which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition, it provides certain exceptions to hedge accounting requirements.

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

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. Refer to note 36 for further details.

(b) Amendments to IFRS 16 COVID-19 Related Rent Concessions beyond 30 June 2020

On 28 May 2020, the IASB issued COVID-19 Related Rent Concessions – amendment to IFRS 16 Leases (IFRS 16). The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

3.2 New and amended standards and interpretations issued but not yet effective

New and amended 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.

(a) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group expects that the new standard will result in changes to the accounting policies for insurance contract liabilities of the Group and is likely to have an impact on the consolidated financial performance and total equity together with presentation and disclosure. Such assessment is still being made by management.

(b) Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

(c) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

(d) Amendments to IAS 37 – Onerous Contracts: – Cost of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

(e) Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of Property, Plant and Equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

(f) Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) or IFRIC 21 Levies (IFRIC 21), if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

(g) Annual improvements 2018-2020 cycle

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter;
- IFRS 9 Financial Instruments – Fees in the '10 percent' Test for Derecognition of Financial Liabilities;
- IAS 41 Agriculture – Taxation in Fair Value Measurements; and
- Illustrative Examples accompanying IFRS 16 Leases – Lease Incentives.

These improvements are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of initial application.

3 ACCOUNTING POLICIES continued

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 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, FVTOCI 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 FVTOCI 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 FVTOCI 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.

Derecognition of financial instruments in the context of IBOR reform

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2022 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 3.3 (ad), to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

(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.

(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 FVTOCI; and
- Equity investment securities designated as at FVTOCI.

For debt securities measured at FVTOCI, 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) allowances and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVTOCI 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.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(g) Measurement of ECL continued

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.

Refer to note 33 for further details.

(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 FVTOCI 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. 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 FVTOCI, 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.

(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. The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Properties and buildings	4 to 35 years
- Furniture and equipment	3 to 5 years
- Motor vehicles	4 years

(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.

(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 or similar 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) 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.

(y) 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 'interest payable, derivative and 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.

(z) 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 'interest receivable, derivative and other assets' and derivatives with negative market values are included in 'interest payable, derivative and 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.

(aa) 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.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(aa) Hedge accounting continued

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.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

(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.

IBOR reform phase 1 and 2 impact on hedge accounting

The Group applies temporary reliefs to hedging relationships directly affected by IBOR reform during the year before the replacement of an existing interest rate benchmark with an ARR. A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reform phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform.

The Group has adopted IBOR reform phase 2 on its effective date for 1 January 2021. IBOR reform phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an ARR. The reliefs require the Group to amend the hedge designations and hedge documentation and are set out in note 3.1 (a)

Under one of the reliefs under IBOR reform phase 2, the Group may elect for individual ARRs designated as hedging the fair value or cash flows of the hedged item for changes due to a non-contractually specified component of interest rate risk, to be deemed as meeting the IFRS 9 requirement to be separately identifiable. For each ARR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments that reference the ARR and are priced using the ARR will increase during the 24- month period with the result that the hedged ARR risk component will become separately identifiable in the change in fair value or cash flows of the hedged item.

(ab) 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.

(ac) 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.

(ad) 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 ninety days or more). 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.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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.

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The fee and commission linked to performance obligation include fees earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

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.

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

(ae) 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.

(af) 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. These cash and cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

(ag) Leases – Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(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 consolidated statement of financial position.

3 ACCOUNTING POLICIES continued

3.3 Summary of significant accounting policies continued

(ag) Leases – Group as a lessee continued

(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 consolidated statement of financial position.

(ah) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. Refer to note 2.1 and 2.5 for additional details.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

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 were as follows:

(i) 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, the consolidated financial statements continue to be prepared on a going concern basis.

(ii) 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.

(iii) 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 liquidity requirements in the current market conditions; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

(iv) Measurement of ECL

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.

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 best case, base case and worst 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.

Refer to note 33.3 for further details.

(v) Impact of COVID-19

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In addition, the Group's operations are mainly based in economies that are relatively more dependent on the price of crude oil and natural gas.

Central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase programme besides infusing significant liquidity into the economy.

As a regulatory response to the outbreak of the coronavirus pandemic, the CBB has issued various relaxation measures from time-to- time to contain the financial repercussions of COVID-19. These mainly include, several deferral programs for eligible customers both with and without interest, reduced limits of Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio (NSFR) for all locally incorporated banks, cash reserve ratio for retail banks, cap on merchant fees, adjustments to cooling-off period for transferring exposures from Stage 3 to Stage 2, relaxation concerning days past due for ECL staging criteria, and relaxation on Loan-to-value ("LTV") ratio for residential mortgages.

In preparing the consolidated financial statements, significant judgments were made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The COVID-19 pandemic significantly impacted the Group's determination of allowance for credit losses and required the application of heightened judgment. Measures to contain the COVID-19 pandemic have sharply curtailed economic activity in many countries, resulting in unprecedented declines in GDP and a substantial increase in unemployment starting in the spring of 2020. Significant fiscal and monetary policy stimulus, as well as bank-led deferral programs have generally supported lower defaults during the year. However, a resurgence of virus spread and re-imposition of containment measures to varying degrees in some regions, along with the tapering off of certain elements of fiscal support, has raised further uncertainty with regards to the timing and extent of recovery. As there is uncertainty as to how containment and support measures will evolve and the inputs used are inherently subject to change, which may materially change the Group's estimate of Stage 1 and Stage 2 allowance for credit losses in future periods.

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.

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 judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") 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.

Refer to note 33.3 for further details.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2021 BD millions	2020 BD millions
Cash in hand and vaults	**23.4**	20.3
Current accounts and placements with central banks	**207.4**	184.7
Mandatory reserve deposits with central banks	**54.0**	51.5
	284.8	256.5

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 amounting to BD 279.2 million (31 December 2020: BD 487.8 million). At 31 December 2021, treasury bills issued by Government of the Kingdom of Bahrain includes short-term Islamic Sukuk amounting to BD 9.3 million (31 December 2020: BD 41.2 million).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021 BD millions	2020 BD millions
Deposits with banks and other financial institutions	**264.9**	187.9
Nostro and other amounts due from banks	**72.8**	131.2
Less: Expected credit losses	**(0.2)**	(0.2)
	337.5	318.9

7 LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2021	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit impaired	Total
At amortised cost:				
Commercial loans and overdrafts	**673.2**	**274.4**	**79.5**	**1,027.1**
Consumer loans	**651.7**	**10.7**	**9.0**	**671.4**
	1,324.9	**285.1**	**88.5**	**1,698.5**
Less: Expected credit losses	**(4.7)**	**(26.4)**	**(60.2)**	**(91.3)**
	1,320.2	**258.7**	**28.3**	**1,607.2**

At 31 December 2020	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit impaired	Total
At amortised cost:				
Commercial loans and overdrafts	639.1	301.2	94.0	1,034.3
Consumer loans	592.0	12.5	9.4	613.9
	1,231.1	313.7	103.4	1,648.2
Less: Expected credit losses	(6.3)	(22.8)	(63.3)	(92.4)
	1,224.8	290.9	40.1	1,555.8

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

2021	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	**69.8**	**11.1**	**4.3**	**85.2**
Consumer loans	**15.0**	**2.5**	**11.2**	**28.7**
	84.8	**13.6**	**15.5**	**113.9**

2020	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	9.4	–	0.4	9.8
Consumer loans	14.3	4.6	12.8	31.7
	23.7	4.6	13.2	41.5

None of the above past due loans are considered to be credit impaired.

7 LOANS AND ADVANCES TO CUSTOMERS continued

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

	2021 BD millions	2020 BD millions
Geographic region:		
Gulf Co-operation Council countries	**1,412.8**	1,373.8
Asia	**99.1**	97.3
Europe	**69.8**	32.4
Others	**25.5**	52.3
	1,607.2	1,555.8

	2021 BD millions	2020 BD millions
Industry sector:		
Individuals	**588.6**	530.5
Trading and manufacturing	**489.9**	477.5
Construction and real estate	**281.0**	266.7
Banks and other financial institutions	**117.5**	140.9
Government and public sector	**7.3**	14.9
Others	**122.9**	125.3
	1,607.2	1,555.8

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

(i) Commercial loans and overdrafts

2021	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
Balance at 1 January	**2.9**	**21.3**	**56.2**	**80.4**
Transferred to 12 month ECL	**1.7**	**(1.7)**	**–**	**–**
Transferred to lifetime ECL not credit-impaired	**(3.0)**	**3.2**	**(0.2)**	**–**
Transferred to lifetime ECL credit-impaired	**–**	**(0.1)**	**0.1**	**–**
Net remeasurement of loss allowance	**1.6**	**1.2**	**2.8**	**5.6**
Amounts written off during the year	**–**	**–**	**(6.9)**	**(6.9)**
Re-allocated during the year	**–**	**–**	**(0.7)**	**(0.7)**
Foreign exchange and other movements	**0.5**	**(0.4)**	**1.5**	**1.6**
Balance at 31 December	**3.7**	**23.5**	**52.8**	**80.0**
2020				
Balance at 1 January	3.2	19.0	69.0	91.2
Transferred to 12 month ECL	0.8	(0.8)	–	–
Transferred to lifetime ECL not credit-impaired	(1.2)	1.2	–	–
Transferred to lifetime ECL credit-impaired	–	(1.1)	1.1	–
Net remeasurement of loss allowance	0.6	1.4	5.8	7.8
Amounts written-off during the year	–	–	(17.5)	(17.5)
Foreign exchange and other movements	(0.5)	1.6	(2.2)	(1.1)
Balance at 31 December	2.9	21.3	56.2	80.4

(ii) Consumer loans

2021	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
Balance at 1 January	**3.4**	**1.5**	**7.1**	**12.0**
Transferred to 12 month ECL	**0.4**	**(0.4)**	**–**	**–**
Transferred to lifetime ECL not credit-impaired	**–**	**0.1**	**(0.1)**	**–**
Transferred to lifetime ECL credit-impaired	**(0.2)**	**(0.4)**	**0.6**	**–**
Net remeasurement of loss allowance	**(2.6)**	**2.1**	**0.6**	**0.1**
Amounts written off during the year	**–**	**–**	**(1.5)**	**(1.5)**
Re-allocated during the year	**–**	**–**	**0.7**	**0.7**
Balance at 31 December	**1.0**	**2.9**	**7.4**	**11.3**
2020				
Balance at 1 January	1.7	2.6	7.8	12.1
Transferred to 12 month ECL	0.6	(0.6)	–	–
Transferred to lifetime ECL credit-impaired	–	(0.2)	0.2	–
Net remeasurement of loss allowance	1.1	(0.3)	1.1	1.9
Amounts written-off during the year	–	–	(2.0)	(2.0)
Balance at 31 December	3.4	1.5	7.1	12.0

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be credit impaired at 31 December 2021 amounts to BD 50.2 million (31 December 2020: BD 71.8 million).

At 31 December 2021, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 77.7 million (31 December 2020: BD 89.4 million). These mainly consists of Murabaha and Ijarah financing facilities.

At 31 December 2021, interest in suspense for past due loans that are credit impaired was BD 28.5 million (31 December 2020: BD 24.1 million).

The contractual amount outstanding on financial assets that have been written-off by the Group as at 31 December 2021 and that were still subject to enforcement activity was BD 90.8 million (2020: BD 91.6 million).

A reconciliation of changes in gross carrying amount by stage is as follows:

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
1 January 2021	**1,231.1**	**313.7**	**103.4**	**1,648.2**
New assets originated	**480.7**	**43.3**	**–**	**524.0**
Payments and assets derecognised	**(392.5)**	**(64.0)**	**(1.7)**	**(458.2)**
Transfers to Stage 1	**50.9**	**(44.9)**	**(6.0)**	**–**
Transfers to Stage 2	**(36.1)**	**36.9**	**(0.8)**	**–**
Transfers to Stage 3	**(0.9)**	**(1.1)**	**2.0**	**–**
Amounts written-off during the year	**–**	**–**	**(8.4)**	**(8.4)**
Foreign exchange adjustments	**(8.3)**	**1.2**	**–**	**(7.1)**
At 31 December 2021	**1,324.9**	**285.1**	**88.5**	**1,698.5**

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
1 January 2020	1,367.1	302.8	104.3	1,774.2
New assets originated	471.8	122.4	–	594.2
Payments and assets derecognised	(597.5)	(103.4)	(1.5)	(702.4)
Transfers to Stage 1	36.2	(36.0)	(0.2)	–
Transfers to Stage 2	(33.0)	33.5	(0.5)	–
Transfers to Stage 3	(6.9)	(9.5)	16.4	–
Amounts written-off during the year	–	–	(15.7)	(15.7)
Foreign exchange adjustments	(6.6)	3.9	0.6	(2.1)
At 31 December 2020	1,231.1	313.7	103.4	1,648.2

8 INVESTMENT SECURITIES

31 December 2021	FVTPL BD millions	FVTOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	**–**	**389.9**	**36.4**	**426.3**
Other bonds	**–**	**286.3**	**–**	**286.3**
Equities	**–**	**45.5**	**–**	**45.5**
	–	**721.7**	**36.4**	**758.1**
Unquoted investments:				
Government bonds	**–**	**–**	**192.0**	**192.0**
Other bonds	**–**	**7.1**	**–**	**7.1**
Equities	**–**	**27.9**	**–**	**27.9**
Managed funds	**1.3**	**–**	**–**	**1.3**
	1.3	**35.0**	**192.0**	**228.3**
	1.3	**756.7**	**228.4**	**986.4**
Less: Expected credit losses	**–**	**(0.6)**	**–**	**(0.6)**
	1.3	**756.1**	**228.4**	**985.8**

31 December 2020	FVTPL BD millions	FVTOCI * BD millions	Amortised cost BD millions	Total BD millions
Quoted investments:				
Government bonds	–	375.1	14.4	389.5
Other bonds	–	350.9	–	350.9
Equities	–	43.3	–	43.3
	–	769.3	14.4	783.7
Unquoted investments:				
Government bonds	–	–	146.6	146.6
Equities	–	27.0	–	27.0
Managed funds	0.7	–	–	0.7
	0.7	27.0	146.6	174.3
	0.7	796.3	161.0	958.0
Less: Expected credit losses	–	(0.7)	–	(0.7)
	0.7	795.6	161.0	957.3

* At 31 December 2021, investment securities include government and other bonds of BD 480.5 million (31 December 2020: BD 534.4 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2021, investment securities include long-term Islamic Sukuk amounting to BD 84.2 million (31 December 2020: BD 94.7 million) and Islamic equity amounting to Nil (31 December 2020: BD 1.2 million).

Movements in allowances for ECL on investment securities (government and other bonds at FVTOCI or amortised cost) were as follows:

	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
2021				
Balance at 1 January	**0.2**	**0.5**	**–**	**0.7**
Net remeasurement of loss allowance	**0.1**	**(0.2)**	**–**	**(0.1)**
Balance at 31 December	**0.3**	**0.3**	**–**	**0.6**
2020				
Balance at 1 January	0.2	0.3	–	0.5
Net remeasurement of loss allowance	–	0.2	–	0.2
Balance at 31 December	0.2	0.5	–	0.7

The loss allowance of the FVTOCI is not recognised in the consolidated statement of financial position because the carrying amount of debt investment securities at FVTOCI is at their fair value.

* This includes ECL on government and other bonds measured at amortised cost of BD 0.005 million (31 December 2020: BD 0.005 million).

9 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2021 BD millions	2020 BD millions
Interest receivable	**18.8**	19.1
Accounts receivable*	**24.8**	29.7
Collateral pending sale**	**15.0**	12.6
Prepaid expenses	**2.3**	2.3
Deferred tax asset (note 22)	**1.4**	1.6
Positive fair value of derivatives (note 28)	**3.8**	2.7
Other assets	**12.4**	15.1
	78.5	83.1

* This includes a fully provided receivable balance of BD 6.2 million (2020: BD 6.2 million) pertaining to payment made by the Group on an invoked financial guarantee.

** During the year ended 31 December 2021, an impairment charge of BD 0.4 million (2020: BD Nil) was recorded against collateral pending sale, which were acquired on settlement of loans and advances. Refer note 21.

10 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2020: 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 22.00% (2020: 22.00%) 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 40.00% (2020: 40.00%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2020: 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 50.00% (2020: 50.00%) 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% (2020: 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% (2020: 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 45.00% (2020: 45.00%) 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.

The Group has a 40.00% (2020: 60.00%) stake in Invita Kuwait K.S.C.C., incorporated in Kuwait and engaged in business processing and outsourcing services. Refer to note 2.4.

	2021 BD millions	2020 BD millions
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**65.5**	70.6
Additional contribution and acquisitions	**–**	0.1
Share of profit / (loss) for the year	**1.7**	(0.1)
Dividends received	**(1.0)**	(3.1)
Change in unrealised fair values – associated companies (note 16)	**0.5**	(0.7)
Foreign currency translation adjustments	**(0.8)**	1.8
Capital distribution	**(0.9)**	–
Other equity movements	**–**	(3.1)
At 31 December	**65.0**	65.5

The following table illustrates the summarised most recent available financial information of the Group's interest in its non-material associated companies and joint ventures:

	2021 BD millions	2020 BD millions
Financial position related information		
Total assets	**75.8**	76.0
Total liabilities	**49.0**	48.7
Profit or loss related information		
Revenue	**7.1**	3.7
Net profit / (loss) for the year	**1.8**	(1.3)
Total comprehensive income / (loss) for the year	**1.8**	(2.5)

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 summarised financial information of the Group's investment in BCFC:

	2021 BD millions	2020 BD millions
Net interest income	**20.0**	24.6
Gross profit on automotive sales	**5.9**	4.3
Other operating income	**8.0**	7.5
Total operating income	**33.9**	36.4
Operating expenses	**(17.7)**	(19.1)
Other operating expenses	**(12.0)**	(13.2)
Adjusted profit for the year	**4.2**	4.1
Group's share of adjusted profit for the year	**1.0**	0.9

	2021 BD millions	2020 BD millions
Assets		
Cash and balances with banks	**33.7**	9.2
Loans and advances to customers	**235.0**	286.6
Inventories	**14.6**	22.5
Other assets	**44.4**	50.5
Total assets	**327.7**	368.8
Liabilities		
Trade and other payables	**20.6**	25.2
Bank term loans	**175.0**	209.6
Total liabilities	**195.6**	234.8
Donation reserve	**(0.3)**	(0.5)
Adjusted equity	**131.8**	133.5
Proportion of the Group's ownership	**23.03%**	23.03%
Group's share of adjusted equity	**30.4**	30.7

The figures reported above for BCFC are based on 30 September 2021 reviewed financial statements adjusted for expected performance for the last quarter ended 31 December 2021 (31 December 2020: same).

The market value of the Bank's investment in BCFC based on the price quoted in the Bahrain Bourse at 31 December 2021 was BD 23.3 million (31 December 2020: BD 24.0 million).

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
Cost	**8.8**	**29.7**	**57.8**	**11.5**	**0.1**	**107.9**
Less: Accumulated depreciation	**–**	**(19.6)**	**(48.0)**	**(5.6)**	**–**	**(73.2)**
Net book value at 31 December 2021	**8.8**	**10.1**	**9.8**	**5.9**	**0.1**	**34.7**

	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
Cost	8.8	28.7	54.4	11.1	0.2	103.2
Less: Accumulated depreciation	–	(18.2)	(44.9)	(4.6)	–	(67.7)
Net book value at 31 December 2020	8.8	10.5	9.5	6.5	0.2	35.5

The depreciation charge for the year amounted to BD 7.0 million (2020: BD 7.1 million).

12 TERM BORROWINGS

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

		Carrying amount	
Rate of interest	*Maturity*	2021 BD millions	2020 BD millions
5.50%	2024	**188.5**	188.5
1.87% (floating)	2023	**56.6**	–
		245.1	188.5

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2021 BD millions	2020 BD millions
Term deposits	**653.8**	719.7
Savings accounts	**809.6**	784.5
Current accounts	**540.6**	568.9
Other deposit accounts	**121.6**	94.3
	2,125.6	2,167.4

14 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2021 BD millions	2020 BD millions
Interest payable	**19.5**	15.2
Accrued expenses	**29.9**	38.4
Negative fair value of derivatives (note 28)	**28.6**	57.9
Accounts payable	**27.1**	31.7
Lease liability	**6.1**	6.5
ECL on financial contracts and commitments (note 29)	**3.9**	4.1
Other liabilities	**3.6**	6.7
	118.7	160.5

15 EQUITY

(i) Share capital

	2021 BD millions	2020 BD millions
Authorised		
1,500,000,000 shares (2020: 1,500,000,000 shares) of BD 0.100 each	**150.0**	150.0
Issued and fully paid		
1,497,909,965 shares (2020: 1,361,736,332 shares) of BD 0.100 each	**149.8**	136.2

Movement of ordinary share capital was as follows:

	Number of shares	
	2021	2020
Shares at 1 January	**1,361,736,332**	1,296,891,745
Add: Issuance of stock dividend	**136,173,633**	64,844,587
Shares at 31 December	**1,497,909,965**	1,361,736,332

(ii) Treasury stock

Treasury stock represents the Bank's purchase of its own shares. At the end of the year, the Bank held 12,174,813 (2020: 12,073,869) of its own shares.

	2021 BD millions	2020 BD millions
Consideration paid	**(5.0)**	(5.2)

(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.

(iv) Employee Performance Share Plan

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

(v) Unclaimed dividends

Following a regulatory directive issued by Bahrain Bourse per resolution no (3) of 2020, all the unclaimed dividends were transferred to a designated Bahrain Clear account held with CBB. Prior to this directive and as per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years were transferred to equity, however were available to the respective shareholders for any future claims. During the year, no amount was transferred to equity as unclaimed dividends (2020: same). The Group paid BD 0.022 million (2020: BD 0.221 million) to its shareholders from the reserve account in the equity.

(vi) 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 5.3 million to statutory reserve (2020: BD 5.2 million). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(vii) 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. During the year, the Bank transferred BD 2.6 million to general reserve (2020: BD 7.5 million). 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

	2021 BD millions	2020 BD millions
Fair value through other comprehensive income		
At 1 January	**(10.2)**	11.7
Transferred to retained earnings on sale/write-off of equity securities	**(2.3)**	(0.1)
Transferred to profit or loss on sale of investment securities (debt)	**(3.6)**	(3.6)
Transferred to profit or loss on impairment (debt)	**(0.1)**	0.2
Fair value changes on investment securities carried at FVTOCI	**9.0**	(18.4)
At 31 December	**(7.2)**	(10.2)
Cash flow hedges		
At 1 January	**(1.2)**	(0.5)
Change in unrealised fair values – associated companies (note 10)	**0.5**	(0.7)
At 31 December	**(0.7)**	(1.2)
	(7.9)	(11.4)

17 PROPOSED APPROPRIATIONS

	2021 BD millions	2020 BD millions
Cash dividend	**29.7**	27.0
Stock dividend	**15.0**	13.6
Transfer to general reserve [note 15 (vii)]	**–**	2.6
Donations	**2.2**	2.2
	46.9	45.4

17 PROPOSED APPROPRIATIONS continued

The Board of Directors proposed cash dividend of BD 0.020 per share, net of treasury stock as of 31 December 2021 and a stock dividend of BD 0.010 per share (2020: cash dividends of BD 0.020 per share, net of treasury stock as of 31 December 2020 and a stock dividend of BD 0.010 per share). Further, a transfer of 0% (2020: 5%) of the Group's annual profit to general reserve amounting to BD Nil (2020: BD 2.6 million) was proposed by the Board of Directors.

During the year, the Bank paid cash dividend of BD 0.020 per share, net of treasury stock and a stock dividend of BD 0.010 per share pertaining to 2020 (2020: BD 0.030 per share, net of treasury stock and a stock dividend of BD 0.005 per share pertaining to 2019).

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

	2021 BD millions	2020 BD millions
(a) Interest and similar income		
At amortised cost:		
Loans and advances to customers	**75.6**	84.4
Investment securities	**5.5**	3.6
Treasury bills	**7.5**	13.1
Deposits and amounts due from banks and other financial institutions	**4.0**	8.2
At FVTOCI:		
Investment securities	**25.8**	28.4
	118.4	137.7
(b) Interest and similar expense		
On financial liabilities carried at amortised cost:		
Deposits and amounts due to banks and other financial institutions	**(18.3)**	(26.1)
Customers' deposits	**(17.5)**	(30.8)
	(35.8)	(56.9)
Net interest and similar income	**82.6**	80.8

19 FEE AND COMMISSION INCOME – NET

	2021 BD millions	2020 BD millions
Fee and commission income	**38.5**	35.8
Fee and commission expense	**(22.6)**	(16.2)
	15.9	19.6

Included in fee and commission income is a loss of BD 0.04 million (2020: gain of BD 0.03 million) relating to trust and other fiduciary activities.

20 INVESTMENT AND OTHER INCOME

	2021 BD millions	2020 BD millions
Dividend income	**2.6**	2.6
Gain on foreign exchange	**6.5**	5.3
Realised gains on investment securities	**3.6**	3.5
Income from commercial activities *	**4.1**	5.3
Other income	**0.3**	1.6
	17.1	18.3

* This represents income arising from non-financial business process outsourcing services provided by a Bank's subsidiary.

21 NET PROVISIONS AND CREDIT LOSSES

	2021 BD millions	2020 BD millions
Loans and advances to customers (note 7)	**5.6**	9.7
Recoveries from fully provided loans and advances written-off in previous years	**(2.8)**	(1.7)
Investment securities (note 8)	**(0.1)**	0.2
Off-balance sheet exposures	**(0.2)**	(2.6)
Collateral pending sale	**0.4**	–
	2.9	5.6

22 TAXATION

	2021 BD millions	2020 BD millions
Consolidated statement of financial position		
Deferred tax asset (note 9)	**1.4**	1.6
Consolidated statement of profit or loss		
Deferred tax (expense)/write-back on foreign operations	**(0.1)**	0.3

Current tax is measured at the amount expected to be paid in respect of taxable income of the Group's operations in India for the year, in accordance with the Income Tax Act, 1961 enacted by Parliament of India. 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 2021 is 43.68 % (2020: 43.68%).

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted 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.

	2021	2020
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	**53.1**	52.0
Adjusted net profit for the year attributable to the owners of the Bank	**53.1**	52.0
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,485,527,406**	1,486,125,600
Basic and diluted earnings per share (BD)	**0.036**	0.035

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 and treasury 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
Other activities 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.

Segment information for the year ended 31 December 2021 was as follows:

	Retail banking	Corporate banking	International banking	Investment and treasury activities	Other activities	Total
Interest income	**34.7**	**27.1**	**17.7**	**38.9**	**–**	**118.4**
Interest expense	**(3.6)**	**(4.6)**	**(9.7)**	**(17.9)**	**–**	**(35.8)**
Internal fund transfer price	**(3.2)**	**(4.0)**	**2.6**	**(9.1)**	**13.7**	**–**
Net interest and similar income	**27.9**	**18.5**	**10.6**	**11.9**	**13.7**	**82.6**
Other operating income	**10.6**	**2.7**	**4.0**	**10.8**	**4.9**	**33.0**
Operating income before results from associated companies and joint ventures	**38.5**	**21.2**	**14.6**	**22.7**	**18.6**	**115.6**
Net provisions and credit losses	**0.6**	**(3.9)**	**0.7**	**0.1**	**(0.4)**	**(2.9)**
Segment result	**10.7**	**1.7**	**4.1**	**17.1**	**18.2**	**51.8**
Share of profit from associated companies and joint ventures	**–**	**–**	**–**	**0.6**	**1.1**	**1.7**
Net profit for the year						**53.5**
Net profit attributable to non-controlling interests						**(0.4)**
Net profit for the year attributable to the owners of the Bank						**53.1**
Segment assets	**747.5**	**624.1**	**699.4**	**1,415.3**	**72.6**	**3,558.9**
Investments in associated companies and joint ventures	**–**	**–**	**–**	**19.9**	**45.1**	**65.0**
Common assets						**48.8**
Total assets						**3,672.7**
Segment liabilities	**1,062.4**	**725.1**	**647.5**	**616.0**	**8.0**	**3,059.0**
Common liabilities						**68.5**
Total liabilities						**3,127.5**

Segment information for the year ended 31 December 2020 was as follows:

	Retail banking	Corporate banking	International banking	Investment and treasury activities	Other activities	Total
Interest income	33.1	31.6	25.6	46.8	0.6	137.7
Interest expense	(5.0)	(11.3)	(15.6)	(25.0)	–	(56.9)
Internal fund transfer price	(1.1)	(0.8)	2.3	(14.2)	13.8	–
Net interest and similar income	27.0	19.5	12.3	7.6	14.4	80.8
Other operating income	12.4	4.5	4.6	9.7	6.7	37.9
Operating income before results from associated companies and joint ventures	39.4	24.0	16.9	17.3	21.1	118.7
Net provisions and credit losses	(0.4)	(5.3)	0.3	(0.2)	–	(5.6)
Segment result	12.4	3.9	5.0	11.3	20.1	52.7
Share of (loss)/profit from associated companies and joint ventures	–	–	–	(0.4)	0.3	(0.1)
Net profit for the year						52.6
Net profit attributable to non-controlling interests						(0.6)
Net profit for the year attributable to the owners of the Bank						52.0
Segment assets	683.8	621.7	785.3	1,497.3	57.7	3,645.8
Investments in associated companies and joint ventures	–	–	–	21.4	44.1	65.5
Common assets						49.1
Total assets						3,760.4
Segment liabilities	1,053.3	699.5	677.9	702.1	6.8	3,139.6
Common liabilities						106.3
Total liabilities						3,245.9

24 OPERATING SEGMENTS continued

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 2021			
Net interest and similar income	**75.3**	**7.3**	**82.6**
Share of profit from associated companies and joint ventures	**–**	**1.7**	**1.7**
Other operating income	**29.7**	**3.3**	**33.0**
	105.0	**12.3**	**117.3**
Non-current assets*	**88.8**	**25.9**	**114.7**

	Domestic BD millions	Others BD millions	Total BD millions
31 December 2020			
Net interest and similar income	72.5	8.3	80.8
Share of loss from associated companies and joint ventures	–	(0.1)	(0.1)
Other operating income	34.4	3.5	37.9
	106.9	11.7	118.6
Non-current assets*	87.2	26.4	113.6

* Non-current assets represent investments in associated companies and joint ventures, 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:

	2021 BD millions	2020 BD millions
Cash in hand and vaults (note 4)	**23.4**	20.3
Current accounts and placements with central banks (note 4)	**207.4**	184.7
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	**336.1**	312.7
	566.9	517.7

26 RELATED PARTY BALANCES AND 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 2021				
Loans and advances to customers	**–**	**9.7**	**2.0**	**11.7**
Investments in associated companies and joint ventures	**–**	**65.0**	**–**	**65.0**
Customers' current, savings and other deposits	**161.2**	**1.4**	**8.7**	**171.3**
31 December 2020				
Loans and advances to customers	–	26.9	1.9	28.8
Investments in associated companies and joint ventures	–	65.5	–	65.5
Customers' current, savings and other deposits	185.4	0.8	8.5	194.7

The income and expense in respect of related parties included in the consolidated statement of profit or loss 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 2021				
Interest income	**–**	**0.7**	**–**	**0.7**
Interest expense	**2.4**	**–**	**0.1**	**2.5**
Share of profit from associated companies and joint ventures	**–**	**1.7**	**–**	**1.7**
31 December 2020				
Interest income	–	1.0	–	1.0
Interest expense	5.2	–	0.1	5.3
Share of loss from associated companies and joint ventures	–	(0.1)	–	(0.1)

Compensation for key management, including executive officers, comprises the following:

	2021 BD millions	2020 BD millions
Short-term employee benefits	**10.5**	10.3
Long-term employee benefits	**1.3**	0.7
	11.8	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 2021	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	**230.8**	**–**	**–**	**–**	**230.8**	**–**	**–**	**–**	**54.0**	**284.8**
Treasury bills	**16.9**	**61.7**	**92.0**	**108.6**	**279.2**	**–**	**–**	**–**	**–**	**279.2**
Deposits and amounts due from banks and other financial institutions	**323.0**	**13.1**	**–**	**1.4**	**337.5**	**–**	**–**	**–**	**–**	**337.5**
Loans and advances to customers	**215.3**	**127.2**	**63.1**	**96.4**	**502.0**	**668.3**	**336.6**	**48.4**	**51.9**	**1,607.2**
Investment securities	**24.9**	**17.4**	**32.7**	**8.6**	**83.6**	**328.6**	**340.5**	**111.9**	**121.2**	**985.8**
Interest receivable, derivative and other assets	**63.4**	**–**	**–**	**–**	**63.4**	**15.1**	**–**	**–**	**–**	**78.5**
Investments in associated companies and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65.0**	**65.0**
Premises and equipment	**–**	**0.1**	**0.2**	**0.3**	**0.6**	**28.3**	**1.1**	**3.2**	**1.5**	**34.7**
Total assets	**874.3**	**219.5**	**188.0**	**215.3**	**1,497.1**	**1,040.3**	**678.2**	**163.5**	**293.6**	**3,672.7**
Liabilities										
Deposits and amounts due to banks and other financial institutions	**181.8**	**48.1**	**9.6**	**11.3**	**250.8**	**4.1**	**–**	**–**	**–**	**254.9**
Borrowings under repurchase agreement	**–**	**–**	**80.8**	**75.6**	**156.4**	**226.8**	**–**	**–**	**–**	**383.2**
Term borrowings	**–**	**–**	**–**	**–**	**–**	**245.1**	**–**	**–**	**–**	**245.1**
Customers' current, savings and other deposits	**296.0**	**49.2**	**46.2**	**11.7**	**403.1**	**0.1**	**–**	**–**	**1,722.4**	**2,125.6**
Interest payable, derivative and other liabilities	**112.8**	**0.1**	**0.2**	**0.3**	**113.4**	**2.2**	**0.9**	**2.2**	**–**	**118.7**
Total liabilities	**590.6**	**97.4**	**136.8**	**98.9**	**923.7**	**478.3**	**0.9**	**2.2**	**1,722.4**	**3,127.5**
Net liquidity gap	**283.7**	**122.1**	**51.2**	**116.4**	**573.4**	**562.0**	**677.3**	**161.3**	**(1,428.8)**	**545.2**
Cumulative liquidity gap	**283.7**	**405.8**	**457.0**	**573.4**		**1,135.4**	**1,812.7**	**1,974.0**	**545.2**	

31 December 2020	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	205.0	–	–	–	205.0	–	–	–	51.5	256.5
Treasury bills	74.6	164.5	135.7	113.0	487.8	–	–	–	–	487.8
Deposits and amounts due from banks and other financial institutions	306.7	5.7	6.0	0.5	318.9	–	–	–	–	318.9
Loans and advances to customers	208.7	106.2	124.6	102.2	541.7	610.6	323.3	30.3	49.9	1,555.8
Investment securities	31.7	23.7	37.6	15.8	108.8	304.2	333.1	94.7	116.5	957.3
Interest receivable, derivative and other assets	70.5	–	–	–	70.5	12.6	–	–	–	83.1
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	65.5	65.5
Premises and equipment	–	–	0.1	0.2	0.3	29.1	0.9	3.7	1.5	35.5
Total assets	897.2	300.1	304.0	231.7	1,733.0	956.5	657.3	128.7	284.9	3,760.4
Liabilities										
Deposits and amounts due to banks and other financial institutions	225.4	89.9	9.0	1.9	326.2	4.1	–	–	–	330.3
Borrowings under repurchase agreement	20.9	–	78.7	95.4	195.0	204.2	–	–	–	399.2
Term borrowings	–	–	–	–	–	188.5	–	–	–	188.5
Customers' current, savings and other deposits	291.8	54.1	44.0	22.4	412.3	0.5	–	–	1,754.6	2,167.4
Interest payable, derivative and other liabilities	154.3	–	0.1	0.2	154.6	2.6	0.6	2.7	–	160.5
Total liabilities	692.4	144.0	131.8	119.9	1,088.1	399.9	0.6	2.7	1,754.6	3,245.9
Net liquidity gap	204.8	156.1	172.2	111.8	644.9	556.6	656.7	126.0	(1,469.7)	514.5
Cumulative liquidity gap	204.8	360.9	533.1	644.9		1,201.5	1,858.2	1,984.2	514.5	

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 2021	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading:			
Forward foreign exchange contracts	**0.4**	**0.4**	**196.3**
Derivatives held as fair value hedges:			
Interest rate swaps	**3.4**	**28.2**	**582.9**
	3.8	**28.6**	**779.2**

31 December 2020	Positive fair value BD millions	Negative fair value BD millions	Notional amount BD millions
Derivatives held for trading:			
Forward foreign exchange contracts	2.6	0.7	256.8
Derivatives held as fair value hedges:			
Interest rate swaps	0.1	57.2	525.7
	2.7	57.9	782.5

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.

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.

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	BD millions				
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Interest rate risk					
Hedge of investment securities					
31 December 2021					
Nominal amount	**1.9**	**–**	**14.9**	**170.6**	**395.5**
Average fixed interest rate	**5%**	**–**	**6%**	**5%**	**6%**
31 December 2020					
Nominal amount	–	5.7	16.8	198.1	305.1
Average fixed interest rate	0%	5%	4%	5%	6%

The line item in the consolidated statement of financial position where the positive fair value of derivatives included is "Interest receivable, derivative and other assets". Refer to note 9.

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

	2021		2020	
	Carrying amount BD millions	Fair value adjustments* BD millions	Carrying amount BD millions	Fair value adjustments* BD millions
Bonds (Investment securities)	**619.0**	**20.7**	573.9	51.4

* Represents accumulated fair value hedge adjustments on the hedged item included in the carrying amount.

For the year ended 31 December 2021, the Group recognised a net gain of BD 34.7 million (2020: net gain of BD 33.4 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 34.5 million (2020: loss of BD 33.7 million).

Fair value hedges of interest rate risk

The IBOR reform phase 2 amendments address issues arising during IBOR reform, including specifying when the 'phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the Alternative Benchmark Rate or Alternative Reference Rate (ARR) as the hedged risk are permitted.

The 'phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the statement of profit or loss. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from IBOR reform no longer being present.

The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate note or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item.

In these hedging relationships, the main sources of ineffectiveness are the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other investment income.

Cash flow hedges

At 31 December 2021 and 2020, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

The line item in the consolidated statement of financial position where the negative fair value of derivatives included is "Interest payable, derivative and other liabilities". Refer to note 14.

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.

	BD millions					
31 December 2021	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Contingencies:						
Letters of credit	**3.4**	**11.5**	**15.3**	**–**	**–**	**30.2**
Guarantees	**164.0**	**–**	**–**	**–**	**–**	**164.0**
						194.2
Commitments:						
Undrawn loan commitments	**170.1**	**–**	**–**	**–**	**–**	**170.1**
Forward Foreign Exchange Contracts	**–**	**149.9**	**46.4**	**–**	**–**	**196.3**
Interest Rate Swap	**–**	**1.9**	**14.9**	**170.6**	**395.4**	**582.8**
						949.2
						1,143.4

	BD millions					
31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Contingencies:						
Letters of credit	2.5	20.1	13.0	–	–	35.6
Guarantees	177.3	–	–	–	–	177.3
						212.9
Commitments:						
Undrawn loan commitments	181.5	–	–	–	–	181.5
Forward Foreign Exchange Contracts	–	162.5	94.3	–	–	256.8
Interest Rate Swap	–	5.7	16.8	198.1	305.2	525.8
						964.1
						1,177.0

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

Exposure (after applying credit conversion factor) and ECL by stage was as follows:

	2021			
	Stage 1 BD millions	**Stage 2 BD millions**	**Stage 3 BD millions**	**Total BD millions**
Credit commitments and contingencies	**210.0**	**19.0**	**14.6**	**243.6**
ECL allowances (note 14)	**(0.4)**	**(0.2)**	**(3.3)**	**(3.9)**

	2020			
	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
Credit commitments and contingencies	178.7	18.4	15.4	212.5
ECL allowances (note 14)	(0.5)	(0.2)	(3.4)	(4.1)

A reconciliation of changes in gross carrying amount for credit commitments and contingencies by stage is as follows:

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
1 January 2021	**312.3**	**66.6**	**15.5**	**394.4**
New exposures	**148.2**	**15.2**	**–**	**163.4**
Exposures matured/lapsed	**(162.4)**	**(29.1)**	**(3.8)**	**(195.3)**
Transfers to Stage 1	**13.6**	**(13.6)**	**–**	**–**
Transfers to Stage 2	**(20.1)**	**20.2**	**(0.1)**	**–**
Transfers to Stage 3	**(3.0)**	**–**	**3.0**	**–**
Foreign exchange adjustments	**2.0**	**(0.3)**	**0.1**	**1.8**
At 31 December 2021	**290.6**	**59.0**	**14.7**	**364.3**

29 COMMITMENTS AND CONTINGENT LIABILITIES continued

Credit-related commitments continued

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions
1 January 2020	291.9	89.1	22.0	403.0
New exposures	163.9	11.8	–	175.7
Exposures matured/lapsed	(132.4)	(45.6)	(0.5)	(178.5)
Transfers to Stage 1	68.2	(52.1)	(16.1)	–
Transfers to Stage 2	(66.4)	66.4	–	–
Transfers to Stage 3	(11.3)	–	11.3	–
Foreign exchange adjustments	(1.6)	(3.0)	(1.2)	(5.8)
At 31 December 2020	312.3	66.6	15.5	394.4

30 RISK MANAGEMENT

The activities of the Group entails risk taking on a 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 an aim to manage the overall risk profile of the Group in the most efficient and effective way.

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, interest rate risks 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 of the Group by instituting CBB 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 and 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 Department makes an independent assessment of the processes regarding risk and capital management in accordance with the annual audit plan duly approved by the Board, Audit and Compliance Committee.

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. 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 business activities of the Group entail risk of loss due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligations including the whole and timely payment of principal, interest, collateral and other receivables. The failure thereby causes the Group to incur a financial loss.

The Group's 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 the 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 Group 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 gross 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, but after provision for credit losses, where applicable.

	2021 BD millions	2020 BD millions
Balances with central banks	**261.4**	236.2
Treasury bills	**279.2**	487.8
Deposits and amounts due from banks and other financial institutions	**337.5**	318.9
Loans and advances to customers	**1,607.2**	1,555.8
Investment securities	**911.1**	886.3
Interest receivable, derivative and other assets	**59.8**	66.6
Total	**3,456.2**	3,551.6
Contingent liabilities	**194.2**	212.9
Commitments	**949.2**	964.1
Total credit related commitments	**1,143.4**	1,177.0
Total credit risk exposure	**4,599.6**	4,728.6

32 CONCENTRATION RISK

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

	2021			2020		
	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	**3,096.6**	**2,622.5**	**695.1**	3,098.8	2,675.5	610.2
North America	**92.9**	**9.1**	**1.1**	152.3	21.9	0.5
Europe	**208.6**	**303.3**	**367.3**	194.6	338.6	461.1
Asia	**220.8**	**175.9**	**78.2**	231.6	191.9	101.8
Others	**53.8**	**16.7**	**1.7**	83.1	18.0	3.4
	3,672.7	**3,127.5**	**1,143.4**	3,760.4	3,245.9	1,177.0
Industry sector:						
Trading and manufacturing	**600.2**	**115.9**	**169.7**	626.1	175.1	219.4
Banks and other financial institutions	**689.8**	**880.6**	**791.0**	700.7	942.4	801.3
Construction and real estate	**317.7**	**72.0**	**106.4**	304.9	66.5	115.4
Government and public sector	**1,168.8**	**389.1**	**3.6**	1,275.0	369.5	–
Individuals	**588.6**	**1,228.1**	**0.5**	530.5	1,201.2	0.5
Others	**307.6**	**441.8**	**72.2**	323.2	491.2	40.4
	3,672.7	**3,127.5**	**1,143.4**	3,760.4	3,245.9	1,177.0

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 in to 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 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 FVTOCI 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.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS continued

33.1 Credit quality analysis continued

	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 2021				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	**193.5**	**3.8**	**–**	**197.3**
Standard (Grade 4 to 6)	**475.1**	**120.3**	**–**	**595.4**
Substandard (Grade 7 to 8)	**4.6**	**150.3**	**–**	**154.9**
Non-performing (Grade 9 to 10)	**–**	**–**	**79.5**	**79.5**
	673.2	**274.4**	**79.5**	**1,027.1**
Expected credit losses	**(3.7)**	**(23.5)**	**(52.8)**	**(80.0)**
Net carrying amount	**669.5**	**250.9**	**26.7**	**947.1**
31 December 2020				
Loans and advances to customers – Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	176.1	3.0	–	179.1
Standard (Grade 4 to 6)	458.4	170.6	–	629.0
Substandard (Grade 7 to 8)	4.6	127.6	–	132.2
Non-performing (Grade 9 to 10)	–	–	94.0	94.0
	639.1	301.2	94.0	1,034.3
Expected credit losses	(2.9)	(21.3)	(56.2)	(80.4)
Net carrying amount	636.2	279.9	37.8	953.9

	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 2021				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	**648.7**	**–**	**–**	**648.7**
Standard (Grade 4 to 6)	**3.0**	**1.4**	**–**	**4.4**
Substandard (Grade 7 to 8)	**–**	**9.3**	**–**	**9.3**
Non-performing (Grade 9 to 10)	**–**	**–**	**9.0**	**9.0**
	651.7	**10.7**	**9.0**	**671.4**
Expected credit losses	**(1.0)**	**(2.9)**	**(7.4)**	**(11.3)**
Net carrying amount	**650.7**	**7.8**	**1.6**	**660.1**
31 December 2020				
Loans and advances to customers – Consumer loans at amortised cost				
High (Grade 1 to 3)	587.0	–	–	587.0
Standard (Grade 4 to 6)	5.0	3.4	–	8.4
Substandard (Grade 7 to 8)	–	9.1	–	9.1
Non-performing (Grade 9 to 10)	–	–	9.4	9.4
	592.0	12.5	9.4	613.9
Expected credit losses	(3.4)	(1.5)	(7.1)	(12.0)
Net carrying amount	588.6	11.0	2.3	601.9

	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 2021				
Debt investment securities at FVTOCI				
High (AAA to A-)	**123.3**	**–**	**–**	**123.3**
Standard (BBB+ to B-) *	**480.7**	**79.3**	**–**	**560.0**
	604.0	**79.3**	**–**	**683.3**
Expected credit losses	**(0.3)**	**(0.3)**	**–**	**(0.6)**
Net carrying amount	**603.7**	**79.0**	**–**	**682.7**
Debt investment securities at amortised cost				
High (AAA to A-)	**85.8**	**–**	**–**	**85.8**
Standard (BBB+ to B-) *	**421.7**	**0.1**	**–**	**421.8**
	507.5	**0.1**	**–**	**507.6**
Expected credit losses	**–**	**–**	**–**	**–**
Net carrying amount	**507.5**	**0.1**	**–**	**507.6**
Loan commitments and financial guarantees				
High (Grade 1 to 3)	**67.9**	**0.3**	**–**	**68.2**
Standard (Grade 4 to 6)	**222.8**	**27.5**	**–**	**250.3**
Substandard (Grade 7 to 8)	**0.1**	**31.1**	**–**	**31.2**
Non-performing (Grade 9 to 10)	**–**	**–**	**14.6**	**14.6**
	290.8	**58.9**	**14.6**	**364.3**
Expected credit losses	**(0.4)**	**(0.2)**	**(3.3)**	**(3.9)**
Net carrying amount	**290.4**	**58.7**	**11.3**	**360.4**

	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 2020				
Debt investment securities at FVTOCI				
High (AAA to A-)	161.9	–	–	161.9
Standard (BBB+ to B-) *	485.8	78.3	–	564.1
	647.7	78.3	–	726.0
Expected credit losses	(0.2)	(0.5)	–	(0.7)
Net carrying amount	647.5	77.8	–	725.3
Debt investment securities at amortised cost				
High (AAA to A-)	75.7	–	–	75.7
Standard (BBB+ to B-) *	573.1	0.1	–	573.2
	648.8	0.1	–	648.9
Expected credit losses	–	–	–	–
Net carrying amount	648.8	0.1	–	648.9
Loan commitments and financial guarantees				
High (Grade 1 to 3)	91.9	1.6	–	93.5
Standard (Grade 4 to 6)	215.3	34.4	–	249.7
Substandard (Grade 7 to 8)	5.1	30.7	–	35.8
Non-performing (Grade 9 to 10)	–	–	15.4	15.4
	312.3	66.7	15.4	394.4
Expected credit losses	(0.5)	(0.2)	(3.4)	(4.1)
Net carrying amount	311.8	66.5	12.0	390.3

* Standard grade includes unrated investments amounting to BD 4.9 million (2020: BD 5.1 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.

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.

	2021 BD millions	2020 BD millions
Derivative assets held for risk management	**33.6**	40.2
Loans and advances:		
- Cash	**60.6**	76.2
- Secured by real estate	**738.5**	765.7
- Financial Instruments	**10.7**	7.4
- Others*	**23.5**	25.7

* 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 borrower 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 Group has taken exposures.

(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 judgment 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. However, as part of CBB relaxations amidst COVID-19, the regulatory criterion of 74 DPD is applied.

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); and
- The borrower is past due more than 90 days on any credit obligation to the Group.

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.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS continued

33.3 Inputs, assumptions and techniques used for estimating impairment continued

(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 analysing 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 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. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(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 banks and financial institutions, sovereign and investment securities (debt instruments).

(i) Assessment and calculation of ECL during COVID-19

The measurement of ECL is a complex calculation that involves a large number of interrelated inputs and assumptions and the allowance is not sensitive to any one single factor alone. The key drivers of changes in ECL mainly include the following:

- Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal/external risk ratings;
- Changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which the models are calibrated, which are those most closely correlated with credit losses in the relevant BBK portfolio as well as overall Bahrain credit portfolio;
- Changes to the value of the underlying collateral held impacting the Loss Given Default;
- Changes in scenario design and the weights assigned to each scenario; and
- Transfers between stages, which can be triggered by changes in the credit quality of the borrower or instrument or any restructuring of the exposures.

Being cognizant of the fact that the economic environment remains uncertain and future impairment changes may be subject to further volatility (including from changes to macroeconomic forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of support measures from central banks, government and other institutions, the Group has updated the PD methodology to be able to effectively capture the situation of support measures amidst changed macro factors. The Group has also considered the adequacy of the ECL estimates vis-à-vis potential requirements in future based on internal stress testing analysis.

The models used by the Group have been constructed and calibrated using historical trends and correlation as well as forward looking economic scenarios. The Group uses Asset Correlation using Modified Formulae to determine the PDs. In view of the severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Group operates, the Group has significantly updated the PD methodology to be able to effectively capture the situation of support measures amidst changed macro factors realities in the modelled ECL itself.

The following table outlines the impact of multiple scenarios on the ECL (Stage 1 and Stage 2) used by the Group as compared to the ECL that would have resulted from applying more liberal/conservative weighting to the base case or worst case scenarios:

31 December 2021	Scenario mix used by the Group (15:70:15) BD millions	Scenario 1 (10:60:30) BD millions	Scenario 2 (10:50:40) BD millions
Loans and advances to customers	**31.1**	**33.1**	**34.1**
Investment securities	**0.6**	**0.5**	**0.5**
Off-balance sheet exposures	**0.6**	**0.6**	**0.6**

31 December 2020	Scenario mix used by the Group (10:60:30) BD millions	Scenario 1 (15:70:15) BD millions	Scenario 2 (10:50:40) BD millions
Loans and advances to customers	29.1	26.1	29.6
Investment securities	0.7	0.7	0.7
Off-balance sheet exposures	0.7	0.6	0.7

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.

	2021 BD millions	2020 BD millions
Loans and advances to customers		
Commercial loans	**17.8**	43.0
Consumer loans	**1.5**	3.1
	19.3	46.1

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 2021, VaR calculated based on the above parameters was BD 0.4 million (2020: BD 0.2 million).

The Bank's Risk Management Department conducts back testing 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. Back testing 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 back testing 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 responsibility of the Head of Treasury, ALMC also reviews the interest rate risk reports periodically.

Managing interest rate benchmark reform and associated risks

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments and liabilities reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee collaborates with other business and support functions as needed.

The main risks to which the Group is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR rates and forward curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

The Group has continued to amend existing agreements of loans and advances, including loan commitments throughout 2020 and 2021. These amendments are made to incorporate a fallback provision stating that the existing US dollar LIBOR benchmark rate will be replaced with an Alternative Reference Rate respectively when LIBOR ceases to exist. The IBOR Committee is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio and loan commitments indexed to IBORs that will be replaced as part of IBOR reform in other parts of the Group. Loans and advances to corporates will be amended in bilateral negotiations with the counterparties, where applicable.

36 INTEREST RATE RISK continued

Managing interest rate benchmark reform and associated risks continued

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract').

The following table discloses details of all of the financial instruments that the Group holds at 31 December 2021 and will be maturing after 30 June 2023 for certain US LIBOR settings and are required to transition to ARR benchmark:

	Non-derivative financial assets BD millions	Non-derivative financial liabilities BD millions	Derivatives (Notional Amount) BD millions
US LIBOR tenors ceasing 30 June 2023	273.3	191.6	542.2

Sensitivity analysis

Based on the consolidated statement of financial position as at 31 December 2021, 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 12 months, by approximately BD 18.6 million (2020: increase by BD 16.6 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 following 12 months is approximately BD 9.2 million (2020: BD 12.7 million).

	Rate Shock Forecasting (+200 bps)		Rate Shock Forecasting (-200 bps)	
	2021 BD millions	2020 BD millions	2021 BD millions	2020 BD millions
Bahraini Dinars	14.9	15.2	9.1	12.1
US Dollar	3.1	0.7	–	–
Kuwaiti Dinars	1.6	0.6	0.7	0.3
Others	(1.0)	0.1	(0.6)	0.3
Total	18.6	16.6	9.2	12.7

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 9.5% amounting to BD 52.7 million (2020: 8.2% amounting to BD 43.0 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 9.5% amounting to BD 52.7 million (2020: 8.2% amounting to BD 43.0 million).

The table below provides an analysis of the Group's interest rate risk exposure:

2021	Up to three months BD millions	Over three months up to one year BD millions	Over one year BD millions	Rate insensitive BD millions	Total BD millions
Treasury bills	78.6	200.6	–	–	279.2
Deposits and amounts due from banks and other financial institutions	266.2	1.4	–	69.9	337.5
Loans and advances to customers	822.5	173.3	570.2	41.2	1,607.2
Investment securities	53.7	41.2	783.5	107.4	985.8
	1,221.0	416.5	1,353.7	218.5	3,209.7
Deposits and amounts due to banks and other financial institutions	200.4	20.9	4.1	29.5	254.9
Borrowings under repurchase agreements	262.9	87.6	32.7	–	383.2
Customers' current, savings and other deposits	492.7	269.3	29.5	1,334.1	2,125.6
Term borrowings	56.6	–	188.5	–	245.1
	1,012.6	377.8	254.8	1,363.6	3,008.8
On balance sheet gap	208.4	38.7	1,098.9	(1,145.1)	200.9
Off balance sheet gap	581.0	(14.9)	(566.1)	(219.3)	(219.3)
Total interest sensitivity gap	789.4	23.8	532.8		
Cumulative interest sensitivity gap	789.4	813.2	1,346.0		

2020	Up to three months BD millions	Over three months up to one year BD millions	Over one year BD millions	Rate insensitive BD millions	Total BD millions
Treasury bills	239.2	248.6	–	–	487.8
Deposits and amounts due from banks and other financial institutions	178.6	6.5	–	133.8	318.9
Loans and advances to customers	760.5	208.5	522.1	64.7	1,555.8
Investment securities	66.6	53.1	697.9	139.7	957.3
	1,244.9	516.7	1,220.0	338.2	3,319.8
Deposits and amounts due to banks and other financial institutions	291.9	10.9	4.1	23.4	330.3
Borrowings under repurchase agreements	342.7	18.8	37.7	–	399.2
Customers' current, savings and other deposits	523.9	311.5	36.6	1,295.4	2,167.4
Term borrowings	–	–	188.5	–	188.5
	1,158.5	341.2	266.9	1,318.8	3,085.4
On balance sheet gap	86.4	175.5	953.1	(980.6)	234.4
Off balance sheet gap	520.0	(16.8)	(503.3)	(168.5)	(168.6)
Total interest sensitivity gap	606.4	158.7	449.8		
Cumulative interest sensitivity gap	606.4	765.1	1,214.9		

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:

	Equivalent long (short)	
	2021 BD millions	2020 BD millions
US Dollar	177.1	100.5
Euro	0.1	0.1
GCC currencies (excluding Kuwaiti Dinars)	8.9	6.4
Kuwaiti Dinars	0.7	0.4
Others	0.3	0.3

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 FVTOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities			Effect on equity	
	2021 BD millions	2020 BD millions	% change in Index	2021 BD millions	2020 BD millions
Bahrain Bourse	13.9	12.9	± 15%	2.1	1.9
Other stock exchanges	31.6	30.4	± 15%	4.7	4.6
				6.8	6.5

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 buckets 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, 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.

During the ongoing pandemic, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including BBK, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. As at 31 December 2021, the Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 23.6% (31 December 2020: 21.8%), Liquidity Coverage Ratio (LCR) of 323.7% (31 December 2020: 289.7%) and Net Stable Funding Ratio (NSFR) of 136.9% (31 December 2020:134.2%).

The tables below summarise the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2021	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	65.2	116.8	48.2	9.7	11.5	5.2	–	–	–	256.6
Borrowings under repurchase agreement	–	0.5	1.2	82.7	79.4	232.2	–	–	–	396.0
Term borrowings	–	5.6	–	0.3	5.8	267.2	–	–	–	278.9
Customers' current, savings and other deposits	1,451.7	185.4	194.3	170.4	105.0	39.3	–	–	–	2,146.1
Total undiscounted financial liabilities	1,516.9	308.3	243.7	263.1	201.7	543.9	–	–	–	3,077.6
Letters of guarantee	164.0	–	–	–	–	–	–	–	–	164.0
Undrawn loan commitments	170.1	–	–	–	–	–	–	–	–	170.1
Derivative financial instruments										
Contractual amounts payable	–	(5.0)	(7.1)	(19.4)	(19.9)	(283.6)	(336.9)	(128.6)	(54.0)	(854.5)
Contractual amounts receivable	–	3.8	3.5	16.7	14.6	248.2	315.0	112.0	50.4	764.2
	–	(1.2)	(3.6)	(2.7)	(5.3)	(35.4)	(21.9)	(16.6)	(3.6)	(90.3)

39 LIQUIDITY RISK continued

31 December 2020	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	43.3	183.4	90.3	9.0	2.0	5.1	–	–	–	333.1
Borrowings under repurchase agreement	–	21.4	1.7	81.4	99.3	212.8	–	–	–	416.6
Term borrowings	–	5.4	–	–	5.4	219.9	–	–	–	230.7
Customers' current, savings and other deposits	1,432.3	170.6	221.3	166.1	153.1	46.0	–	–	–	2,189.4
Total undiscounted financial liabilities	1,475.6	380.8	313.3	256.5	259.8	483.8	–	–	–	3,169.8
Letters of guarantee	177.3	–	–	–	–	–	–	–	–	177.3
Undrawn loan commitments	181.5	–	–	–	–	–	–	–	–	181.5
Derivative financial instruments										
Contractual amounts payable	–	(3.0)	(11.0)	(10.8)	(27.1)	(292.8)	(305.6)	(40.6)	(51.6)	(742.5)
Contractual amounts receivable	–	1.7	8.4	8.1	21.8	257.7	285.5	27.9	47.5	658.6
	–	(1.3)	(2.6)	(2.7)	(5.3)	(35.1)	(20.1)	(12.7)	(4.1)	(83.9)

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 2021, there was a legal case pending against the Group aggregating to BD 1.0 million (2020: BD 1.1 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from this case.

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 CRO. 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 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's subsidiaries have similar contingency plans for their operations.

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.

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 2021 and 2020:

31 December 2021	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	**677.3**	**5.4**	**–**	**682.7**
Equities	**45.5**	**10.1**	**17.8**	**73.4**
Managed funds	**–**	**1.3**	**–**	**1.3**
Derivatives held for trading	**–**	**0.4**	**–**	**0.4**
Derivatives held as fair value hedges	**–**	**3.4**	**–**	**3.4**
	722.8	**20.6**	**17.8**	**761.2**
Financial liabilities				
Derivatives held for trading	**–**	**0.4**	**–**	**0.4**
Derivatives held as fair value hedges	**–**	**28.2**	**–**	**28.2**
	–	**28.6**	**–**	**28.6**

31 December 2020	Level 1 BD millions	Level 2 BD millions	Level 3 BD millions	Total BD millions
Financial assets				
Bonds	725.3	–	–	725.3
Equities	43.3	6.7	20.3	70.3
Managed funds	–	0.7	–	0.7
Derivatives held for trading	–	2.6	–	2.6
Derivatives held as fair value hedges	–	0.1	–	0.1
	768.6	10.1	20.3	799.0
Financial liabilities				
Derivatives held for trading	–	0.7	–	0.7
Derivatives held as fair value hedges	–	57.2	–	57.2
	–	57.9	–	57.9

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2021 and 2020, there were no transfers into or out of Level 3 fair value measurements. Further, there was no significant movements with equity instruments classified under level 3.

The table below sets out the estimated carrying values and fair values of financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	31 December 2021		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	**245.1**	**253.1**	**8.0**
Financial assets			
Investment securities	**228.4**	**236.3**	**(7.9)**

	31 December 2020		
	Carrying value BD millions	Fair value BD millions	Difference BD millions
Financial liabilities			
Term borrowings	188.5	195.4	6.9
Financial assets			
Investment securities	161.0	161.5	(0.5)

The above financial liabilities and assets are Level 1 fair value.

As at 31 December 2021 and 2020, 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 Group 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:

	2021 BD millions	2020 BD millions
Expense arising from equity-settled share-based payment transactions	**2.8**	2.4
Shares vested during the year	**(2.3)**	(2.0)

The movement in the number of shares in the Group's LTIP and STIP was as follows:

	Number of shares	
	2021	2020
Opening balance of shares granted but not vested	**10,983,854**	11,042,091
Equity shares transferred to trust	**4,384,749**	5,055,964
Shares released during the year to the participants	**(5,211,184)**	(5,114,201)
	10,157,419	10,983,854

The market price of the Bank's shares based on the price quoted in the Bahrain Bourse at 31 December 2021 was BD 0.533 (2020: BD 0.505) 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:

	2021 BD millions	2020 BD millions
CET1 capital	**552.3**	523.6
Tier 2 capital	**26.9**	27.6
Total capital base (a)	**579.2**	551.2
Credit risk weighted exposure	**2,148.2**	2,208.0
Operational risk weighted exposure	**267.5**	282.6
Market risk weighted exposure	**42.5**	37.5
Total risk weighted exposure (b)	**2,458.2**	2,528.1
Capital adequacy (a/b*100) – %	**23.6%**	21.8%
Minimum requirement – %	**14.0%**	14.0%

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 Group 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 Group 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 Group 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 (NSFR)

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 NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020, OG/431/2020 dated 29 December 2020, OG/170/2021 dated 27 May 2021 and OG/417/2021 dated 23 December 2021, the limit was reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2021 is 136.9% (31 December 2020: 134.2%).

The main drivers behind the Group's robust Available Stable Funds (ASF) are the solid capital base, sizable retail and small business deposits portfolio, large portfolio of non-financial institutions deposits (related to government and corporate deposits), as well as medium term funding from Repo and term borrowings. The capital base formed 21.5% (31 December 2020: 21.2%) of Group's ASF, while the retail and small business deposits formed 46.7% (31 December 2020: 47.4%) of the ASF (after applying the relevant weights).

For the Required Stable Funding (RSF), the primary reason for the relatively low RSF, in comparison to the ASF, is related to the sizeable portfolio of BBK's High Quality Liquid Assets (HQLAs) which accounts for 21.4% of total RSF (before applying the relevant weights).

In comparison to year-end December 2020 (NSFR of 134.2%), the ratio increased slightly mainly due to increase in ASF due to raising of new term borrowing of BD 56.6 million and increase in capital by BD 28.7 million.

The consolidated NSFR calculated in accordance with the guidelines of the CBB rulebook, for the Group is as follows:

	2021 BD millions	2020 BD millions
Total available stable funding	**2,723.8**	2,618.4
Total required stable funding	**1,989.8**	1,951.3
Group's consolidated NSFR	**136.9%**	134.2%
Minimum NSFR requirement	**80.0%**	80.0%

The NSFR (as a percentage) as at 31 December 2021 is calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity BD millions	Less than 6 months BD millions	More than 6 months and less than one year BD millions	Over one year BD millions	Total weighted value BD millions
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	**557.6**	**–**	**–**	**26.9**	**584.4**
Other Capital Instruments	**–**	**–**	**–**	**–**	**–**
Retail deposits and deposits from small business customers:					
Stable deposits	**–**	**503.7**	**2.9**	**0.2**	**481.5**
Less stable deposits	**–**	**773.0**	**70.3**	**30.2**	**789.2**
Wholesale funding:					
Operational deposits	**–**	**–**	**–**	**–**	**–**
Other wholesale funding	**–**	**1,043.4**	**114.3**	**470.6**	**868.7**
Other liabilities:					
NSFR derivative liabilities	**–**	**30.4**	**–**	**–**	**–**
All other liabilities not included in the above categories	**–**	**116.5**	**–**	**–**	**–**
Total ASF	**557.6**	**2,467.0**	**187.5**	**527.9**	**2,723.8**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	**–**	**–**	**–**	**–**	**242.2**
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	**–**	**373.4**	**19.8**	**72.3**	**138.2**
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	**–**	**360.6**	**89.3**	**895.8**	**986.4**
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	**–**	**3.1**	**–**	**133.2**	**88.1**
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	**–**	**–**	**–**	**–**	**–**
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	**–**	**36.8**	**33.2**	**223.4**	**246.5**
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	**–**	**6.1**	**–**	**–**	**6.1**
All other assets not included in the above categories	**234.3**	**–**	**–**	**–**	**234.3**
Off-balance sheet items	**–**	**960.0**	**–**	**–**	**48.0**
Total RSF	**234.3**	**1,740.0**	**142.3**	**1,324.7**	**1,989.8**
NSFR (%)					**136.9%**

The NSFR (as a percentage) as at 31 December 2020 was calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity BD millions	Less than 6 months BD millions	More than 6 months and less than one year BD millions	Over one year BD millions	Total weighted value BD millions
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	528.1	–	–	27.6	555.7
Other Capital Instruments	–	–	–	–	–
Retail deposits and deposits from small business customers:					
Stable deposits	–	499.6	3.5	0.2	478.2
Less stable deposits	–	723.9	81.5	37.3	762.1
Wholesale funding:					
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,188.7	159.0	391.7	822.4
Other liabilities:					
NSFR derivative liabilities	–	61.9	–	–	–
All other liabilities not included in the above categories	–	158.1	–	–	–
Total ASF	528.1	2,632.2	244.0	456.8	2,618.4
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	264.7
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	–	415.8	7.5	46.8	112.9
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	319.6	109.1	897.8	977.4
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	–	0.5	–	66.5	43.5
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	–	–	–	–	–
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	61.9	60.4	194.0	243.2
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	–	12.6	–	–	12.6
All other assets not included in the above categories	248.9	–	–	–	248.9
Off-balance sheet items	–	961.5	–	–	48.1
Total RSF	248.9	1,771.9	177.0	1,205.1	1,951.3
NSFR (%)					134.2%

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 this 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 the total Bank contribution is not in excess of 10% of the employees' wsalary. 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 2021, the total contribution fund including the earned income stands at BD 20.1 million (2020: BD 19.1 million). Out of the total fund amount, payment of the principal amount equal to BD 17.1 million (2020: BD 16.3 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 7.1 million (2020: BD 6.7 million) is invested in Bahrain sovereign bonds and GCC bonds.

47 FIDUCIARY ASSETS

Funds under management as at 31 December 2021 amounted to BD 136.8 million (2020: BD 82.3 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 2021 was BD 142.5 million (2020: BD 87.7 million).

48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

31 December 2021	Designated as at FVTPL BD millions	FVTOCI – debt instruments BD millions	FVTOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	284.8	284.8
Treasury bills	–	–	–	279.2	279.2
Deposits and amounts due from banks and other financial institutions	–	–	–	337.5	337.5
Loans and advances to customers	–	–	–	1,607.2	1,607.2
Investment securities	1.3	682.7	73.4	228.4	985.8
Interest receivable, derivative and other assets	–	–	–	78.5	78.5
Total assets	1.3	682.7	73.4	2,815.6	3,573.0
Deposits and amounts due to banks and other financial institutions	–	–	–	254.9	254.9
Borrowings under repurchase agreement	–	–	–	383.2	383.2
Term borrowings	–	–	–	245.1	245.1
Customers' current, savings and other deposits	–	–	–	2,125.6	2,125.6
Interest payable, derivative and other liabilities	–	–	–	118.7	118.7
Total liabilities	–	–	–	3,127.5	3,127.5

31 December 2020	Designated as at FVTPL BD millions	FVTOCI – debt instruments BD millions	FVTOCI – equity instruments BD millions	Amortised cost BD millions	Total BD millions
Cash and balances with central banks	–	–	–	256.5	256.5
Treasury bills	–	–	–	487.8	487.8
Deposits and amounts due from banks and other financial institutions	–	–	–	318.9	318.9
Loans and advances to customers	–	–	–	1,555.8	1,555.8
Investment securities	0.7	725.3	70.3	161.0	957.3
Interest receivable, derivative and other assets	–	–	–	66.0	66.0
Total assets	0.7	725.3	70.3	2,846.0	3,642.3
Deposits and amounts due to banks and other financial institutions	–	–	–	330.3	330.3
Borrowings under repurchase agreement	–	–	–	399.2	399.2
Term borrowings	–	–	–	188.5	188.5
Customers' current, savings and other deposits	–	–	–	2,167.4	2,167.4
Interest payable, derivative and other liabilities	–	–	–	116.5	116.5
Total liabilities	–	–	–	3,201.9	3,201.9

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2020 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 or total equity of the Group.

BBK SUPPLEMENTARY PUBLIC DISCLOSURE – FINANCIAL IMPACT OF COVID-19

In line with the Central Bank of Bahrain ("CBB") directions per circular no. OG/259/2020 dated 14 July 2020 that aims to maintain transparency amidst the current implications of Coronavirus (COVID-19), the Group discloses herewith additional information pertaining to the financial impact of COVID-19 on its annual consolidated financial statements and results of operations for the year ended 31 December 2021.

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. These included business closures, travel restrictions, quarantines, and limits on public and private gatherings. These measures led to a sharp reduction in economic activities over the period in a large number of developed and emerging economies.

The Group has demonstrated financial strength and operational resilience despite these events, while protecting the health and safety of employees, and supporting customers. There remains uncertainty about the evolution of the virus and the pandemic. However, during the second half of 2021, and mainly due to the measures taken by the Government of Bahrain to contain the effect of the pandemic and slow the spread of the virus, including the vaccination progress, the economy showed signs of partial recovery in returning to normality but slowly and cautiously.

The Group is constantly working to monitor the situation and has always considered its employees and its clients alike, as their number one priority. BBK is totally committed to support the communities in which it operates and the Group commits to go the extra miles to support them at all times.

In line with the Kingdom of Bahrain's wise leadership's precautionary measures to control the spread of COVID-19 and CBB's directives to reduce the financial strain on citizens and businesses, the Bank has established a taskforce dedicated to implement all these measures and ensure the full support to our country and its citizens, to our loyal clients and to our dedicated employees, throughout this time. The Bank has implemented a number of actions to guarantee operational readiness and continue offering clients the full range of products and services, including:

- Ensure that the Bank's operations' continuity are as usual;
- Spread the employees between Head Office, branches, sites and working from home to ensure continuity;
- Virtual meetings have replaced most of the physical meetings;
- Implementation of disinfecting protocols and physical distancing measures; and
- Continuous communication to clients to take full advantage of BBK's wide range of e-channels offering seamless and outstanding experience.

On the other side, central banks across the world have stepped in with measures to protect the stability of the global economy with a wide range of measures from easing of interest rates, to asset purchase program besides infusing significant liquidity into the economy.

During the year, based on regulatory directives issued by the CBB, the Group has offered the customers two additional six-month installments deferment options starting from 1 January 2021 by extending the tenor to take into account the additional interest, while keeping the installment unchanged without increasing the interest or charging fees. The application of this additional deferral options is estimated to cause a delay to the Bank's total cash inflow of approximately BD 148.1 million. Furhtermore, this has been extended by another six months up to June 2022.

The points below summarises the overall financial impact on the annual consolidated financial statements:

- Estimated ECL attributable to COVID-19 had a negative impact of BD 3.3 million on the Group's consolidated total assets as of 31 December 2021.
- An additional negative COVID-19 impact over previously absorbed is estimated at BD 5.3 million on Group's consolidated profit or loss statement for the year due to the impact on credit card business.
- An additional negative COVID-19 impact over previously absorbed is estimated at BD 2.7 million on Group's consolidated profit or loss statement for the year due to the impact on income from associates and joint ventures.
- Negative impact of BD 1.1 million on Group's consolidated profit or loss statement for the year due to the impact of total fees forgone as a result of loan deferment during the year.

Despite all the difficulties and uncertainties caused by the pandemic, BBK continued to maintain a very robust liquidity position and inject liquidity in the markets in which it operates to support the domestic economies and its customers at such a critical time. The consolidated Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) remain at a very comfortable position of 323.7% and 136.9% respectively as of 31 December 2021, well above the CBB's reduced limit of 80% and the standard limit of 100%. Moreover, other liquidity indicators, such as the ratio of net loans and advances to customer deposits, continued to be at very solid levels. Prudent liquidity management is of utmost importance for BBK, which is managed on a very dynamic, yet conservative basis.

The Group is keen to maintain strong capitalisation to support future strategic plans. The Group's policy is to maintain a strong capital base to preserve investors, creditors and market confidence and to sustain the future development of the business. As of 31 December 2021, the Group maintained a healthy level of Capital Adequacy Ratio (CAR) at 23.6% compared to CBB's minimum threshold for domestic systematically important banks (D-SIB) of 14.0%.

The above information should not be relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information to be outdated. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.

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 our 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 2021 presented in accordance with the International Financial Reporting Standards (IFRS), as modified by the CBB. 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) is 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are limits and minima introduced 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 details in notes 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 for its branches in The Kingdom of Bahrain and The State of Kuwait and the Standardised Approach for Republic of India Branches. 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.

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 a total capital adequacy ratio above 12.5 percent, except those assigned as DSIB, the minimum would be 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. Moreover, the Bank has a Dividend Policy in place as part of capital management strategy.

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 includes 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 apart from the ICAAP process in line with CBB requirements from time to time.

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.

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 IFRS. For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and risk weighting 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
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	70.00%	Full Consolidation
Associates			
Invita Kuwait K.S.C.C.*	State of Kuwait	40.00%	Risk Weighted
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	**284.8**	**284.8**	
Treasury bills	**279.2**	**279.2**	
Deposits and amounts due from banks and other financial institutions	**337.5**	**337.5**	
Loans and advances to customers	**1,607.2**	**1,607.2**	
Of which Expected Credit Loss (1.25% of Credit risk weighted assets)		26.9	a
Of which net loans and advances (gross of Expected Credit Loss)		1,580.3	
Investment securities	**985.8**	**985.8**	
Of which investments in financial entities under CET1		29.5	b
Of which investments in financial entities under Tier 2		2.3	c
Of which related to other investments		954.0	
Interest receivable, derivative and other assets	**78.5**	**77.2**	
Of which deferred tax assets due to temporary differences		1.4	d
Of which intangibles		5.2	e
Of which interest receivable and other assets		70.6	
Investments in associated companies and joint ventures	**65.0**	**67.5**	
Of which Investment in own shares		0.8	f
Of which equity investments in financial entities		39.7	g
Of which other investments		27.0	
Premises and equipment	**34.7**	**34.3**	
Total assets	**3,672.7**	**3,673.5**	
Liabilities and equity			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**254.9**	**254.9**	
Borrowings under repurchase agreement	**383.2**	**383.2**	
Term borrowings	**245.1**	**245.1**	
Customers' current, savings and other deposits	**2,125.6**	**2,129.3**	
Interest payable, derivative and other liabilities	**118.7**	**116.5**	
Total liabilities	**3,127.5**	**3,129.0**	
Equity			
Share capital	**149.8**	**149.8**	h
Treasury stock	**(5.0)**	**(5.0)**	i
Share premium	**105.6**	**105.6**	j
Statutory reserve	**72.1**	**72.1**	k
General reserve	**64.2**	**64.2**	l
Cumulative changes in fair values	**(7.9)**	**(7.9)**	
of which cumulative changes in fair values on bonds and equities		(7.2)	m
of which fair value changes in cash flow hedges		(0.7)	n
Foreign currency translation adjustments	**(12.2)**	**(12.2)**	
Of which related to unconsolidated subsidiary		-	o
Of which related to Parent		(12.2)	p
Retained earnings	**129.3**	**128.6**	
Of which employee stock options		3.9	q
Of which related to modification loss net of government assistance		(19.4)	r
Of which retained earnings		144.1	s
Proposed appropriations	**46.9**	**46.9**	t
Attributable to the Owners Of the Bank	**542.8**	**542.1**	
Non-controlling interests	**2.4**	**2.4**	
Total equity	**545.2**	**544.5**	
Total liabilities and equity	**3,672.7**	**3,673.5**	

Legal entities 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	6.0	3.8

5 REGULATORY 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)		0%

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.

5 REGULATORY CAPITAL COMPONENTS - CONSOLIDATED continued

	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	250.4	h+i+j
Retained earnings	191.0	o+s+t
Accumulated other comprehensive income and losses (and other reserves)	116.2	k+l+m+n+p
Common Equity Tier 1 capital before regulatory adjustments	**557.6**	
Common Equity Tier 1 capital: regulatory adjustments		
Other intangibles other than mortgage servicing rights (net of related tax liabilities)	5.2	e
Cash flow hedge reserve	(0.7)	n
Investments in own shares	0.8	f
Total regulatory adjustments to Common equity Tier 1	**5.3**	
Common Equity Tier 1 capital (CET1)	**552.3**	
Tier 1 capital (T1 = CET1 + AT1)	**552.3**	
Tier 2 capital: instruments and provisions		
Provisions	26.9	
Tier 2 capital before regulatory adjustments	**26.9**	
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	**26.9**	
Total capital (TC = T1 + T2)	**579.2**	
Total risk weighted assets	**2,458.2**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	22.5%	
Tier 1 (as a percentage of risk weighted assets)	22.5%	
Total capital (as a percentage of risk weighted assets)	**23.6%**	
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)	10.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	1.5%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	22.5%	
National minima (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	10.5%	
CBB Tier 1 minimum ratio	12.0%	
CBB total capital minimum ratio	14.0%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	31.8	b+c
Significant investments in the common stock of financials	39.7	g
Deferred tax assets arising from temporary differences (net of related tax liability)	1.4	d
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)	32.3	
Cap on inclusion of provisions in Tier 2 under standardised approach	26.9	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 (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.

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	23.56%	22.47%
CrediMax	61.92%	61.92%

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. As part of regulatory concessionary measures in response to COVID-19, risk weight for Bahraini based Small Medium Entities (SMEs) was reduced from 75 percent to 25 percent up till 30 June 2022.

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 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.

7 CREDIT RISK – PILLAR III DISCLOSURES continued

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	1,091.1	–	1,091.1	49.9	7.0
Public sector entities	0.1	–	0.1	–	–
Banks	508.4	–	508.4	275.6	38.6
Corporates	1,274.0	74.1	1,199.9	930.0	130.2
Regulatory retail and SME	544.5	4.3	540.2	396.8	55.6
Mortgage	128.1	0.5	127.6	95.7	13.4
Investment in securities #	108.0	–	108.0	173.3	24.3
Past due exposures	28.3	0.1	28.2	29.4	4.1
Real estate	66.5	–	66.5	118.7	16.6
Other assets and cash items	98.0	–	98.0	78.8	11.0
Total Credit Risk	**3,847.0**	**79.0**	**3,768.0**	**2,148.2**	**300.8**
Market Risk	–	–	–	42.5	6.0
Operational Risk *	–	–	–	267.5	37.5
Total Risk Weighted Exposure	**3,847.0**	**79.0**	**3,768.0**	**2,458.2**	**344.3**

Included in the Investment in securities category investment is an insurance entity that is risk weighted rather than deducted from eligible capital, this if deducted will reduce the eligible capital to BD 574.8millions.

Entity	Country of Domicile	Ownership %	Risk weighted asset	Impact on regulatory capital
Bahrain and Kuwait Insurance Company B.S.C. © "BKIC"	Bahrain	6.82%	4.4	0.6

* 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 2021 is BD 142.7 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 maintains 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	1,081.1	10.0	1,137.3
Public sector entities	0.1	–	0.1
Banks	491.3	17.1	506.0
Corporates	1,149.6	124.4	1,284.6
Regulatory retail and SME	544.5	–	522.2
Mortgage	128.1	–	118.2
Investment in securities	108.0	–	106.1
Past due exposures	28.3	–	31.9
Real estate	66.5	–	65.6
Other assets and cash items	98.0	–	103.7
Total credit risk exposures	**3,695.5**	**151.5**	**3,875.7**

10 CONCENTRATION OF CREDIT RISK BY REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Gulf Cooperation Council (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	278.9	–	–	5.8	–	**284.7**
Treasury bills	279.2	–	–	–	–	**279.2**
Deposits in banks and other financial institutions	219.9	73.1	32.4	12.1	–	**337.5**
Loans and advances to customers	1,443.4	–	70.0	99.3	25.6	**1,638.3**
Investments in associated companies and joint ventures	43.4	–	20.2	–	–	**63.6**
Investment securities	756.9	19.8	84.6	96.1	28.2	**985.6**
Interest receivable and other assets	97.5	–	1.5	7.6	–	**106.6**
Total funded exposure	**3,119.2**	**92.9**	**208.7**	**220.9**	**53.8**	**3,695.5**
Unfunded commitments and contingencies	122.6	0.4	11.6	16.3	0.6	**151.5**
Total credit risk	**3,241.8**	**93.3**	**220.3**	**237.2**	**54.4**	**3,847.0**

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	–	23.4	–	261.3	–	–	**284.7**
Treasury bills	–	–	–	279.2	–	–	**279.2**
Deposits in banks and other financial institutions	–	337.5	–	–	–	–	**337.5**
Loans and advances to customers	510.7	117.5	285.6	11.1	590.3	123.1	**1,638.3**
Investments in associated companies and joint ventures	–	43.8	19.8	–	–	–	**63.6**
Investment securities	110.3	166.9	16.9	620.6	–	70.9	**985.6**
Interest receivable and other assets	–	–	–	–	–	106.6	**106.6**
Total funded exposure	**621.0**	**689.1**	**322.3**	**1,172.2**	**590.3**	**300.6**	**3,695.5**
Unfunded commitments and contingencies	77.0	18.6	29.8	10.3	0.2	15.6	**151.5**
Total credit risk	**698.0**	**707.7**	**352.1**	**1,182.5**	**590.5**	**316.2**	**3,847.0**

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	230.7	–	–	–	–	–	–	54.0	**284.7**
Treasury bills	16.9	61.7	92.0	108.6	–	–	–	–	**279.2**
Deposits in banks and other financial institutions	323.0	13.1	–	1.4	–	–	–	–	**337.5**
Loans and advances to customers	219.4	129.7	64.3	98.3	681.2	343.1	49.3	53.0	**1,638.3**
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	63.6	**63.6**
Investment securities	70.4	1.7	14.3	–	326.4	339.8	186.6	46.4	**985.6**
Interest receivable and other assets	62.0	0.1	0.2	0.3	38.2	1.1	3.2	1.5	**106.6**
Total funded exposure	**922.4**	**206.3**	**170.8**	**208.6**	**1,045.8**	**684.0**	**239.1**	**218.5**	**3,695.5**
Unfunded commitments and contingencies	31.2	27.4	45.3	32.8	5.6	5.9	2.6	0.7	**151.5**
Total credit risk	**953.6**	**233.7**	**216.1**	**241.4**	**1,051.4**	**689.9**	**241.7**	**219.2**	**3,847.0**

13 IMPAIRED LOANS AND PROVISIONS

	Impaired loans Balance	Stage 3: Lifetime ECL credit-impaired BD millions	Stage 1: 12 month ECL and Stage 2: Lifetime ECL not credit-impaired BD millions	Stage 3: Net remeasurement of loss allowance for the year BD millions	Write offs/ reallocations during the year
Trading and manufacturing	48.3	36.0	20.8	1.7	5.3
Government and public sector	16.2	8.9	–	–	–
Construction and real estate	12.4	5.4	4.6	0.3	0.3
Individuals	7.5	7.2	3.8	0.8	2.7
Banks and other financial institutions	2.0	1.8	0.2	–	–
Others	2.1	0.9	1.7	0.7	0.1
Total	**88.5**	**60.2**	**31.1**	**3.5**	**8.4**

14 AGEING OF IMPAIRED AND PAST DUE LOANS BY REGION

	GCC BD millions	Europe BD millions	Asia BD millions	Others BD millions	Total BD millions
3 months up to 1 year	3.5	–	0.9	–	**4.4**
1 to 3 years	19.4	–	0.2	–	**19.6**
Over 3 years	62.5	2.0	–	–	**64.5**
Total past due and impaired loans	**85.4**	**2.0**	**1.1**	**–**	**88.5**
Stage 1: 12-month ECL and stage 2: Lifetime ECL not credit- impaired	(30.6)	(0.2)	(0.2)	(0.1)	**(31.1)**
Stage 3: Lifetime ECL credit- impaired	(59.9)	–	(0.3)	–	**(60.2)**

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	2.8	–	0.2	–	1.2	0.2	**4.4**
1 to 3 years	6.1	–	8.7	–	4.7	0.1	**19.6**
Over 3 years	39.4	2.0	3.5	16.2	1.6	1.8	**64.5**
Total past due and impaired loans	**48.3**	**2.0**	**12.4**	**16.2**	**7.5**	**2.1**	**88.5**

16 RESTRUCTURED LOANS

	BD millions
Loans restructured during the year	19.3
Impact of restructured facilities and loans on provisions	0.5

The above restructurings did not have any significant impact on present and future earnings and were primarily extentions of the loan tenor, revisions in interest rate, and additional collateral received.

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA)/STANDARDISED APPROACH 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 January 2021 to December 2021 is as follows:

VaR Results for 2021 (10 day 99%)
Global (BAHRAIN and KUWAIT)
1 January 2021 to 31 December 2021

Asset class	Limit BD millions	VaR 31 December 2021 BD millions	High VaR BD millions	Low VaR BD millions	Average VaR BD millions
Foreign exchange	0.6	0.4	0.4	0.2	0.3
Interest rate	0.2	0.0	0.0	0.0	0.0
	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 January 2021 to December 2021 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

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.

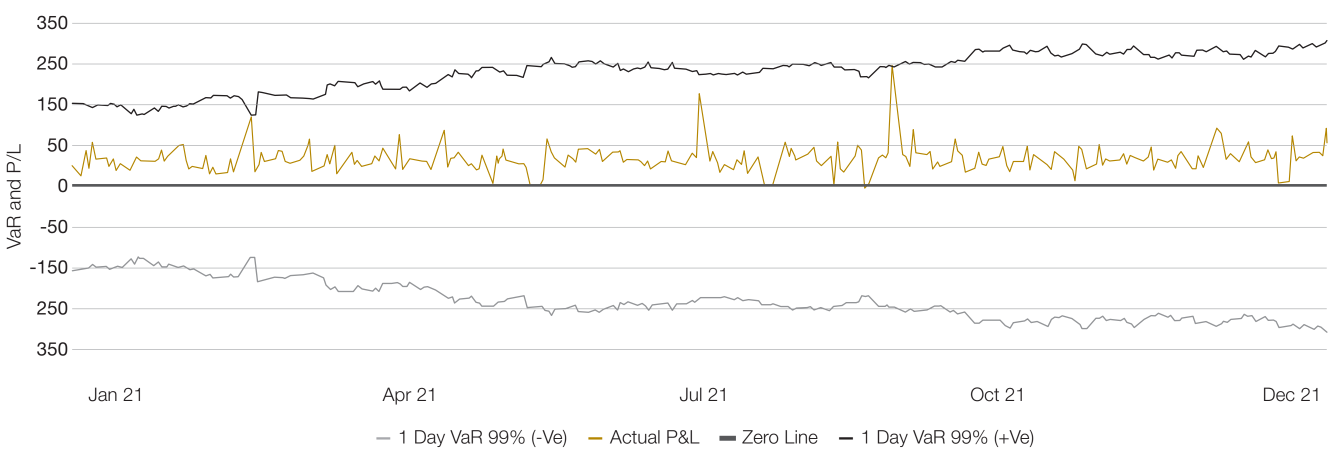
Month end VaR (10 day 99%)

Month	VaR BD millions
January 2021	0.20
February 2021	0.24
March 2021	0.27
April 2021	0.31
May 2021	0.33
June 2021	0.30
July 2021	0.32
August 2021	0.32
September 2021	0.36
October 2021	0.34
November 2021	0.36
December 2021	0.38

17 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA)/STANDARDISED APPROACH FOR TRADING PORTFOLIOS continued

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 January 2021 to December 2021



As banks in India are still in a nascent stage of developing internal risk management models, Reserve Bank of India has decided that, to start with, banks may adopt the standardised method and market risk shall be measured using "duration" method, which is considered as a more accurate method of measuring interest rate risk, as compared to maturity method. Accordingly, BBK India has adopted standardised duration method to arrive at the capital charge for market risk. As of 31 December 2021, Capital Charge calculated based on above parameters was as follows:

Capital Charge	31 Dec 2021 BD millions
Foreign exchange	0.09
Interest rate	0.53
	0.63

18 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD millions
Sovereign	988.3
Total	**988.3**

19 CREDIT DERIVATIVES EXPOSURE

The bank is not exposed to any credit derivatives as at 31 December 2021.

20 EQUITY POSITIONS IN THE BANKING BOOK

	BD millions
Publicly traded equity shares	50.2
Privately held equity shares	23.2
Total	**73.4**
Regulatory capital required 14.0%	**10.3**

21 NET GAINS ON EQUITY INSTRUMENTS

	BD millions
Realised gains in retained earnings (net)	2.3
Unrealised gains in CET1 Capital (net)	3.1

22 LEVERAGE RATIO

In November 2018, CBB issued its final Leverage Regulation, with an effective date of 30 June 2019. The leverage ratio is a simple ratio that serves as a supplementary measure to the risk-based capital requirements. It aims to constrain the build-up of leverage in banking sector, reinforce the risk-based requirements with a simple non-risk based "backstop" measure, and serve as a broad measure of both the on and off-balance sheet sources of bank leverage.

The leverage ratio is measured as Tier 1 Capital divided by Total Exposures. Total Exposures consist of on-balance sheet, off-balance sheet, derivatives and securities financing transactions exposures. As per CBB regulations, Bahraini banks must meet a 3 percent leverage ratio minimum requirement at all times, except for Domestic Systemically Important Banks (DSIBs), where the minimum ratio is higher at 3.75 percent. Accordingly, as a DSIB bank, the minimum ratio for BBK is 3.75 percent. As of 31 December 2021, the leverage ratio for Bank of Bahrain and Kuwait B.S.C. stood at 13.75 percent on consolidated level.

Part IV

Minutes

108 Minutes of the Ordinary General Assembly Meeting
113 Minutes of the Extra-ordinary General Assembly Meeting

Translation of the Minutes of Meeting from Arabic. The Arabic version shall prevail.

Minutes of the Ordinary General Assembly Meeting of

Bank of Bahrain and Kuwait

Meeting No. 1/2021
Time: 10.00 am

Date: Wednesday, 24 March 2021
Place: Through Video Conferencing

On the date and place referred to hereinabove, Mr. Murad Ali Murad, in his capacity as the chairman of the Board of Directors announced the opening of the Ordinary General Assembly Meeting of the Shareholders.

This meeting is held pursuant to Articles 198, 199, 200 and 201 of the Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, and its amendments, and Articles from 46 to 50 of the BBK's Articles of Association. Invitation to this meeting was published as an announcement in Alayam, Akhbar Al Khaleej and GDN newspapers on 4th March 2021. The announcement included the invitation and agenda. The concerned authorities were notified including Ministry of Industry, Commerce, and Tourism, Central Bank of Bahrain (CBB), Bahrain Bourse and the external auditors Ernst and Yong. The Bank held this meeting and also the Extra-ordinary General Assembly Meeting that followed this meeting through video conferencing line with the guidance of the esteemed Government and the Ministry of Health with respect to the procedures for combating the Corona Virus and contain its spread in the Kingdom of Bahrain.

The meeting was attended by:

- Shareholders whose total present shareholding, whether those who were present in person or by proxy, 1,089,736,435 shares of the total Bank's shares of 1,361,736,332 shares, representing 80.76% (after deduction of treasury shares from the total shares) as per the approved registration of virtual attendance with the support shares registrar who announced the same prior to the commencement of the meeting.
- Members of the Board of Directors:
- Mr. Murad Ali Murad, Chairman of the Board of Directors, Chairman of the Audit, Compliance Committee and Nominations & Remunerations & Governance Committees.
- Mr. Mohamed A.Rahman Hussain, Chairman of the Executive Committee (Through Video).
- Mr. Hani Ali Al Maskati, Head of Risk Committee (Through Video).

- Group Chief Executive.
- Group Chief Financial Control and Planning Group (Through Video).
- Group Chief Human Resources and Administration (Through Video).
- Group Chief Operations and IT (Through Video).
- Head of Group Corporate Secretariat.
- Bank's Legal Advisor (Through Video).
- Representative of Ministry of Industry, Commerce and Tourism (Through Video).
- Representatives of Central Bank of Bahrain (Through Video).
- Representative of External Auditors, Ernst & Yong (Through Video).
- Representative of Bahrain Bourse (Through Video).
- Representatives of KFintech (Through Video).

At the start of the meeting, the Chairman, for himself and on behalf of the Board of Directors welcomed the shareholders and the representatives of the official and concerned authorities. He stated that the year 2020 was an unprecedented year for the world, when the Bank focused on three major aspects i.e. health and safety of its employees, providing support to its customers and continuing its business in the best possible manner irrespective of the effects of COVID-19, ensuring that all services are available at all times, while exerting efforts to ensure high quality digital services.

The Chairman presented the items on the agenda, which were approved, as follows:

1. Approval of the minutes of Ordinary General Assembly meeting held on 24 March 2020.
The Chairman explained that the annual report of the Bank contains the above-mentioned minutes of meeting and hence there is no need to recite the same.

Resolution No. 1-1/2021
"The Ordinary General Assembly approved the previous minutes of meeting held on 24.3.2020 as is".

Note: During discussion of the above-mentioned subject, shareholder Mr. Ali Al Tarif commented and congratulated the Bank for the good results. He confirmed that he had no comments on the Minutes as it has covered all the deliberations of the shareholders. He emphasized on the unprecedented communication bridge with the shareholders through the Group Corporate Secretary and the efforts targeted towards the interest of all. He wished that the Bank will continue its success and achieve the best at all times. The Chairman thanked Mr. Ali Al Tariff for his positive comments and wished everyone success and prosperity.

2. Discussing and approving the report of the Board of Directors on the Bank's business during the year ended 31.12.2020 with a brief presentation by the Group Chief Executive on the major activities and achievements of the Bank during the year.
The Group Chief Executive made a brief presentation covering the major activities and achievements of the Bank during the year 2020, the Bank's key performance indicators, attention to human resources, sustainability and the remarkable role played by the Bank to enhance its social responsibility. The presentation by the Group Chief Executive forms an integral part of the minutes of this meeting.

Note: The minutes includes the deliberations by the shareholders in this respect and shall form an integral part of these minutes.

3. Reciting the Auditors' Report on the Bank's business for the year ended 31.12.2020.
The Ordinary General Assembly listened to the External Auditors' Report and the shareholders had no comments on the same.

4. Discussing and approving the Financial Statements for the year ended 31.12.2020
The Chairman stated that among the customers support initiatives during the year and in line with the instructions of the Central Bank of Bahrain, the Bank exempted its customers from payment of interest on loans for a period of six months, with a cost of approximately 20 million Bahraini Dinars. The Central Bank of Bahrain had granted the local banks exemptions of some regulatory indicators that should be usually satisfied, for example, the liquidity indicator. However, with the blessing of Allah, the Bank did not require changing its financial indicators, which confirm the solid financial position of the Bank and its diversified business. The financial performance of the Bank during such circumstance was better than good, emphasizing that the aspiration of the Bank and shareholders far exceeds the same. After deliberations, the Ordinary General Assembly resolved the following:

Resolution No. 2-1/2021
"The Ordinary General Assembly approved the Financial Statements for the year ended 31.12.2020".

Note: The minutes includes the deliberations by the shareholders in this respect and shall form an integral part of these minutes.

5. Approval of the recommendation of the Board of Directors to approve the following allocations:
- Distribution of the sum of BD 26,986,949.300 as dividends for the year 2020, at the rate of 20 Fils per share, equal to 20% of the capital. The dividends will be distributed on 12.04.2021.
- Distribution of free bonus shares to the shareholders at the rate of 10% of the paid-up capital, equal to one share against each 10 shares owned, totaling BD13,617,363.300 and therefore the paid-up capital of the Bank following the increase shall increase to BD 149,790,996.500 divided into 1,497,909,965 shares.
- Transfer of BD 5,203, 343.300 to the statutory reserve.
- Transfer of BD 2,601.671.600 to the general reserve.
- Approve the sum of BD 2,200,000 for donations in respect of the Bank and its subsidiaries.
- Allocate BD1,424,105.400 as retained earnings to be carried forward to next year.

Resolution No. 3-1/2021
"The Ordinary General Assembly approved the above-mentioned recommendations".

6. **Reporting the transactions that took place during the financial year ended 31 December 2020 with any of the related parties as stated in Note No. (26) of the Financial Statements subject to Article 189 of the Companies Commercial Law**

The Ordinary General Assembly took note of the subject without any comments.

7. **Discussion of the Bank's Corporate Governance for 2020 and the Bank's compliance with the requirements of the Central Bank of Bahrain regarding the same**

The Chairman explained the Bank's keen interest in this subject and stated that the annual report of the Bank contains a special section detailing this subject. Consequently, he requested the Group Corporate Secretary to read the summary of the Bank's corporate governance report.

The Group Corporate Secretary stated that the Bank maintains a complete guide on corporate governance and accurately discloses its corporate governance practices. He also stated that information on the Board's committees, their meetings and members participation therein, continuous development programs for Board members, sessions held for such purpose, main transactions that require the Board's approved, methodology for the Board members to obtain technical advice, evaluation procedures for the Board and its committees and the members individually, organizational chart, information related to the members of the Board, and classifying them as independent or non-independent and information on the executive management, the total expenses of the Board of Directors and the remuneration of the Executive Management are all stated in the corporate governance report, which is part of the annual report of the Bank (pages 26-36). He also disclosed the total remuneration of the Group's external auditors during the year 2020. He mentioned that these disclosures are in line with the requirements of the Central Bank of Bahrain while maintaining the rights of individuals to confidentiality of personal information.

He added that some additional disclosures in the corporate governance report of 2020, which represents part of the Bank's annual report in respect of the initiatives that were implemented in the year 2020 to enhance the Bank's corporate governance practices, are mentioned in details in the annual report as follow:

1. Details of the subjects related to dealing with conflict of interest as per the relevant policy and what has been done during 2020 to implement the policy.
2. The issues that have not been fully complied with as per the requirements of the Central Bank of Bahrain. Some of these non-compliance issues were resolved immediately and for others a timeframe has been drawn for addressing the same, being some procedural disclosure matters related to the election of the Board of Directors which must be clearer in the notice of election in addition to some minor changes related to the terms of reference of Board committees. However, even if the terms of reference of the committees have not been amended, the Bank has been in compliance with the requirements of the CBB in this regards. Finally the formation of the risk committee which must be changed to increase the number of independent members.
3. It is worth noting that the Bank has passed three phases of examining compliance with regulatory requirements, the first of which was the one conducted by the Internal Audit Department, the second by the Compliance Department and the third by Group Corporate Secretariat.
4. The results of Board, Board members and Board's committees' evaluation for the year 2019 are stated in the Bank's annual report. The Bank has also completed its evaluation for the year 2020 as well, at the beginning of this year and the results were very positive and the percentage of attendance of the Board of Directors during the year was 100%. There are some recommendations to develop the Board's operations as follows:

- More reliance on technology and digitalization in the operations of the Board and its committees.
- Re-form the committees periodically so that all the members could benefit and acquire experience in other committees.
- Consider holding more meetings for the Independent Directors' Committee.
- Consider shortening the duration of the Board meetings in order to concentrate on issues with priority.
- Upgrade the virtual communication system.

5. Proceed with developing the general sustainability framework for the Bank.

Resolution No. 4-1/2021
"The Ordinary General Assembly approved the Bank's Corporate Governance Report for the year 2020 without any comments".

8. **Approve the recommendation of the Board of Directors to approve payment of BD 552,500 as remuneration to the members of the Board for the year 2020**

Resolution No. 5-1/2021
"The Ordinary General Assembly approved the recommendation of the Board of Directors for payment of BD 552,500 as remuneration to the members of the Board for the year 2020".

9. **Appoint an auditor for the Bank for the financial year 2021 subject to the consent of the CBB and authorize the Board of Directors to determine their fees**

The Chairman stated that the Board of Directors has submitted its recommendation to re-appoint M/S. Ernst & Yong, the current external auditors of the Bank as per the recommendation of the Board's Audit and Compliance Committee subject to the approved of the CBB.

Resolution No. 6-1/2021
"The Ordinary General Assembly approved the re-appointment of M/S. Ernst & Yong, the current external auditors of the Bank to carry out the assignment".

10. **Absolve the members of the Board of Directors from any liability in respect of all their acts for the year ended 31.12.2020.**

Resolution No. 7-1/2021
"The Ordinary General Assembly approved this subject".

11. **Any other business subject to Article (207) of the Commercial Companies Law**

There was no other business to discuss under this item.

Shareholders Discussions
The shareholders had a number of questions related to items on the agenda as follows:

Questions of Shareholder Mr. Ali Al Tariff:

- Shareholder Mr. Ali Al Tariff praised the Bank's officer's efforts in appearing on the social media to update the shareholders and the public on the latest progress at the Bank. He spoke also about the Financial Analysts Conference which was held mid-2020. He stated that in the first quarter of 2021 the conference was announced at 11.45 am although the conference was held on the same day at 2.00 pm and that this is a very short notice. He hoped that such conferences will continue but with prior announcement before a reasonable period of time so that the interested people could easily attend.

  Response of Chairman: We request the Management to consider this request.

- With regard to the acquisition issue, I would like to say in brief that one of the other banks paid substantial amounts in connection with the acquisition issue and that it was better to avoid this and invest these amounts to establish a new bank by using such amounts, and I hope that BBK will not commit the same mistake and the acquisition issue to be look at on commercial basis only. He also inquired about the other assets in Ithmaar Group, other than the retail bank that BBK could acquire.

  Response of Chairman: At the time being, the Bank is bound by the memorandum of understanding signed with the other party, which shows the possibility of disclosing everything in time for the acquisition of Ithmaar Bank and some of the assets related to Ithmaar Holding. He added that the issue is subject to a study done by a consulting office and once other stages are reached, the Bank shall disclose the facts following the conduct of the study. The Chairman confirmed that BBK is considering the issue on merely commercial basis and the Bank has no other interest.

Questions of the shareholder Mr. Ahmed Fakhro:

- We noticed that the capital adequacy ratio has dropped to 14% in April last year when BBK passed through difficult times.

  Response of Chairman: There has been a number of fluctuations during last year however the important issue is that the capital adequacy ratio at the end of the year was high, and the periodical disclosure is necessary, and with time the situation has improved and now it is considered very good.

- The liquidity indicators stated in the presentation of the Group CE are good however why they are not stated in the initial pages (page 5) of the annual report.

  Response of Chairman: Indeed the liquidity indicators are excellent and the CBB has given the Bank the opportunity to reduce the indicators last year however the Bank did not need that. With regard to the US Dollar, there were some impacts last year due to the difficult situation, locally, regionally and internationally. There is nothing that the Bank would not disclose and the Management will consider to highlight such indicators in the initial pages of the annual report in the future.

- We noticed that some affiliates have suffered losses.

  Response of Chairman: Due to some difficult circumstances and an exceptional year, the results of some of the affiliated companies such as Bahrain Credit Facilities and Benefit, were below expectation for different reasons, and since BBK maintained substantial interest in them, it affected the earnings from those companies.

- Why the annual report did not contain any information about the nun- performing loans and what is the percentage of such loans?

  Response of Group CE: These information are indicated in the annual report, page 78.

- Why the ESG rating of the Bank has dropped from (6) in 2018 to (13) in 2020 and when will BBK develop its ESG framework?

  Response of Group CE: BBK commenced compiling a comprehensive ESG Study in 2020 and a committee was formed by the Bank's management for this purpose. It is expected to finalize the general framework in 2021, and pursuant to such study the basic elements and indicators shall be determined. In the absence of a general framework recognized by the Bank, the evaluations and comparisons may not be accurate.

- The increase in the percentage of profit for using in social responsibility initiatives is something that the Bank deserves applauding, however why the Bank does not approve a certain percentage of profit for such purpose?

  Response of Chairman: The Board does not see any relation between the net annual profits with social responsibility initiatives, however at the same time the Bank pays attention to this issue.

- Why the Bank does not have a hotline which we have suggested two years ago?

  Response of Chairman: We request the Management to consider this suggestion.

- I have a comment related to the non-performing loans. Why such loans are not stated as part of the financial indicators in the first pages of the annual report?

  Response of Chairman: The Management shall consider highlighting such indicators in the initial pages of the annual report in the future in addition to the liquidity indicators.

Questions of Shareholder Mr. Maysan Al Maskati (Representative of Ithmaar Holding Company):

- Why the loan portfolio, specifically corporate and customers' deposits are less than 2019?

  Response of Chairman: The comparison between 2019 and 2020 is very difficult and the operating environment is different as there were no new credit facilities requests in the corporate sector in 2020 however the Bank was in the process of helping its customers in this sector to bypass this difficult stage. The major damage was in the corporate sector and this is normal. With regard to the corporate and government deposits, the governments withdrew some of these amount particularly in BBK Branch in the State of Kuwait.

- Why do we not see any representation of women in the Executive Management?

  Response of Group CE: The Bank pays special attention to this issue and 5 women were appointed during 2020 in the boards of directors of the Bank and its subsidiaries. There are a number of women working in middle management and we are in the process of developing them to take over leading positions. We hope to achieve this in the near future.

Questions of Mr. Riyad Yousif (Representative of a local bank):

- What are the Bank's expectations with regard to capital adequacy during 2021?

  Response of Chairman: It is difficult to expect anything at the present time as the situations is not yet stable. We still did not reach to the end of the Pandemic and still learning about its effects in full.

- We noticed that the efficiency ratio has been affected during the year.

  Response of Chairman: The efficiency ratio is affected by two factors i.e. income and expenses. During the previous years the efficiency rate was acceptable however it was affected in 2020 because the income has not grown due to the pandemic. With regard to the expenses, the Bank is trying to control the expenses or reduce them if possible.

  The Group CE added that despite the digital transformation project, the operating expenses did not exceed last year's figures.

The Chairman thanked all of the attendees for being present and for their participation in the meeting. Hence, the Ordinary General Assembly concluded its meeting at 11:20 am on the same date which is stated at the beginning of these Minutes, to commence discussion of the items on the agenda of the Extra-ordinary General Assembly.

May Allah Grant Success.

Ahmed AbdulQudoos Ahmed	**Murad Ali Murad**
Group Corporate Secretary	Chairman of the Board of Directors Meeting Chair

Translation of the Minutes of Meeting from Arabic. The Arabic version shall prevail.

Minutes of the Extra-ordinary General Assembly Meeting of

Bank of Bahrain and Kuwait

Meeting No. 1/2021 — **Date:** Wednesday, 24 March 2021

Time: 11.20 am — **Place:** Through Video Conferencing

On the date and place referred to hereinabove, Mr. Murad Ali Murad, in his capacity as the chairman of the Board of Directors announced the opening of the Extra-ordinary General Assembly Meeting of the Shareholders.

This meeting is held pursuant to Articles 198, 199, 200 and 201 of the Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, and its amendments, and Articles from 46 to 50 of the BBK's Articles of Association. Invitation to this meeting was published as an announcement in Alayam, Akhbar Al Khaleej and GDN newspapers on 4th March 2021. The announcement included the invitation and agenda. The concerned authorities were notified including Ministry of Industry, Commerce, and Tourism, Central Bank of Bahrain, Bahrain Bourse and the external auditors: Ernst and Yong.

The meeting was attended by:

- Shareholders whose total current shareholding, whether those who were present in person or by proxy, 1,089,736,435 shares of the total Bank's shares of 1,361,736,332 shares, representing 80.76% (after deduction of treasury shares from the total shares) as per the approved registration of virtual attendance with the support shares registrar who announced the same prior to the commencement of the meeting.
- Members of the Board of Directors:
  - Mr. Murad Ali Murad, Chairman of the Board of Directors, Chairman of the Audit, Compliance Committee and Nominations, Remunerations & Governance Committees.
  - Mr. Mohamed A.Rahman Hussain, Chairman of the Executive Committee (Through Video).
  - Mr. Hani Ali Al Maskati, Chairman of the Risk Committee (Through Video).
- Group Chief Executive.
- Group Chief Financial Control and Planning Group (Through Video).
- Group Chief Human Resources and Administration (Through Video).
- Group Chief Operations and IT (Through Video).
- Head of Group Corporate Secretariat.
- Bank's Legal Advisor (Through Video).
- Representative of Ministry of Industry, Commerce and Tourism (Through Video).
- Representatives of Central Bank of Bahrain (Through Video).
- Representative of External Auditors, Ernst & Yong (Through Video).
- Representative of Bahrain Bourse Company (Through Video).
- Representatives of K. Fintech (Through Video).

The Chairman, Mr. Murad, presented the items on the agenda as follows:

1. **Approval of the previous minutes of meeting held on 24 March 2020.**
The Chairman explained that the annual report of the Bank contains the above-mentioned minutes of meeting and hence there is no need to recite the same.

Resolution No. 1-1/2021

"The Extra-ordinary General Assembly approved the previous minutes of meeting held on 24.3.2020 as is".

2. **Approve the recommendation of the Board of Directors to increase the issued and paid-up capital from BD 136,173,633.200, divided into 1,361,736,332 shares to BD 149,790,996.500 divided into 1,497,909,965 shares in order to distribute bonus shares.**

Resolution No. 2-1/2021

"The Extra-ordinary General Assembly approved the above-mentioned subject".

3. **Amend Article (7) of the Memorandum of Association "Issued and Paid-up Capital" and Article (7) of the Articles of Association "Issued and Paid-up Capital" according to the increase of the issued and paid-up capital to BD149,790,996.500.**

Resolution No. 3-1/2021

"The Extra-ordinary General Assembly approved the above-mentioned subject".

4. **Authorize the Board of Directors or a person that may be delegated by the Board to complete all necessary steps with the concerned authorities in the Kingdom of Bahrain to obtain the necessary official consents.**

Resolution No. 4-1/2021

"The Extra-ordinary General Assembly approved the above-mentioned subject".

5. **Any other business subject to Article (207) of the Commercial Companies Law.**
There was no issue for discussion under this item.

In conclusion, the Chairman expressed his thanks to all those who attended the meeting and hoped that the efforts of the Board of Directors, the Executive Management and the Bank's employees will be crowned with success, by joining forces, to move the Bank towards further prospect and progress. He wished the Kingdom of Bahrain to overcome the current crisis due to the outbreak of COVID-19 and overcome the health and economic impacts resulting from such pandemic.

Hence, the Extra-ordinary General Assembly concluded its meeting at 11:35 am on the same date stated at the beginning of these Minutes.

May Allah Grant Success.

Ahmed AbdulQudoos Ahmed	**Murad Ali Murad**
Group Corporate Secretary	Chairman of the Board of Directors Meeting Chair