

Bank of Bahrain and Kuwait B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Expected credit loss on loans and advances	
Key audit matter	How the key audit matter was addressed in the audit
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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; • Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models; 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. <p>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.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates.</p> <p>With the involvement of our internal specialists, our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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; and ○ 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. • We evaluated the key management assumptions related to the determination of the future macroeconomic scenarios including forward-looking information and assigning probability weights, incorporating considerations for the impact of COVID-19.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)

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
<p>As at 31 December 2020, the Group's gross loans and advances amounted to BD 1,648.2 million and the related ECL amounted to BD 92.4 million, comprising BD 29.1 million of ECL against Stage 1 and 2 exposures and BD 63.3 million against exposures classified under Stage 3.</p> <p>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.</p>	<ul style="list-style-type: none"> We reviewed a sample of credit files and performed procedures to assess: <ul style="list-style-type: none"> timely identification of exposures with a significant increase in credit risk and evaluated the Group's 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 2020 Annual Report

Other information consists of the information included in the Group's 2020 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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, related safeguards.

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 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)**

Report on Other Legal and Regulatory Requirements (continued)

- 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.






Partner's registration no. 45
15 February 2021
Manama, Kingdom of Bahrain

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		All figures in BD millions	
	Notes	2020	2019
ASSETS			
Cash and balances with central banks	4	256.5	376.4
Treasury bills	5	487.8	484.4
Deposits and amounts due from banks and other financial institutions	6	318.9	278.3
Loans and advances to customers	7	1,555.8	1,670.9
Investment securities	8	957.3	875.0
Investments in associated companies and joint ventures	9	65.5	70.6
Interest receivable, derivative and other assets	10	83.1	74.2
Premises and equipment	11	35.5	35.2
TOTAL ASSETS		3,760.4	3,865.0
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		330.3	363.1
Borrowings under repurchase agreement		399.2	313.4
Term borrowings	12	188.5	333.0
Customers' current, savings and other deposits	13	2,167.4	2,169.5
Interest payable, derivative and other liabilities	14	160.5	139.0
Total liabilities		3,245.9	3,318.0
Equity			
Share capital	15	136.2	129.7
Treasury stock	15	(5.2)	(5.2)
Share premium	15	105.6	105.6
Statutory reserve	15	66.8	61.6
General reserve	15	61.6	54.1
Cumulative changes in fair values	16	(11.4)	11.2
Foreign currency translation adjustments		(12.8)	(12.2)
Retained earnings		125.6	144.6
Proposed appropriations	17	45.4	54.5
Attributable to the owners of the Bank		511.8	543.9
Non-controlling interests		2.7	3.1
Total equity		514.5	547.0
TOTAL LIABILITIES AND EQUITY		3,760.4	3,865.0

		
Murad Ali Murad	Abdulla bin Khalifa bin Salman Al-Khalifa	Dr. AbdulRahman Saif
Chairman	Deputy Chairman	Group Chief Executive

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

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	<i>All figures in BD millions</i>	
		2020	2019
Interest and similar income	18a	137.7	176.4
Interest and similar expense	18b	(56.9)	(69.1)
Net interest and similar income		80.8	107.3
Fee and commission income - net	19	19.6	26.6
Investment and other income	20	18.3	17.6
TOTAL OPERATING INCOME		118.7	151.5
Staff costs		(35.1)	(38.1)
Other expenses		(25.6)	(25.1)
TOTAL OPERATING EXPENSES		(60.7)	(63.2)
Total provisions - net	21	(5.6)	(18.9)
NET OPERATING INCOME		52.4	69.4
Share of (loss) / profit from associated companies and joint ventures	9	(0.1)	6.8
PROFIT FOR THE YEAR BEFORE TAX		52.3	76.2
Tax write-back / (expense)	22	0.3	(0.2)
PROFIT FOR THE YEAR AFTER TAX		52.6	76.0
Attributable to:			
Owners of the Bank		52.0	75.4
Non-controlling interests		0.6	0.6
		52.6	76.0
Basic and diluted earnings per share (BD)	23	0.039	0.056



Murad Ali Murad
Chairman



Abdulla bin Khalifa bin Salman
Al-Khalifa
Deputy Chairman



Dr. AbdulRahman Saif
Group Chief Executive

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	<i>All figures in BD millions</i>	
		2020	2019
Profit for the year		52.6	76.0
Other comprehensive (loss) / income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Fair value through other comprehensive income (equity instruments)		0.8	7.6
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
<i>Movement in translation reserve:</i>			
Foreign currency translation adjustments		(0.6)	(0.5)
<i>Movement in hedging reserve:</i>			
Effective portion of changes in fair value	16	(0.7)	(1.1)
<i>Movement in fair value reserve:</i>			
Net change in fair value	16	(19.2)	30.6
Net amount transferred to profit or loss	16	(3.4)	(2.7)
Other comprehensive (loss) / income for the year		(23.1)	33.9
Total comprehensive income for the year		29.5	109.9
Attributable to:			
Owners of the Bank		28.9	109.3
Non-controlling interests		0.6	0.6
		29.5	109.9

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

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

All figures in BD millions

Attributable to the owners of the Bank													
Notes	Perpetual tier 1 convertible			Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Foreign currency translation adjustments	Retained earnings	Proposed appropriations	Total	Non-controlling interests	Total equity
	Share capital	Treasury stock	capital securities										
Balance at 1 January 2019	108.2	(2.5)	86.1	41.0	54.1	54.1	(25.1)	(11.7)	148.9	44.6	497.7	2.7	500.4
Profit for the year	-	-	-	-	-	-	-	-	75.4	-	75.4	0.6	76.0
Other comprehensive income	-	-	-	-	-	-	36.3	(0.5)	(1.9)	-	33.9	-	33.9
Total comprehensive income	-	-	-	-	-	-	36.3	(0.5)	73.5	-	109.3	0.6	109.9
Share-based payments	42	-	-	-	-	-	-	-	0.6	-	0.6	-	0.6
Distribution on perpetual tier 1 convertible capital securities	23	-	-	-	-	-	-	-	(3.6)	-	(3.6)	-	(3.6)
Conversion of perpetual tier 1 convertible capital securities	15	21.5	-	(86.1)	64.6	-	-	-	-	-	-	-	-
Dividends paid	17	-	-	-	-	-	-	-	(12.8)	(43.0)	(55.8)	(0.2)	(56.0)
Donations	17	-	-	-	-	-	-	-	-	(1.6)	(1.6)	-	(1.6)
Movement in treasury stock	15	-	(2.7)	-	-	-	-	-	-	-	(2.7)	-	(2.7)
Transfer to statutory reserve	15	-	-	-	7.5	-	-	-	(7.5)	-	-	-	-
Proposed appropriations	17	-	-	-	-	-	-	-	(54.5)	54.5	-	-	-
Balance at 31 December 2019	129.7	(5.2)	-	105.6	61.6	54.1	11.2	(12.2)	144.6	54.5	543.9	3.1	547.0
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

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

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

		<i>All figures in BD millions</i>	
	<i>Notes</i>	2020	2019
OPERATING ACTIVITIES			
Profit for the year before tax		52.3	76.2
Adjustments for non-cash items:			
Depreciation	11	7.1	6.1
Total provisions - net	21	5.6	18.9
Share of loss / (profit) from associated companies and joint ventures	9	0.1	(6.8)
Realised gains on sale of investment securities	20	(3.5)	(3.0)
Accrual on term borrowings		12.9	5.0
Operating profit before changes in operating assets and liabilities		74.5	96.4
(Increase) / decrease in operating assets			
Mandatory reserve deposits with central banks		37.5	(13.4)
Treasury bills having original maturity of ninety days or more		(3.4)	(74.0)
Deposits and amounts due from banks and other financial institutions		22.6	(19.6)
Loans and advances to customers		92.1	83.4
Interest receivable, derivative and other assets		(7.4)	2.5
Increase / (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		(32.8)	104.5
Borrowings under repurchase agreements		85.8	114.4
Customers' current, savings and other deposits		(2.1)	(205.0)
Interest payable, derivative and other liabilities		3.0	29.5
Income tax paid		(0.1)	(0.6)
Net cash flows from operating activities		269.7	118.1
INVESTING ACTIVITIES			
Purchase of investment securities		(538.0)	(407.9)
Redemption / sale of investment securities		437.6	372.3
Net investment in associated companies and joint ventures	9	3.0	(6.1)
Dividends received from associated companies and joint ventures	9	3.1	3.9
Purchase of premises and equipment		(7.5)	(13.8)
Net cash flows used in investing activities		(101.8)	(51.6)
FINANCING ACTIVITIES			
Payment of dividends and other appropriations	17	(40.5)	(57.6)
Repayment of term borrowings	12	(144.5)	-
Issue of term borrowings	12	-	188.5
Distribution on perpetual tier 1 convertible capital securities	23	-	(3.6)
Movement in treasury stock		-	(2.7)
Movement in share-based payments	42	0.4	0.6
Net cash flows (used in) / from financing activities		(184.6)	125.2
NET CHANGE IN CASH AND CASH EQUIVALENTS		(16.7)	191.7
Foreign currency translation adjustments - net		(2.4)	(0.3)
Cash and cash equivalents at beginning of the year		536.8	345.4
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	517.7	536.8
Additional cash flow information:			
Interest received		138.3	176.4
Interest paid		65.7	69.2

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

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 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 15 February 2021.

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", which has been applied retrospectively and did not result in any change to the financial information reported for the comparative year.

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.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above mentioned modifications to accounting policies and in note 3.2, all other accounting policies remain the same and have been consistently applied in the preparation of these consolidated financial statements. The change in accounting policies, as explained above, did not result in any change to the financial information reported for the comparative year.

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 BASIS OF PREPARATION (continued)**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 (FVOCI), trading investments and financial assets designated at fair value through profit or 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, which is also the functional and presentation currency of the Bank. Furthermore, all values are rounded-off to the nearest millions, except 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:

<i>Held directly by the Bank</i>	<i>Ownership</i>		<i>Country of incorporation</i>	<i>Activity</i>
	<i>2020</i>	<i>2019</i>		
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:

<i>Held indirectly by the Bank</i>	<i>Effective ownership</i>		<i>Subsidiary held through</i>	<i>Country of incorporation</i>	<i>Activity</i>
	<i>2020</i>	<i>2019</i>			
Global Payment Services W.L.L.	70%	55%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Cards processing and backup services
Invita Kuwait K.S.C.C.	60%	60%	Invita Company B.S.C. (c)	State of Kuwait	Business processing and outsourcing services
Invita Claims Management Company	70%	70%	Invita Company B.S.C. (c)	Kingdom of Bahrain	Third party administrators services

During the year, the Bank and Ithmaar Holdings B.S.C. ("Ithmaar Holding") executed a memorandum of understanding ("MOU") to streamline the formal process of the potential acquisition by the Bank of certain assets belonging, directly or indirectly, to Ithmaar Holding. It should be emphasised that the spirit of the MOU is mostly not legally binding and its general terms will only be executed after obtaining all the required internal and external approvals, including regulatory authorisation. Subsequent to 31 December 2020, the Bank has appointed the main financial advisor to start the due diligence, which is under progress.

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.

2 BASIS OF PREPARATION (continued)**2.4 Basis of consolidation (continued)**

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

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

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

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

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

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

2.5 Accounting for modified financing assets and government grants

During the year, 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 has been recognised directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on 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, in response to its COVID-19 support measures, has been recognised directly in equity.

The net debit of 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 New standards and interpretations issued but not yet effective**

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

3 ACCOUNTING POLICIES (continued)**3.1 New standards and interpretations issued but not yet effective (continued)*****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 will not be affected by these amendments on the date of transition.

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.

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

The amendment 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 will not be affected by these amendments on the date of transition.

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 or IFRIC 21 Levies, 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.

3 ACCOUNTING POLICIES (continued)**3.1 New standards and interpretations issued but not yet effective (continued)*****Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (IBOR reform phase 2)***

On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The impact of the replacement of interbank offered rates with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past FY2021, when it is likely that these IBORs will cease being published or any subsequent timeline as determined by the relevant bodies. The Group is currently assessing the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

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 will not be affected by these amendments on the date of initial application.

3.2 New standards and interpretations issued and effective

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year, except the change in framework as set out in note 2.1 and for the adoption of the following new standards or amendments to existing standards, applicable to the Group, which are effective for annual periods beginning on or after 1 January 2020:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)

IBOR reform phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether an economic relationship exists and whether prospectively the hedging relationship is expected to be effective. The Group has not yet converted majority of its hedging instruments from LIBOR to an alternate benchmark rates as of the reporting date.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

3 ACCOUNTING POLICIES (continued)**3.2 New standards and interpretations issued and effective (continued)*****Amendments to IFRS 16 COVID-19 Related Rent Concessions***

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. 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 above new standards, interpretations and amendments to IFRSs which were effective for annual accounting periods starting from 1 January 2020, did not have any material impact on the accounting policies, financial position or performance of the Group.

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, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

Financial assets designation at fair value through profit or loss

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

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(a) Financial assets and financial liabilities (continued)****ii. Classification (continued)***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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(a) Financial assets and financial liabilities (continued)****iii. Derecognition (continued)***Financial assets (continued)*

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

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

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

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

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

(c) Loans and advances

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

(d) Investment securities

The investment securities includes:

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

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

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

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

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

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

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(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);

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(g) Measurement of ECL (continued)**

- ii) Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- iii) Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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

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

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

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 FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

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

The exposure to the home country sovereign i.e. Bahrain is considered to be low risk and fully recoverable. Refer to note 33 for further details.

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

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

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

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(m) Investment in associated companies and joint ventures (continued)**

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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(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 share-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

(u) Provisions

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

(v) Treasury stock

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

(w) Non-controlling interests

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

(x) Perpetual tier 1 capital securities

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

(y) Proposed dividends

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

(z) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in '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 on a straight line basis over the life of the guarantee.

(aa) Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in '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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(ab) Hedge accounting**

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

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

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

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

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

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

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

Classification of hedge accounting

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

i) Fair value hedges

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

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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(ab) Hedge accounting (continued)****ii) Cash flow hedges (continued)**

The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

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

Discontinuation of hedges

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

(ac) Fiduciary assets

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

(ad) Offsetting

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

(ae) Recognition of income and expenses

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

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by 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.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(ae) Recognition of income and expenses (continued)**

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.

(af) Foreign currencies*(i) Transactions and balances*

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

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

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

(ii) Group companies

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

(ag) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less. These cash and cash equivalent are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

3 ACCOUNTING POLICIES (continued)**3.3 Summary of significant accounting policies (continued)****(ah) 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.

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.

(ai) 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.

3 ACCOUNTING POLICIES (continued)**3.4 Significant accounting judgment and estimates (continued)*****ii) Fair value of financial instruments (continued)***

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 FVOCI 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 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. During the year, oil prices have witnessed unprecedented volatility and the overall average reduction in prices is expected to have medium to long term adverse consequences on economies.

3 ACCOUNTING POLICIES (continued)**3.4 Significant accounting judgment and estimates (continued)****v) Impact of COVID-19 (continued)**

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.

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.

The Group has also considered the various regulatory circulars and guidance issued by the IASB. These involved adjusting the macroeconomic factors used by the Group in estimation of ECL and revisions to the scenario probabilities that were previously being used in the ECL estimation.

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.

During the year, and based on regulatory directives as concessionary measures to mitigate the impact of the pandemic, the Group has provided payment holidays to financing customers without charging additional interest for its impacted customers by deferring interest for a period of six months. Further, the Group has provided additional instalment deferral with interest, as directed by regulators. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that payment holidays do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to all eligible customers.

To address the uncertainties in the current timeframe not captured in the modelled results, the management applied expert credit judgment in determining SICR since origination and weighted allowance for credit losses. In light of the significant uncertainty, the impact of expert credit judgment on allowances increased as compared to the previous year. Management also applied quantitative and qualitative adjustments for the impacts of the unprecedented macroeconomic scenarios arising from the COVID-19 pandemic, the temporary effects of the bank and government led payment support programs which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by the COVID-19 pandemic.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

All figures in BD millions

4 CASH AND BALANCES WITH CENTRAL BANKS

	2020	2019
Cash in hand and vaults	20.3	21.2
Current accounts and placements with central banks	184.7	266.2
Mandatory reserve deposits with central banks	51.5	89.0
	256.5	376.4

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 carried at amortised cost and Republic of India carried at FVOCI amounting to BD 487.8 million and BD Nil (31 December 2019: BD 482.3 million and BD 2.1 million) respectively. At 31 December 2020, treasury bills issued by Government of the Kingdom of Bahrain includes short-term Islamic Sukuk amounting to BD 41.2 million (31 December 2019: 76.7 million).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
Deposits with banks and other financial institutions	187.9	183.1
Nostro and other amounts due from banks	131.2	95.5
Less: Expected credit losses	(0.2)	(0.3)
	318.9	278.3

7 LOANS AND ADVANCES TO CUSTOMERS

	2020	2019
<i>Loans and advances to customers at amortised cost:</i>		
Commercial loans and overdrafts	1,034.3	1,229.0
Consumer loans	613.9	545.2
	1,648.2	1,774.2
Less: Expected credit losses	(92.4)	(103.3)
	1,555.8	1,670.9

Ageing analysis of past due but not impaired loans, after considering regulatory payment holidays, was as follows:

	2020			Total
	Up to 30 days	31 to 60 days	61 to 89 days	
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
	2019			Total
	Up to 30 days	31 to 60 days	61 to 89 days	
Commercial loans and overdrafts	144.5	7.8	7.6	159.9
Consumer loans	20.0	4.8	10.5	35.3
	164.5	12.6	18.1	195.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

All figures in BD millions

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2020	2019
<i>Geographic region:</i>		
Gulf Co-operation Council countries	1,373.8	1,384.9
Europe	32.4	123.1
Asia	97.3	113.5
Others	52.3	49.4
	1,555.8	1,670.9
<i>Industry sector:</i>		
Trading and manufacturing	477.5	533.2
Banks and other financial institutions	140.9	239.1
Construction and real estate	266.7	262.9
Government and public sector	14.9	7.8
Individuals	530.5	501.9
Others	125.3	126.0
	1,555.8	1,670.9

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

i) Commercial loans and overdrafts

	2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
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 / reallocated 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
	2019			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Balance at 1 January	6.3	20.8	81.7	108.8
Transferred to 12 month ECL	1.2	(0.8)	(0.4)	-
Transferred to lifetime ECL not credit-impaired	(0.3)	1.7	(1.4)	-
Transferred to lifetime ECL credit-impaired	-	(8.8)	8.8	-
Net remeasurement of loss allowance	(0.4)	(1.1)	17.3	15.8
Amounts written-off during the year	-	-	(33.6)	(33.6)
Foreign exchange and other movements	(3.6)	7.2	(3.4)	0.2
Balance at 31 December	3.2	19.0	69.0	91.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

All figures in BD millions

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

ii) Consumer loans

	2020			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
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
	2019			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
Balance at 1 January	5.1	4.7	5.5	15.3
Transferred to 12 month ECL	0.7	(0.7)	-	-
Transferred to lifetime ECL not credit-impaired	(0.1)	0.1	-	-
Transferred to lifetime ECL credit-impaired	-	(0.5)	0.5	-
Net remeasurement of loss allowance	-	(0.8)	1.4	0.6
Amounts written-off during the year	-	-	(3.7)	(3.7)
Foreign exchange and other movements	(4.0)	(0.2)	4.1	(0.1)
Balance at 31 December	1.7	2.6	7.8	12.1

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 2020 amounts to BD 71.8 million (31 December 2019: BD 54.8 million).

At 31 December 2020, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 89.4 million (31 December 2019: BD 93.4 million). These mainly consists of Murabaha and Ijarah financing facilities.

At 31 December 2020, interest in suspense for past due loans that are credit impaired was BD 24.1 million (31 December 2019: BD 19.5 million).

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8 INVESTMENT SECURITIES

31 December 2020	<i>FVTPL</i>	<i>FVOCI *</i>	<i>Amortised cost</i>	<i>Total</i>
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
31 December 2019	<i>FVTPL</i>	<i>FVOCI *</i>	<i>Amortised cost</i>	<i>Total</i>
Quoted investments:				
Government bonds	-	334.2	19.5	353.7
Other bonds	-	326.8	-	326.8
Equities	-	42.1	-	42.1
	-	703.1	19.5	722.6
Unquoted investments:				
Government bonds	-	-	126.0	126.0
Equities	-	26.2	-	26.2
Managed funds	0.7	-	-	0.7
	0.7	26.2	126.0	152.9
	0.7	729.3	145.5	875.5
Less: Expected credit losses	-	(0.5)	-	(0.5)
	0.7	728.8	145.5	875.0

* At 31 December 2020, investment securities include government and other bonds of BD 534.4 million (31 December 2019: BD 409.1 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2020, investment securities include long-term Islamic Sukuk amounting to BD 94.7 million (31 December 2019: BD 90.4 million) and Islamic equity amounting to BD 1.2 million (31 December 2019: BD 0.6 million).

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8 INVESTMENT SECURITIES (continued)

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

	2020			Total*
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
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

	2019			Total*
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
Balance at 1 January	0.1	0.3	-	0.4
Net remeasurement of loss allowance	0.1	-	-	0.1
Balance at 31 December	0.2	0.3	-	0.5

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

* This includes ECL on government and other bonds measured at amortised cost of BD 0.005 million (31 December 2019: BD 0.005 million).

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2019: 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% (2019: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40% (2019: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2019: 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% (2019: 50%) stake in Aegila Capital Management Limited, a joint venture company incorporated in the United Kingdom which is engaged in capital market advisory services for alternative investments with particular focus in the real estate.

The Group has a 49.96% (2019: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

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9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)

The Group has a 24.99% (2019: 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% (2019: 45%) 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.

	2020	2019
<i>Carrying amount of investment in associated companies and joint ventures</i>		
At 1 January	70.6	62.9
Additional contribution and acquisitions	0.1	7.1
Share of (loss) / profit for the year	(0.1)	6.8
Dividends received	(3.1)	(3.9)
Change in unrealised fair values - associated companies (note 16)	(0.7)	(1.1)
Foreign currency translation adjustments	1.8	(0.2)
Other equity movements / capital distribution	(3.1)	(1.0)
At 31 December	65.5	70.6

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:

	2020	2019
<i>Financial position related information</i>		
Total assets	76.0	75.0
Total liabilities	48.7	36.0
<i>Profit or loss related information</i>		
Revenue	3.7	2.9
Net (loss) / profit for the year	(1.3)	0.6
Total comprehensive (loss) / income for the year	(2.5)	2.3

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:

	2020	2019
Net interest income	24.6	27.6
Gross profit on automotive sales	4.3	6.8
Other operating income	7.5	13.5
Total operating income	36.4	47.9
Operating expenses	(19.1)	(22.1)
Other expenses	(13.2)	(5.2)
Adjusted profit for the year	4.1	20.6
Group's share of adjusted profit for the year	0.9	4.7

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9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)

	2020	2019
Assets		
Cash and balances with banks	9.2	6.7
Loans and advances to customers	286.6	330.6
Inventories	22.5	27.1
Other assets	50.5	57.1
Total assets	368.8	421.5
Liabilities		
Bank overdrafts	-	0.1
Trade and other payables	25.2	26.0
Bank term loans	209.6	220.0
Bonds issued	-	20.0
Total liabilities	234.8	266.1
Donation reserve	(0.5)	(0.7)
Adjusted equity	133.5	154.7
Proportion of the Group's ownership	23.03%	23.03%
Group's share of adjusted equity	30.7	35.6

The figures reported above for BCFC are based on 30 September 2020 reviewed financial statements adjusted for expected performance for the last quarter ended 31 December 2020 (2019: same).

The market value of the Bank's investment in BCFC based on the price quoted in the Bahrain Bourse at 31 December 2020 is BD 24.0 million (31 December 2019: BD 38.1 million).

10 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2020	2019
Accounts receivable	29.7	27.2
Interest receivable	19.1	19.7
Collateral pending sale	12.6	12.2
Prepaid expenses	2.3	2.1
Deferred tax asset (note 22)	1.6	1.3
Positive fair value of derivatives (note 28)	2.7	1.3
Other assets	15.1	10.4
	83.1	74.2

This includes a fully provided receivable balance of BD 6.2 million (2019: Nil) pertaining to payment made by the Group on an invoked financial guarantee.

11 PREMISES AND EQUIPMENT

	Freehold land	Properties and buildings	Furniture and equipment	Right-of- use assets	Capital work in progress	Total
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

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11 PREMISES AND EQUIPMENT (continued)

	<i>Freehold land</i>	<i>Properties and buildings</i>	<i>Furniture and equipment</i>	<i>Right-of-use assets</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost	9.0	27.7	49.3	8.4	1.4	95.8
Less: Accumulated depreciation	-	(16.8)	(41.5)	(2.3)	-	(60.6)
Net book value at 31 December 2019	9.0	10.9	7.8	6.1	1.4	35.2

The depreciation charge for the year amounted to BD 7.1 million (2019: BD 6.1 million).

12 TERM BORROWINGS

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

<i>Rate of interest</i>	<i>Maturity</i>	<i>Carrying amount</i>	
		2020	2019
3.50%	2020	-	144.5
5.50%	2024	188.5	188.5
		188.5	333.0

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2020	2019
Term deposits	719.7	965.1
Savings accounts	568.9	655.1
Current accounts	784.5	491.0
Other deposit accounts	94.3	58.3
	2,167.4	2,169.5

14 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2020	2019
Accrued expenses	38.4	49.2
Negative fair value of derivatives (note 28)	57.9	27.0
Interest payable	15.2	24.0
Accounts payable	31.7	20.6
Lease liability	6.5	6.1
Allowance for ECL on financial contracts and commitments (note 29)	4.1	3.3
Other liabilities	6.7	8.8
	160.5	139.0

15 EQUITY

	2020	2019
(i) Share capital		
<i>Authorised</i>		
1,500,000,000 shares of BD 0.100 each	150.0	150.0
<i>Issued and fully paid</i>		
1,361,736,332 shares (2019: 1,296,891,745 shares) of BD 0.100 each	136.2	129.7

15 EQUITY (continued)**(i) Share capital (continued)**

Movement of ordinary share capital was as follows:

	<i>Number of shares</i>	
	2020	2019
Shares at 1 January	1,296,891,745	1,081,647,952
Add: Issuance of stock dividend	64,844,587	-
Add: Conversion of perpetual tier 1 convertible capital securities	-	215,243,793
Shares at 31 December	1,361,736,332	1,296,891,745

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

(ii) Treasury stock

Treasury stock represents the Bank's purchase of its own shares. At the end of the year, the Bank held 12,073,869 (2019: 12,380,542) of its own shares.

	2020	2019
Consideration paid	(5.2)	(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 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 (2019: same). The Group paid BD 0.221 million (2019: BD 0.025 million) to its shareholders from the reserve account in the equity.

(vi) Perpetual tier 1 convertible capital securities

During the year 2016, the Bank issued BD 86,098 thousand Basel III compliant Additional Tier I Convertible Perpetual Capital Securities. Distribution Payment Amounts shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Capital Securities at rate of 8.25 per cent per annum. These securities were recognised under equity in the consolidated statement of financial position. During 2019, these securities were converted into ordinary shares [refer to note 15 (i)].

(vii) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 5.2 million to statutory reserve (2019: BD 7.5 million). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(viii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. During the year, the Bank transferred BD 7.5 million to general reserve (2019: Nil). The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

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16 CUMULATIVE CHANGES IN FAIR VALUES

	2020	2019
<i>Fair value through other comprehensive income</i>		
At 1 January	11.7	(25.7)
Transferred to retained earnings on sale / write-off of equity securities	(0.2)	1.9
Transferred to profit or loss on sale of investment securities (debt)	(3.6)	(2.8)
Transferred to profit or loss on impairment (debt)	0.2	0.1
Fair value changes on investment securities carried at FVOCI	(18.3)	38.2
At 31 December	(10.2)	11.7
<i>Cash flow hedges</i>		
At 1 January	(0.5)	0.6
Change in unrealised fair values	-	-
Change in unrealised fair values - associated companies (note 9)	(0.7)	(1.1)
At 31 December	(1.2)	(0.5)
	(11.4)	11.2

17 PROPOSED APPROPRIATIONS

	2020	2019
Cash dividend	27.0	38.5
Stock dividend	13.6	6.5
Transfer to general reserve [note 15 (viii)]	2.6	7.5
Donations	2.2	2.0
	45.4	54.5

The Board of Directors proposed cash dividend 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 (2019: final and interim cash dividends of BD 0.030 and BD 0.010 per share respectively, net of treasury stock as of 31 December 2019 and 30 June 2019 respectively, and a stock dividend of BD 0.005 per share). Further, a transfer of 5% (2019: 10%) of the Group's annual profit to general reserve amounting to BD 2.6 million (2019: BD 7.5 million) was proposed by the Board of Directors.

During the year, the Bank paid final cash dividend of BD 0.030 per share, net of treasury stock and a stock dividend of BD 0.005 per share pertaining to 2019 (2019: BD 0.040 per share pertaining to 2018 and BD 0.010 per share pertaining to 2019, net of treasury stock).

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

18 NET INTEREST AND SIMILAR INCOME

	2020	2019
a) INTEREST AND SIMILAR INCOME		
Loans and advances to customers	84.4	104.4
Investment securities	32.0	39.8
Treasury bills	13.1	16.1
Deposits and amounts due from banks and other financial institutions	8.2	16.1
	137.7	176.4
b) INTEREST AND SIMILAR EXPENSE		
Customers' deposits	(30.6)	(44.4)
Deposits and amounts due to banks and other financial institutions	(26.3)	(24.7)
	(56.9)	(69.1)
	80.8	107.3

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19 FEE AND COMMISSION INCOME - NET

	2020	2019
Fee and commission income	35.8	49.3
Fee and commission expense	(16.2)	(22.7)
	19.6	26.6

Included in fee and commission income is BD 0.03 million (2019: BD 0.02 million) relating to trust and other fiduciary activities.

20 INVESTMENT AND OTHER INCOME

	2020	2019
Dividend income	2.6	3.9
Gain on foreign exchange	5.3	5.9
Realised gains on investment securities	3.5	3.0
Income from commercial activities *	5.3	4.5
Other income	1.6	0.3
	18.3	17.6

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

21 TOTAL PROVISIONS - NET

	2020	2019
Loans and advances to customers (note 7)	9.7	16.4
Recoveries from fully provided loans and advances written-off in previous years	(1.7)	(0.5)
Investment securities (note 8)	0.2	0.1
Off-balance sheet exposures	(2.6)	2.3
Collateral pending sale	-	0.6
	5.6	18.9

22 TAXATION

	2020	2019
Consolidated statement of financial position		
Deferred tax asset (note 10)	1.6	1.3
Consolidated statement of profit or loss		
Deferred tax write-back / (expense) on foreign operations	0.3	(0.2)

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

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2020 is 43.68% (2019: 43.68%).

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22 TAXATION (continued)

The Group is exposed to a contingent tax liability of BD 1.8 million (2019: BD 1.9 million). Based on the opinion of the management, no liability is likely to arise from these ongoing cases with local tax authorities in the relevant country of incorporation of the group entities, in accordance with the tax laws prevailing in those jurisdictions.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic 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.

	2020	2019
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	52.0	75.4
Less: Distribution on perpetual tier 1 convertible capital securities	-	(3.6)
Adjusted net profit for the year attributable to the owners of the Bank	52.0	71.8
Weighted average number of shares, net of treasury stock, outstanding during the year	1,349,951,967	1,275,713,045
Basic earnings per share (BD)	0.039	0.056
Weighted average number of ordinary shares adjusted for the effect of dilution, net of treasury stock, outstanding during the year	1,349,951,967	1,275,713,045
Diluted earnings per share (BD)	0.039	0.056

24 OPERATING SEGMENTS**Segment information**

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

Retail banking	Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.
Corporate banking	Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.
International banking	Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.
Investment, treasury and other activities	Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

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

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24 OPERATING SEGMENTS (continued)

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

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>International banking</i>	<i>Investment, treasury and other activities</i>	<i>Total</i>
Interest income	33.1	31.6	25.6	47.4	137.7
Interest expense	(5.0)	(11.3)	(15.6)	(25.0)	(56.9)
Internal fund transfer price	(1.1)	(0.8)	2.4	(0.5)	-
Net interest and similar income	27.0	19.5	12.4	21.9	80.8
Other operating income	12.4	4.5	4.6	16.4	37.9
Operating income before share of profit from associated companies and joint ventures	39.4	24.0	17.0	38.3	118.7
Total provisions - net	(0.4)	(5.2)	0.3	(0.3)	(5.6)
Segment result	12.3	3.9	5.0	31.5	52.7
Share of profit / (loss) from associated companies and joint ventures	0.5	-	-	(0.6)	(0.1)
Profit for the year					52.6
Profit attributable to non-controlling interests					(0.6)
Profit for the year attributable to the owners of the Bank					52.0
Segment assets	683.8	621.7	785.3	1,555.0	3,645.8
Investments in associated companies and joint ventures	35.7	-	-	29.8	65.5
Common assets					49.1
Total assets					3,760.4
Segment liabilities	1,053.3	699.5	677.9	708.9	3,139.6
Common liabilities					106.3
Total liabilities					3,245.9

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24 OPERATING SEGMENTS (continued)

Segment information for the year ended 31 December 2019 was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>International banking</i>	<i>Investment, treasury and other activities</i>	<i>Total</i>
Interest income	33.7	40.3	40.8	61.6	176.4
Interest expense	(5.1)	(16.4)	(15.8)	(31.8)	(69.1)
Internal fund transfer price	5.5	4.1	(4.8)	(4.8)	-
Net interest and similar income	34.1	28.0	20.2	25.0	107.3
Other operating income	19.4	3.7	5.7	15.4	44.2
Operating income before share of profit from associated companies and joint ventures	53.5	31.7	25.9	40.4	151.5
Total provisions - net	0.8	0.6	(19.6)	(0.7)	(18.9)
Segment result	25.6	17.7	(9.0)	34.9	69.2
Share of profit from associated companies and joint ventures	5.7	-	-	1.1	6.8
Profit for the year					76.0
Profit attributable to non-controlling interests					(0.6)
Profit for the year attributable to the owners of the Bank					75.4
Segment assets	629.6	620.7	1,015.4	1,476.3	3,742.0
Investments in associated companies and joint ventures	40.6	-	-	30.0	70.6
Common assets					52.4
Total assets					3,865.0
Segment liabilities	901.4	838.8	826.6	661.7	3,228.5
Common liabilities					89.5
Total liabilities					3,318.0

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.

	<i>Domestic</i>	<i>Others</i>	<i>Total</i>
31 December 2020			
Net interest and similar income	72.5	8.3	80.8
Share of profit / (loss) from associated companies and joint ventures	0.5	(0.6)	(0.1)
Other operating income	34.4	3.5	37.9
	107.4	11.2	118.6
Non-current assets*	87.2	26.4	113.6

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24 OPERATING SEGMENTS (continued)**Geographic information (continued)**

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

* 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:

	2020	2019
Cash in hand and vaults (note 4)	20.3	21.2
Current accounts and placements with central banks (note 4)	184.7	266.2
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	312.7	249.4
	<u>517.7</u>	<u>536.8</u>

26 RELATED PARTY TRANSACTIONS

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

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

	<i>Major shareholders</i>	<i>Associated companies and joint ventures</i>	<i>Directors and key management personnel</i>	<i>Total</i>
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
<i>31 December 2019</i>				
Loans and advances to customers	-	21.9	3.0	24.9
Investments in associated companies and joint ventures	-	70.6	-	70.6
Customers' current, savings and other deposits	210.4	5.1	9.1	224.6

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26 RELATED PARTY TRANSACTIONS (continued)

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

	<i>Major shareholders</i>	<i>Associated companies and joint ventures</i>	<i>Directors and key management personnel</i>	<i>Total</i>
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)
31 December 2019				
Interest income	-	1.5	-	1.5
Interest expense	4.6	0.1	0.2	4.9
Share of profit from associated companies and joint ventures	-	6.8	-	6.8

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

	2020	2019
Short-term employee benefits	10.3	10.9
Long-term employee benefits	0.7	1.2
	11.0	12.1

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

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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.

	<i>Within 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Subtotal</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>More than 20 years</i>	<i>Total</i>
31 December 2020										
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
Investments in associated companies and joint ventures	-	-	-	-	-	-	-	-	65.5	65.5
Interest receivable, derivative and other assets	70.5	-	-	-	70.5	12.6	-	-	-	83.1
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	204.8	156.1	172.2	111.8	644.9	556.6	656.7	126.0	(1,469.7)	514.5
Cumulative	204.8	360.9	533.1	644.9		1,201.5	1,858.2	1,984.2	514.5	

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27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

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.

	Positive fair value	Negative fair value	Notional amount
31 December 2020			
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts	2.6	0.7	256.8
<i>Derivatives held as fair value hedges:</i>			
Interest rate swaps	0.1	57.2	525.7
	2.7	57.9	782.5
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2019			
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts	0.7	0.6	174.4
<i>Derivatives held as fair value hedges:</i>			
Interest rate swaps	0.6	26.4	595.4
	1.3	27.0	769.8

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.

28 DERIVATIVES (continued)***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:

<i>Less than 1 month</i>	<i>1–3 months</i>	<i>3 months – 1 year</i>	<i>1–5 years</i>	<i>More than 5 years</i>
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Interest rate risk***Hedge of investment securities*****31 December 2020**

Nominal amount	-	5.7	16.8	198.1	305.1
Average fixed interest rate	0%	5%	4%	5%	6%

31 December 2019

Nominal amount	3.4	14.3	12.8	253.4	311.5
Average fixed interest rate	6%	6%	5%	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".

28 DERIVATIVES (continued)***Fair value hedges (continued)***

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

	2020		2019	
	<i>Carrying amount</i>	<i>Fair value adjustments*</i>	<i>Carrying amount</i>	<i>Fair value adjustments*</i>
Bonds (Investment securities)	573.9	51.4	638.3	22.1

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

For the year ended 31 December 2020, the Group recognised a net gain of BD 33.4 million (2019: net gain of BD 32.3 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 33.7 million (2019: loss of BD 32.6 million).

Cash flow hedges

At 31 December 2020 and 2019, 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".

29 COMMITMENTS AND CONTINGENT LIABILITIES***Credit-related commitments***

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

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

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

The Group has the following credit related commitments:

31 December 2020	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
<i>Contingencies:</i>				
Letters of credit	2.5	20.1	13.0	35.6
Guarantees	177.3	-	-	177.3
				212.9
<i>Commitments:</i>				
Undrawn loan commitments	181.5	-	-	181.5
				394.4

29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)***Credit-related commitments (continued)***

31 December 2019	On demand	Less than 3 months	3 to 12 months	Total
<i>Contingencies:</i>				
Letters of credit	2.2	10.7	13.2	26.1
Guarantees	222.3	-	-	222.3
				<u>248.4</u>
<i>Commitments:</i>				
Undrawn loan commitments	154.5	-	-	154.5
				<u>402.9</u>

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:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	<u>178.7</u>	<u>18.4</u>	<u>15.4</u>	<u>212.5</u>
ECL allowances	<u>(0.5)</u>	<u>(0.2)</u>	<u>(3.4)</u>	<u>(4.1)</u>
	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	<u>197.8</u>	<u>75.0</u>	<u>22.0</u>	<u>294.8</u>
ECL allowances	<u>(0.5)</u>	<u>(2.8)</u>	<u>-</u>	<u>(3.3)</u>

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.

30 RISK MANAGEMENT (continued)

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 makes an independent valuation of the processes regarding risk and capital management in accordance with the annual audit plan duly approved by the Board.

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.

31 CREDIT RISK (continued)

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

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

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31 CREDIT RISK (continued)

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.

	2020	2019
Balances with central banks	236.2	355.2
Treasury bills	487.8	484.4
Deposits and amounts due from banks and other financial institutions	318.9	278.3
Loans and advances to customers	1,555.8	1,670.9
Investment securities	886.3	806.0
Interest receivable, derivative and other assets	66.6	59.1
	3,551.6	3,653.9
Contingent liabilities	212.9	248.4
Undrawn loan commitments	181.5	154.5
	394.4	402.9
	3,946.0	4,056.8

32 CONCENTRATION RISK

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

	2020			2019		
	Assets	Liabilities	Credit commitments and contingencies	Assets	Liabilities	Credit commitments and contingencies
<i>Geographic region:</i>						
Gulf Co-operation Council countries	3,098.8	2,675.5	330.3	3,151.1	2,475.1	345.9
North America	152.3	21.9	0.5	99.2	7.9	0.9
Europe	194.6	338.6	6.2	282.9	605.8	7.5
Asia	231.6	191.9	54.0	248.9	212.4	45.7
Others	83.1	18.0	3.4	82.9	16.8	2.9
	3,760.4	3,245.9	394.4	3,865.0	3,318.0	402.9
<i>Industry sector:</i>						
Trading and manufacturing	626.1	175.1	216.9	647.8	147.3	192.6
Banks and other financial institutions	700.7	942.4	21.6	763.4	1,207.8	35.6
Construction and real estate	304.9	66.5	115.2	302.1	58.0	132.2
Government and public sector	1,275.0	369.5	-	1,327.1	420.5	-
Individuals	530.5	1,201.2	0.3	501.9	1,077.0	0.4
Others	323.2	491.2	40.4	322.7	407.4	42.1
	3,760.4	3,245.9	394.4	3,865.0	3,318.0	402.9

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 FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2020			
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
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

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33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.1 Credit quality analysis (continued)**

31 December 2019				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Commercial loans and overdrafts at amortised cost</i>				
High (Grade 1 to 3)	212.5	3.4	-	215.9
Standard (Grade 4 to 6)	632.3	168.8	-	801.1
Substandard (Grade 7 to 8)	3.8	115.3	-	119.1
Non-performing (Grade 9 to 10)	-	-	92.9	92.9
	848.6	287.5	92.9	1,229.0
Expected credit losses	(3.2)	(19.0)	(69.0)	(91.2)
Net carrying amount	845.4	268.5	23.9	1,137.8

31 December 2020				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Consumer loans at amortised cost</i>				
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

31 December 2019				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Consumer loans at amortised cost</i>				
High (Grade 1 to 3)	518.5	-	-	518.5
Standard (Grade 4 to 6)	-	7.3	-	7.3
Substandard (Grade 7 to 8)	-	8.0	-	8.0
Non-performing (Grade 9 to 10)	-	-	11.4	11.4
	518.5	15.3	11.4	545.2
Expected credit losses	(1.7)	(2.6)	(7.8)	(12.1)
Net carrying amount	516.8	12.7	3.6	533.1

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33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.1 Credit quality analysis (continued)**

	31 December 2020			
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Debt investment securities at FVOCI</i>				
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
<i>Debt investment securities at amortised cost</i>				
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
<i>Loan commitments and financial guarantees</i>				
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

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33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.1 Credit quality analysis (continued)**

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

* Standard grade includes unrated investments amounting to BD 5.1 million (2019: BD 5.2 million).

33.2 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.2 Collateral and other credit enhancements (continued)**

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

	2020	2019
Derivative assets held for risk management	40.2	38.9
Loans and advances:		
- Cash	76.2	59.3
- Secured by real estate	765.7	1,013.6
- Financial Instruments	7.4	12.9
- Others*	25.7	24.6

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

33.3 Inputs, assumptions and techniques used for estimating impairment**(a) Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

(b) Credit risk grades

The Group allocates each borrower to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each borrower is allocated to a credit risk grade at initial recognition based on available information about the borrower. Borrowers are subject to ongoing monitoring, which may result in a 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 Bank has taken exposures. For most exposures, the key macro-economic indicators include: GDP Growth, Real Interest Rates, Unemployment, Domestic Credit Growth, Oil Prices, Central Government Revenue as Percentage of GDP and Central Government Expenditure as Percentage of GDP.

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit 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.

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).

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)*****(e) Renegotiated / Modified financial assets***

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

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

(f) Definition of default and cure

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

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

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

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

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

(g) Incorporation of forward-looking information

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

Incorporating forward looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the 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.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)****(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.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)****(h) Measurement of ECL (continued)**

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).

(g) 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 portfolio;
- Changes to the value of the underlying collateral held;
- Changes in scenario design and the weights assigned to each scenario; and
- Transfers between stages, which can be triggered by changes to any of the above inputs.

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. Considering the current scenario, the Group has applied overlays on the ECL estimates based on internal stress testing analysis (alongside management judgments). While estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19.

The following table contains an analysis of the deferred amount of principal outstanding pertinent to loans and advances of the customers, who have been provided with such benefits during the year, and the related ECL:

	Stage 1	Stage 2	Stage 3	Total
31 December 2020				
<u>Commercial loans and overdrafts</u>				
Gross balance	95.6	118.3	0.2	214.2
Expected credit losses	(0.4)	(5.0)	(0.1)	(5.5)
Net carrying amount	95.2	113.3	0.1	208.7
Customer count	160	113	2	275
<u>Consumer loans</u>				
Gross balance	384.0	9.1	1.4	394.5
Expected credit losses	(2.3)	(1.3)	(0.8)	(4.4)
Net carrying amount	381.7	7.8	0.6	390.1
Customer count	32,546	869	103	33,518

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)****(g) Assessment and calculation of ECL during COVID-19 (continued)**

The models used by the Group have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. 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 could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, overlays to assumptions in calculating ECL and specific or general post-model adjustments became imperative and were considered by the Group. Given model changes take a significant amount of time to develop and test, and the data limitation issues noted above, the Group expects these overlays and post model adjustments address the uncertainties inherent in the current and future environment and reflects relevant risk factors not captured in the modelled results.

Given the unique situation wherein, central banks permitted deferral / moratorium for certain loan categories, in the midst of deteriorating economic indicators, PDs for some portfolios were qualitatively determined and integrated into the modelled ECL.

Management overlays reflect the significant uncertainty as a consequence of the COVID-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes / segments, such as construction, energy, aviation, etc.

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:

	Scenario mix used by the Group	Scenario 1 (improved base case)	Scenario 2 (additional weight to worst case)
31 December 2020			
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.

	2020	2019
Loans and advances to customers		
Commercial loans	44.8	67.6
Consumer loans	3.2	4.0
	48.0	71.6

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 2020, VaR calculated based on the above parameters was BD 0.2 million (2019: 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.

Based on the consolidated statement of financial position as at 31 December 2020, 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 16.6 million (2019: increase by BD 20.1 million). However, further downward movement of interest rates by 200 basis points might not be a practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income for the year ended 31 December 2020 is BD 12.7 million (2019: BD 19.6 million).

36 INTEREST RATE RISK (continued)

<i>Rate Shock Forecasting (+200 bps)</i>	<i>2020</i>	<i>2019</i>	<i>Rate Shock Forecasting (-200 bps)</i>	<i>2020</i>	<i>2019</i>
Bahraini Dinars	15.2	15.7	Bahraini Dinars	12.1	15.7
US Dollar	0.7	5.0	US Dollar	-	4.5
Kuwaiti Dinars	0.6	0.6	Kuwaiti Dinars	0.3	0.6
Others	0.1	(1.2)	Others	0.3	(1.2)
Total	16.6	20.1	Total	12.7	19.6

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 8.2% amounting to BD 43.0 million (2019: 3.4% amounting to BD 18.3 million). Similarly, a decrease of 200 basis point in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 8.2% amounting to BD 43.0 million (2019: 3.4% amounting to BD 18.3 million).

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars. The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	<i>2020 Equivalent long (short)</i>	<i>2019 Equivalent long (short)</i>
US Dollar	100.5	92.8
Euro	0.1	3.7
GCC currencies (excluding Kuwaiti Dinars)	6.4	13.0
Kuwaiti Dinars	0.4	(2.4)
Others	0.3	(1.2)

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US\$), positions in US\$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Trading Equities</i>	<i>% Change in Index</i>	<i>Effect on Equity</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Bahrain Bourse	12.9	9.6	1.9	1.4
Other stock exchanges	30.4	32.5	4.6	4.9
	6.5		6.5	6.3

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 and Investment Division, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

During COVID-19, 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. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 21.8%, Liquidity Coverage Ratio (LCR) of 289.7% and Net Stable Funding Ratio (NSFR) of 134.2% as at 31 December 2020.

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All figures in BD millions

39 LIQUIDITY RISK (continued)

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

	31 December 2020								
	On demand	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years
Deposits and amounts due to									
banks and other financial institutions	43.3	183.4	90.3	9.0	2.0	5.1	-	-	-
Borrowings under repurchase agreement	-	21.4	1.7	81.4	99.3	212.8	-	-	-
Term borrowings	-	5.4	-	-	5.4	219.9	-	-	-
Customers' current, savings and other deposits	1,432.3	170.6	221.3	166.1	153.1	46.0	-	-	-
Total undiscounted financial liabilities	1,475.6	380.8	313.3	256.5	259.8	483.8	-	-	-
Letter of guarantees	177.3	-	-	-	-	-	-	-	-
Undrawn loan commitments	181.5	-	-	-	-	-	-	-	-
Derivative financial instruments									
Contractual amounts payable	-	(3.0)	(11.0)	(10.8)	(27.1)	(292.8)	(305.6)	(40.6)	(51.6)
Contractual amounts receivable	-	1.7	8.4	8.1	21.8	257.7	285.5	27.9	47.5
	-	(1.3)	(2.6)	(2.7)	(5.3)	(35.1)	(20.1)	(12.7)	(4.1)

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39 LIQUIDITY RISK (continued)

	31 December 2019									
	On demand	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
Deposits and amounts due to										
banks and other financial institutions	55.0	199.9	49.3	77.7	19.7	2.1	-	-	-	403.7
Borrowings under repurchase agreement	-	3.6	11.7	2.7	134.4	181.6	-	-	-	334.0
Term borrowings	-	5.3	147.1	-	5.3	230.5	-	-	-	388.2
Customers' current, savings and other deposits	1,180.0	140.2	221.2	320.8	263.5	51.5	-	-	-	2,177.2
Total undiscounted financial liabilities	1,235.0	349.0	429.3	401.2	422.9	465.7	-	-	-	3,303.1
Letter of guarantees	222.3	-	-	-	-	-	-	-	-	222.3
Undrawn loan commitments	154.5	-	-	-	-	-	-	-	-	154.5
Derivative financial instruments										
Contractual amounts payable	-	(6.8)	(19.3)	(9.5)	(27.2)	(355.9)	(318.0)	(43.3)	(54.1)	(834.1)
Contractual amounts receivable	-	6.5	18.8	8.9	26.1	347.7	310.7	38.9	52.5	810.1
	-	(0.3)	(0.5)	(0.6)	(1.1)	(8.2)	(7.3)	(4.4)	(1.6)	(24.0)

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 2020, there was a legal case pending against the Group aggregating to BD 1.1 million (2019: BD 1.2 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 and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank'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 per cent. 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.

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41 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2020 and 2019:

31 December 2020	Level 1	Level 2	Level 3	Total
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
31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Bonds	660.5	-	-	660.5
Equities	42.1	8.4	17.8	68.3
Managed funds	-	0.7	-	0.7
Derivatives held for trading	-	0.7	-	0.7
Derivatives held as fair value hedges	-	0.6	-	0.6
	702.6	10.4	17.8	730.8
Financial liabilities				
Derivatives held for trading	-	0.6	-	0.6
Derivatives held as fair value hedges	-	26.4	-	26.4
	-	27.0	-	27.0

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2020 and 2019, there were no transfers into or out of Level 3 fair value measurements.

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

	31 December 2020			31 December 2019		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Financial liabilities						
Term borrowings	188.5	195.4	6.9	333.0	339.7	6.7
Financial assets						
Investment securities	161.0	161.5	(0.5)	145.5	146.1	(0.6)

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

As at 31 December 2020 and 2019, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE - BASED PAYMENTS

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the newly revised remuneration framework mandated by the CBB and is referred to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan

Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2020	2019
Expense arising from equity-settled share-based payment transactions	2.4	2.6
Shares vested during the year	(2.0)	(2.0)

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

	Number of shares	
	2020	2019
Opening balance of shares granted but not vested	11,042,091	11,547,534
Equity shares transferred to trust	5,055,964	964,270
Shares released during the year to the participants	(5,114,201)	(1,469,713)
	10,983,854	11,042,091

The market price of the Bank's shares based on the price quoted in the Bahrain Bourse at 31 December 2020 was BD 0.505 (2019: BD 0.573) 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:

	2020	2019
CET1 capital	523.6	535.7
Tier 2 capital	27.6	28.5
Total capital base (a)	551.2	564.2
Credit risk weighted exposure	2,208.0	2,282.6
Operational risk weighted exposure	282.6	267.9
Market risk weighted exposure	37.5	47.4
Total risk weighted exposure (b)	2,528.1	2,597.9
Capital adequacy (a/b*100) - %	21.8%	21.7%
Minimum requirement - %	14.0%	14.0%

43 CAPITAL ADEQUACY (continued)

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO (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 and OG/431/2020 dated 29 December 2020, the limit was reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2020 is 134.2% (31 December 2019: 128.7%).

The main drivers behind our robust Available Stable Funding (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 Euro Medium Term Notes (EMTN). The capital base formed 21.2% of our ASF, while the retail and small business deposits formed 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 around a quarter of total RSF (before applying the relevant weights).

In comparison to year-end December 2019, the NSFR ratio increased from 128.7% to 134.2% mainly due to significant increase in retail and small business customer deposits.

44 NET STABLE FUNDING RATIO (continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	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
OBS items	-	961.5	-	-	48.1
Total RSF	248.9	1,771.9	177.0	1,205.1	1,951.3
NSFR (%) - As at 31 December 2020					134.2%

44 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 2019 was calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	540.7	-	-	28.5	569.2
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	415.8	6.5	0.2	401.4
Less stable deposits	-	640.5	96.6	48.4	711.8
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	1,303.5	306.9	360.7	862.2
Other liabilities:					
NSFR derivative liabilities	-	30.4	-	-	-
All other liabilities not included in the above categories	-	137.5	-	-	-
Total ASF	540.7	2,527.7	410.0	437.8	2,544.6
<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	268.2
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	345.0	61.0	111.4	193.7
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	405.7	101.0	826.5	955.8
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	2.4	5.2	89.9	62.3
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	-	4.9	49.5	203.0	219.2
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	-	6.2	-	-	6.2
All other assets not included in the above categories	228.9	-	-	-	228.9
OBS items	-	869.4	-	-	43.5
Total RSF	228.9	1,633.6	216.7	1,230.8	1,977.8
NSFR (%) - As at 31 December 2019					128.7%

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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' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2020, the total contribution fund including the earned income stands at BD 19.0 million (2019: BD 19.0 million). Out of the total fund amount, payment of the principal amount equal to BD 16.3 million (2019: BD 16.4 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 6.7 million (2019: BD 4.9 million) is invested in Bahrain sovereign bonds and GCC bonds.

47 FUDICIARY ASSETS

Funds under management as at 31 December 2020 amounted to BD 82.3 million (2019: BD 66.0 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 2020 was BD 87.7 million (2019: BD 68.3 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.

	<i>Designated as at FVTPL</i>	<i>FVOCI – debt instruments</i>	<i>FVOCI – equity instruments</i>	<i>Amortised cost</i>	<i>Total</i>
31 December 2020					
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

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48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2019	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total
Cash and balances with central banks	-	-	-	376.4	376.4
Treasury bills	-	2.1	-	482.3	484.4
Deposits and amounts due from banks and other financial institutions	-	-	-	278.3	278.3
Loans and advances to customers	-	-	-	1,670.9	1,670.9
Investment securities	0.7	660.5	68.3	145.5	875.0
Interest receivable, derivative and other assets	-	-	-	59.9	59.9
Total assets	0.7	662.6	68.3	3,013.3	3,744.9
Deposits and amounts due to banks and other financial institutions	-	-	-	363.1	363.1
Borrowings under repurchase agreement	-	-	-	313.4	313.4
Term borrowings	-	-	-	333.0	333.0
Customers' current, savings and other deposits	-	-	-	2,169.5	2,169.5
Interest payable, derivative and other liabilities	-	-	-	89.8	89.8
Total liabilities	-	-	-	3,268.8	3,268.8

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2019 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.

Bank of Bahrain and Kuwait B.S.C.

SUPPLEMENTARY FINANCIAL INFORMATION

At 31 December 2020

(The attached financial information do not form part of the consolidated financial statements)

BBK Supplementary Public Disclosure – Financial Impact of COVID-19

In line with 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 Bank discloses herewith additional information pertaining to the financial impact of COVID-19 on its consolidated financial statements and results of operations.

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 activity 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, the measures that may be implemented to slow its spread, and the progress in taking the vaccine. These factors add to uncertainty surrounding the outlook.

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 will go the extra mile 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 are business as usual;
- Distributed the employees between Head Office, branches, sites and working from home to ensure continuity;
- Online and telephone meetings have replaced most of the physical meetings;
- Disinfecting protocols and physical distancing measures have been implemented; 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 a regulatory directive issued by the CBB 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 has been recognised directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on 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. It is worth to mention that the application of the 6-month deferral is estimated to cause a delay in the Bank's total cash inflow for around BD 109 million.

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, in response to its COVID-19 support measures, has been recognised directly in equity. On the other hand and as part of Bank's social responsibility, the Bank has contributed BD 3.0 million as a donation to “Fina Khair” national campaign to support the individuals and business entities most affected by the pandemic.

BBK Supplementary Public Disclosure – Financial Impact of COVID-19 (continued)

Furthermore, based on regulatory directives issued by the CBB, the Group have offered the customers an additional four months installments deferment option starting from beginning of September 2020 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 option is estimated to cause a delay in the Bank's total cash inflow for around BD 39.3 million. This has been extended by another six months up to June 2021.

The table below summarises the overall financial impact of the above:

	<i>Net impact on</i>		
	<i>Group's Consolidated Profit or Loss Statement</i>	<i>Group's Consolidated Total Assets</i>	<i>Group's Consolidated Total Equity</i>
	<i>----- In BD millions -----</i>		
Overall Impact on Consolidated Financial Statements:			
Regulatory and Governments Measures			
Modification loss*	-	-	(24.5)
Government grants*	-	-	3.6
Market Conditions			
Estimated ECL attributable to COVID-19	(2.6)	(2.6)	-
Impact on credit card business	(5.9)	(5.9)	-
Impact on income from associates	(6.9)	(6.9)	-
Impact of cumulative changes in fair values	-	(22.6)	(22.6)
Fees forgone as a result of all loan deferment	(2.3)	(2.3)	

* This includes a 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.

Incremental COVID-19 impact on ECL were estimated based on updating the probability weightings assigned to each macro-economic scenario to 60% to the base case, 30% to worst case and 10% to the best case (as against standard / policy weights of 70% to the base case, 15% to worst case and 15% to the best Case). As a result of this assessment, an estimated amount of BD 2.6 million resulted as an additional ECL attributable to COVID-19 during the year 2020. In addition, as part of the policy to be updated annually, the macro environment forecasts available from external sources have been updated.

In general, the Group's financial performance was negatively impacted due to the global and domestic cut in interest rates in addition to the COVID-19 pandemic economic impact. This has resulted in a drop in net interest income from BD 107.3 million during the year 2019 to BD 80.8 million during the year 2020, a decrease of 24.7%. Moreover, the Group's share of profit from associated companies and joint ventures decreased from BD 6.8 million during 2019 to a loss of BD 0.1 million for the year 2020 as a result of the adverse impact of COVID-19 on the financial performance of the bank's associated companies. Net fees and commission dropped by 26.3% from BD 26.6 million reported during 2019 to BD 19.6 million during 2020, largely due to the impact of concessionary measures (i.e. capping the merchant fees) taken in response to COVID-19 to support the domestic business community, as well as the drop in volume of credit cards utilisation due to economic lockdown and travel ban in addition to the application of the new regulations on capping fees and charges. The Group achieved a net profit for the year attributable to the owners of the Bank of BD 52.0 million compared to BD 75.4 million in 2019, registering a drop of 31.0%.

BBK Supplementary Public Disclosure – Financial Impact of COVID-19 (continued)

In addition to the drop in net profit, the other comprehensive income was impacted by lower mark to market valuation of the Bank's investment portfolio as a result of COVID-19 outbreak and wide volatility in financial markets. Total comprehensive income attributable to owners of the Group for the year 2020 amounted to BD 28.9 million compared to BD 109.3 million during the year 2019, registering a drop of 73.6%.

Excluding the negative impact of COVID-19 pandemic, the Bank was aiming to achieve an estimated growth in net profit of around 6%. In addition, couple of strategic business and investment initiatives have been postponed due to the global situation, waiting the clarity of the business environment.

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 very comfortable at 289.7% and 134.2% respectively as of end of 2020, 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 / customer deposits, continued to be at very solid levels. Prudent liquidity management is of utmost importance for BBK and liquidity 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 the end of 2020, the Group maintained a healthy level of capital adequacy ratio (CAR) of 21.8% 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.