بنك البحرين للتنمية ش.م.ب
BAHRAIN DEVELOPMENT BANK B.S.C

Annual Report 2020

NURTURING GROWTH

البحرين 2030
BAHRAIN

Contents

Bahrain Development Bank B.S.C. (c)
BDB Building, Diplomatic Area
P.O. Box 20501, Manama,
Kingdom of Bahrain
T: (+973) 17 511111, F: (+973) 17 534005
E: info@bdb-bh.com

www.bdb-bh.com

**His Majesty
King Hamad bin Isa
Al Khalifa**

The King of the Kingdom of Bahrain

**His Royal Highness
Prince Salman bin Hamad
Al Khalifa**

Crown Prince and Prime Minister of the Kingdom of Bahrain

Overview

Bahrain Development Bank (BDB) provides a variety of financial services that are tailored to meet the needs of small and medium enterprises in Bahrain.

Bahrain Development Bank commenced its operations in 1992 as a specialist Bank. BDB's activities are focused on financing and developing small and medium enterprises in addition to encouraging and supporting entrepreneurship activities in the Kingdom of Bahrain. Working in-line with Bahrain Economic Vision 2030, BDB stimulates entrepreneurial activities through adoption of effective & dynamic strategies for financing small & medium enterprises.

This strategy is in line with the Bank's mission of being an active participant in national strategy by supporting this sector of the economy. BDB's role in this context is especially significant given the growing size and contribution of this important segment to the domestic economic activity.

BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity.

Vision

To support projects that yield substantial economic, social and environmental benefits.

Mission

To promote entrepreneurship and innovation in the Kingdom, by encouraging Bahraini professionals, enterprising women and ambitious youth, who demonstrate strong business acumen and leadership qualities in promoting the growth and prosperity of Small and Medium Enterprises (SMEs) through financial support and advisory services.

Financial Highlights

	2020	2019	2018	2017	2016
Income statement highlights (BD Thousands)					
Net islamic finance and interest income	**7,323**	6,646	6,398	6,701	7,996
Other income	**1,370**	1,969	3,788	3,115	2,201
Operating expenses	**8,070**	7,642	7,551	9,335	9,279
Expected credit losses / provision / impairment	**112**	(1)	4,074	8,152	1,971
Net profit (loss)	**563**	1,037	(1,326)	(7,671)	(1,053)
Dividend (%)	**-**	-	-	-	-
Financial statement highlights (BD Thousands)					
Total assets	**226,483**	151,260	158,205	176,170	211,333
Islamic financing and loans to customers	**146,630**	76,731	85,866	114,535	139,221
Investments (securities, properties, associates)	**67,809**	53,296	43,403	27,595	26,903
Total deposits	**118,030**	34,918	35,001	46,440	69,216
Customers' deposits	**118,030**	29,451	35,001	35,084	58,541
Total Equity	**68,705**	69,326	67,491	72,685	80,361
Profitability					
Return on average equity	**0.82%**	1.52%	-1.89%	-10.02%	-1.30%
Return on average assets	**0.30%**	0.67%	-0.79%	-3.96%	-0.51%
Earnings (Loss) per share (fils)	**9**	16	-20	-118	-16
Cost-to-income ratio	**93%**	89%	74%	95%	91%
Capital					
Equity/total assets	**30%**	46%	43%	41%	38%
Total deposits/equity (times)	**1.72**	0.50	0.52	0.64	0.86
Capital adequacy	**63.84%**	52.51%	46.56%	39.80%	38.61%
Business indicators					
Islamic financing and loans to customers/total assets	**65%**	51%	54%	65%	66%
Investments/total assets	**30%**	35%	27%	16%	13%
Islamic financing and loans to customers/customer deposits	**1.24**	2.61	2.45	3.26	2.38
Number of employees	**162**	157	166	182	188

Key Indicators

Net Islamic Financing and Interest Income (BD Thousands)

7,323

2020	**7,323**
2019	6,646
2018	6,398
2017	6,701
2016	7,996

Total Assets (BD Thousands)

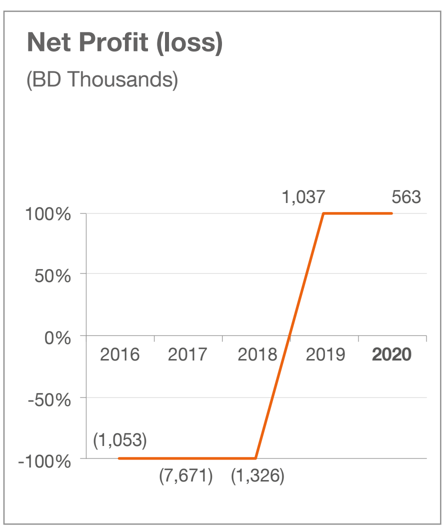
226,483

2020	**226,483**
2019	151,260
2018	158,205
2017	176,170
2016	211,333

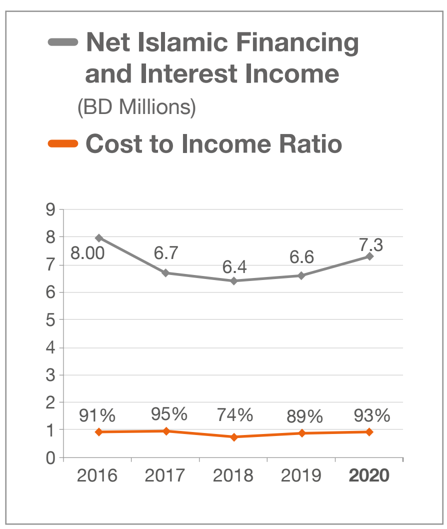
Total Equity (BD Thousands)

68,705

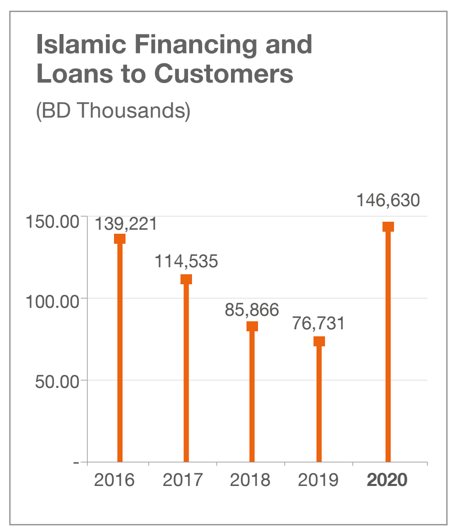
2020	**68,705**
2019	69,326
2018	67,491
2017	72,685
2016	80,361



Net Profit (loss) (BD Thousands)



Net Islamic Financing and Interest Income (BD Millions)
Cost to Income Ratio



Islamic Financing and Loans to Customers (BD Thousands)

The Bank continued the trend of profits established in the previous year, and reported a Net Profit of BD 0.563 million, Previous Year BD 1.04 million.

Overview

Despite a very challenging operating environment on account of COVID-19 and substantial concessions allowed to its customers, the Bank continued the trend of profits established in the previous year, and reported a Net Profit of BD 0.563 million (2019: BD 1.04 million). This was possible through an increase in disbursements, adopting new strategies to tackle the challenges faced, further enhancements in the standards for monitoring the asset portfolio, focusing on deriving value from the impaired portfolio, control over costs and also prudent deployment of available surpluses.

Balance Sheet size as at the end of 2020 BD 226.48 million was higher by 49.73% (2019: BD 151.26 million) mainly because of higher disbursements.

1.

Net Islamic Finance and Interest Income

Net Islamic finance and interest income BD 7.32 million was higher by 10.08% (2019: BD 6.65 million) on account of increase in Islamic finance and interest income as well as lower interest expenses.

2.

Other Income

Total other income generated during the year BD 1.37 million was lower (2019: 1.97 million) mainly on account of lower rental income in the subsidiaries due to waivers allowed to tenants as a concessionary measure to tide over the difficulties faced on account of the COVID-19 Pandemic.

3.

Operating Expenses

Operating expenses BD 8.07 million was higher by 5.63% compared to the previous FY (2019: 7.64 million). The increase was in staff costs due to new recruitments, mainly to fill vacancies in Senior Management positions and promotions/increments.

4.

Expected Credit Losses / Impairment

As a prudent measure to safeguard against the probable aftermath of the COVID-19 Pandemic in the future, the bank has taken higher provisions for expected credit losses and impairment of BD 112 thousand. (2019: Reversal of BD 1 thousand).

5.

Equity

The equity attributable to the Bank's shareholders, at BD 68.72 million, was lower than that of the previous year (Dec. 2019: BD 69.33 million) on account of recognition of the modification loss for deferrals of instalments (allowed as a concessionary measure, to eligible clients to tide over the hardships of the Pandemic), net of concessions received from the Government in equity as directed by the Central Bank of Bahrain (CBB), which was partially set off by the profits earned.

6.

Capital Adequacy Ratio

As against the minimum capital adequacy ratio (CAR) of 12.5% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at the end of year 2020 was 63.84% (2019: 52.51%). The ratio, based on guidelines issued by CBB, which are compatible with those of the Basel Committee on Banking Supervision, measures total qualifying capital held by an institution in relation to its risk weighted assets. The improvement in CAR was due to the change in the Risk Profile of the Assets Portfolio.

NURTURING GROWTH THROUGH SYNERGY

As a team, we continue to build on the foundation that will deliver better, stronger and more efficient performance over time. Our ongoing operational, hierarchical and digital transformation has made us more capable of sustainable growth.

Growing our People

in line with our strategic plan towards digital transformation.

Talent Acquisition

to maintain a strong momentum with growth, transformation and innovation.

Strong Corporate Governance

that guide all employees and directors through best practices.

Board of Directors

Khalid Al Rumaihi
Chairman

Sabah Khalil Al Moayyed
Member

Tariq Jaleel Al Saffar
Member

Marwan Khalid Tabbara
Member

Tala Abdulrahman Fakhro
Member

Ghassan Ghaleb Abdulaal
Member

Maryam Adnan Al Ansari
Member

Marwa Khaled Al Saad
Member

Khalid Al Rumaihi
Chairman

Joined BDB Board: March 2016

Experience

Khalid Al Rumaihi was appointed as the Chief Executive Officer of Mumtalakat, that took effect from September 2019. Prior to joining Mumtalakat, he served five years as the Chief Executive of the Bahrain Economic Development Board (EDB) where he was responsible for channeling inward investments into the country. He continues to play an active role as a Board member of the EDB.

Before heading the EDB, Mr. Al Rumaihi spent over 10 years at Investcorp as a Managing Director where he was also a Member of the Management Committee and Head of the Institutional Placement Team covering Investcorp's clients in the Arabian Gulf. Before that, he had a nine-year term in J.P. Morgan as head of its Private Client Group in the Gulf region.

Other Directorship

Chairman: Bahrain Real Estate Investment (Edamah). Board Member: Mumtalakat, McLaren Group, National Oil and Gas Authority & Oil and Gas Holding Company (Nogaholding).

Qualifications

Master's degree in public policy specializing in Economic Development from Harvard University, and a Bachelor of Science degree in Foreign Service from Georgetown University.

Sabah Khalil Al Moayyed
Board Member

Joined BDB Board: March 2016

Experience

The Managing Partner of Intellect Resources Management W.L.L. Mrs. Sabah had held the position of Chief Executive Officer and Executive Board Member of Eskan Bank Bahrain, Chief Executive Officer and Member of the Board of Directors of Ahli United Bank Bahrain B.S.C, Assistant General Manager, Corporate Banking/ Financial Institution and Trade Finance at The National Bank of Bahrain B.S.C, Vice President Investment Division, Financial Banking Services at United Gulf Bank Bahrain and Manager at Citibank Bahrain with extensive experience in corporate, retail, and investment banking.

Other Directorship

Chairperson: Flat6Labs Bahrain W.L.L

Board Member: L'azurde Company for Jewelry (Chair of the Audit Committee), Investcorp Financial Services B.S.C (Member of the Audit Committee), The Council for Higher Education Bahrain (Member of the Board of Trustee and Chair of the Finance and Administrative Committee).

Qualifications

Master's Degree in Business Management Finance from University of De Paul, Chicago, a Bachelor degree in Economics and Business Administration from the American University of Beirut, Lebanon, and has attended Advanced Executive Management programs at Wharton School Pennsylvania and Darden College Virgina - USA.

Tariq Jaleel Al Saffar
Board Member

Joined BDB Board: March 2016

Experience

Mr. Al Saffar comes from a merchant family which focuses on FMCG products and food distribution. He has worked very closely with multi-nationals like P&G, Clorox, Gillette, Kellogg's, etc. He has over 24 years of experience working with local & multi-national companies in the communications arena. He is also experienced in startup and management of companies from technology to healthcare and distribution.

Other Directorship

Chairman: KKT Bahrain Clinic, KKT MENA Holding B.S.C. (c), Harbour Investment Holding Company, Arabian Taxi Company B.S.C. (c), Payment International Enterprise B.S.C. (c).

Qualifications

Bachelor of Business, Marketing and Entrepreneurship with distinctions in Enterprise & Creativity from Edith Cowan University in Perth, Australia.

Marwan Khalid Tabbara
Board Member

Joined BDB Board: March 2016

Experience

Co-Founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain and represents over 20-years of experience in strategic, financial, and transaction advisory. He has advised the firm's clients on transactions both regionally and internationally and has supported the development and growth of a range of businesses. Previously, Mr. Tabbara worked for Citigroup in New York, London, and Bahrain.

Other Directorship

Chairman: Bahrain Flour Mills Company B.S.C.
Board Member: Bahrain Islamic Bank B.S.C. (Chairman of Risk Committee)

Qualifications

Master's Degree in Engineering Management and a Bachelor degree in Electrical Engineering and Economics from Duke University.

Tala Abdulrahman Fakhro
Board Member

Joined BDB Board: March 2016

Experience

A seasoned government administrator, fixed income product specialist and legal professional with extensive experience in structuring and portfolio management at Morgan Stanley in London, Gulf International Bank, the Saudi National Commercial Bank and NCB Capital in Bahrain. Currently holds the position of Chief Projects Officer at the Economic Development Board.

Other Directorship

Board Member: The Benefit Company B.S.C. (c) and SICO B.S.C. (c).

Qualifications

A Juris Doctor from the Georgetown University Law Center in Washington DC, a Bachelor degree in Economics from Smith College, Northampton, and has passed the New York bar exam.

Ghassan Ghaleb Abdulaal
Board Member

Joined BDB Board: March 2016

Experience

The Global Head of Operations within the Investor Relationship Management team at Investcorp. Mr. Abdulaal rejoined Investcorp in 2012 having previously spent six years with the firm from 2003-2009. In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan worked at KPMG where he was a Consultant within the Business Performance Improvement Group.

Qualifications

Master of Science in Analysis, Design and Management of Information Systems from the London School of Economics, and a Bachelor degree (Honours) in Accounting and Finance from the University of Kent at Canterbury, UK.

Maryam Adnan Al Ansari
Board Member

Joined BDB Board: March 2016

Experience

Assistant Under-secretary for Follow up and Coordination at the Ministry of Finance and National Economy, responsible for monitoring the implementation of priority projects as set by Government Priorities Framework. Before that, she held a few positions at the Office of the First Deputy Prime Minister where she oversaw strategic housing and infrastructure projects. Prior to that, Ms. Al Ansari worked at the Economic Development Board (EDB) as part of the Reform Projects department, where she contributed to revising the National Economic Strategy, and worked closely with the Ministry of Housing and the Ministry of Transportation and Telecommunication on key strategic projects.

Qualifications

Bachelor's degree in Commerce from University of McGill.

Marwa Khaled Al Saad
Board Member

Joined BDB Board: November 2019

Experience

The Vice President of Human Resources at Mumtalakat Bahrain Holding Company. Ms. Al Saad brings over 10 years of experience in Human Resources management ranging from performance management, organizational development, and effectiveness. She has both international and local experience working for blue-chip companies such as: General Mills Inc., Cummins Power Generation, KPMG, Tatweer Petroleum; and YBA Kanoo Holdings W.L.L. where she was heading the Group HR function across the GCC.

Marwa was the Chairman of the Nomination & Remuneration Committee for AXA Gulf.

Qualifications

Master's Degree from Purdue University, Krannert School of Management – USA with a focus in Human Resources and a Bachelor degree from Purdue University – USA majored in Organizational Leadership and Supervision.

Shari'a Board

Sheikh Abdulnasser Almahmood

Well versed in Islamic banking and finance with over 28 years of Islamic banking experience, and the head in the Sharia'a Coordination and Implementation department at Khaleeji Commercial Bank. Before joining Khaleeji Commercial Bank, Sheikh Abdul Naser was the Senior Manager in Sharia'a Audit Department in Ernst & Young – Bahrain. He also, worked as the Head of Sharia'a Internal Control Department in Bahrain Islamic Bank as well as member of the Sharia'a Supervisory Board in many Islamic banks and institutions.

He holds a Master degree in Business Administration from the Gulf University, a Bachelor's degree in Sharia'a and Islamic Studies from Qatar University, ADIC Advanced Diploma in Islamic Commercial from BIBF, CSAA Certified Shari'a Adviser & Auditor from AAOIFI, Associate Diploma in Shari'a Control from Cambridge University for training- approved by British Council, and an Instructor Certified in BIBF.

Dr. Omar Abdulaziz Alaani

Dr. Omar Abdulaziz Alaani has taught Islamic Economy in many universities in Iraq, Russia, Yemen and Bahrain. He also participated globally in several conferences within his field.

He has been working as an academic teacher in the University of Bahrain since 2000 in several fields, such as Financial transactions, insurance, Islamic Jurisprudence rules and has retired in 2018.

He obtained PhD majoring in Islamic Economics in 1997, a Master Degree in 1993 and Bachelor degree in 1984.

Dr. Mohammed Burhan Arbouna

An Islamic finance expert with over 20 years of Islamic banking experience and head of Sharia Compliance in Al Salam Bank. Before joining Al Salam Bank Bahrain, he was the Shari'a Head and Shari'a Board member in some other Islamic institutions.

He worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions.

He is a member of the Editing Committee of International Islamic Financial Board (IFSB) and was a member of the steering committee for International Liquidity Management Framework under the supervision of the Central Bank of Bahrain.

He obtained a Master degree in Comparative Laws and a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia. He also has a Bachelor's degree in Shari'a and a higher Diploma in Education from Islamic University, Medina.

Chairman's Statement

The BDB group has maintained tremendous momentum in its transformation journey. We are well on our way to a Cloud based environment with several workloads already migrated to Cloud and many more in the pipeline.

Khalid Al Rumaihi
Chairman

The Directors of the Bahrain Development Bank Group, ("the bank and its subsidiaries"), pleasured to present the annual report accompanied by the consolidated financial statements for the year ended 31 December 2020, another year of continued profitability and growth.

2020 was a year of significant challenge for economies worldwide due to the pandemic. These challenges were witnessed on all fronts including both operational and financial. Despite the turbulent operating backdrop, Bahrain Development Bank (BDB) managed to make great progress in building on its core mandate to support Bahrain-based Small and Medium Enterprises (SMEs) and in addition help them mitigate the negative impact of the pandemic and sustain their businesses.

In line with our strategy, Bahrain Development Bank increased its disbursements by 179% in 2020 over 2019 (43% in 2019 over 2018). This was achieved through two main-focal points. The first being the continuation of the Liquidity Support Fund (LSF), which was launched by the Government of Bahrain in Q4 2019, and the second being the new concerted efforts to streamline and facilitate faster, smoother and more performance driven internal processes and organizational architecture.

Despite the global turmoil and financial unrest witnessed in 2020, BDB loans to SMEs have increased by 106%, with a total of BD 48.1 million in loan disbursements in 2020 (2019: BD23.4 million). This is a substantial achievement considering that, as a COVID-19 safety measure, almost 50% of the staff were working from home for the majority of the year.

I am also pleased to report that 155 businesses benefited from the various incubation facilities under the BDB group, including BBIC, Riyadat and Farmers Market, during 2020.

SMEs Loan Disbursements

BD 48.1 m

Despite the global turmoil and financial unrest witnessed in 2020, BDB loans to SMEs increased by 106%, with a total of BD 48.1 million in loan disbursements.

Incubated Businesses

155

155 businesses benefited from the various incubation facilities under the BDB group, including BBIC, Riyadat and Farmers Market.

In addition to incubation, these businesses received different support initiatives & facilities to help them face the negative impacts of the pandemic.

The improvement in disbursements and revenues, effective credit, and recovery processes, along with strict cost control was first reflected in the year 2019 financials, where the Bank posted a full year net profit for the first time in 6 years. This positive trend has been maintained in 2020, with BDB group posting a positive bottom-line for the full financial year despite the adverse economic and credit environment.

In conformity with the BDB group's strategic plan towards digital transformation, and to strengthen our executive management team, four new key members joined the group to support the bank's initiatives on a number of fronts. The new appointments included a Chief Technology Officer, a new Head of Human Resources, a new Head of Credit, and a new head of digital marketing.

The BDB group has maintained tremendous momentum in its transformation journey. We are well on our way to a cloud based environment with several workloads already migrated to Cloud and many more in the pipeline. In addition, our core banking upgrade project was kicked off which will make BDB one of the first banks in the kingdom to operate on a cloud based state-of-the-art SaaS-based core banking system. These initiatives, in addition to the transformation planned for the customer facing channels with the soon-to-be launched new digital interface of BDB, 'tijara', will strongly position BDB as the digital banking partner of choice and a national enabler for SMEs and startups in Bahrain.

As the Bank increased its focus on the development of its digital and technology-driven services internally, it also remained dedicated to strengthening its role to support SMEs in the national economy. This was emphasized by continued efforts to support key national projects under the directives of the Central Bank of Bahrain (CBB).

In spite of the challenges faced in 2020, the BDB group under the wise leadership of the Kingdom of Bahrain has successfully overcome adversity to post another year of financial growth and success. The bank has demonstrated a good level of progress and has provided a solid foundation for its clientele for the years to come.

I would like to take this opportunity to extend my sincere thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, The Crown Prince and Prime Minister, and the many government ministries and institutions for their continued support and wise leadership.

In conclusion, I offer my thanks to the members of the Board of Directors, the executive management team and all partners and employees. We look forward to successful future collaboration towards our shared mission to build a sustainable economic future for the Kingdom of Bahrain.

Khalid Al Rumaihi
Chairman

NURTURING GROWTH THROUGH OPPORTUNITY

Bahrain Development Bank remains dedicated to strengthen the role of SMEs in the national economy. The crucial role of SMEs is being supported with the efforts of BDB, along with key public and private entities and institutions. This collaboration is designed to develop a strong, stable and secure entrepreneurship ecosystem as per Bahrain's Economic Vision 2030.

Enhanced Product Offerings

by refocusing our core mandate, in order to support Bahrain-based Small and Medium Enterprises (SMEs).

Enhanced Customer Experience

through our ongoing operational, hierarchical and digital transformation that will help us in driving change.

Omni Channel Service Offering

by streamlining the bank's offering of innovative products and services to the SMEs sector through a world-class omni-channel platform.

Executive Management

Sanjeev Paul
Group Chief Executive Officer

Raed Yousuf Bukannan
Head of Banking

Abdulrahman Abdulla Buheji
Head of Credit

Nada Mohamed Abdulrahman
Chief Technology Officer

Shohra Abdulnabi Abbas Husain
Head of Human Resources

Maitham A. Hameed Abbas
Head of Business Development

Vijay Kumar T.
Chief Risk Officer

Note: The executive management structure shown is as of 21st of March 2021

Sanjeev Paul

Group Chief Executive Officer

Joined BDB: 2018

Sanjeev Paul brings three decades of international banking experience to Bahrain Development Bank B.S.C (BDB). Prior to his appointment as Group Chief Executive Officer of BDB in May 2018, Sanjeev served Standard Chartered Bank (SCB) for 30 years as a member of SCB's global leadership team. He served SCB as Managing Director and Regional Head of Commercial Banking for ASEAN and South Asia, heading the Bank's commercial banking business across nine countries, including markets such as Singapore, India, Malaysia and Indonesia. Prior to that, he served as Global Head for Local Corporates and Commodity Traders - a business spanning over 30 countries in SCB's global franchise. He has also headed SCB's structured trade finance business as Global Head of Structured Trade Finance. Earlier to that, Sanjeev was responsible for setting up Standard Chartered Bank's Middle Market Business in India and has served as the SCB's Risk Approver for five years. Sanjeev served as the Chairman and Non-Executive Director on the Board of Directors for Standard Chartered Bank Vietnam Ltd for 3 years till 2019. He is a Non-Executive Director on the Board of Ebdaa Bank for Microfinance since October 2018 and also serves as an advisor to the Board of Tenmou, Bahrain.

Sanjeev is a Singaporean national & holds a Bachelor's degree in Engineering and a Master's degree in Business Administration (MBA) in Finance and Marketing.

Raed Yousuf Bukannan

Head of Banking

Joined BDB: 2019

Raed brings over 19 years of international and domestic banking experience to BDB. Previous to his appointment as Deputy General Manager – Head of Banking in 2019 where he supervises the Banking and Remedial & Collections Teams, he gained a wealth of experience serving top tier institutions. Some of these include HSBC, Ahli United Bank, and National Bank of Kuwait, where he worked with SMEs, Large Institutional Corporates, Multi-national Companies, Gov't & Gov't Related Entities, and Financial & Non-banking Financial Institutions.

Raed holds a Bachelor's degree in Marketing from Nicholls State University, Louisiana, USA, and a Master's degree in Business Administration (MBA) from St. Edward's University, Texas, USA.

Abdulrahman Abdulla Buheji

Head of Credit

Joined BDB: 2021

Abdulrahman has more than 13 years of extensive experience in credit, investments, and corporate banking both conventional and Islamic in nature. Prior to joining BDB, Abdulrahman held several senior positions including, Acting Chief Credit Officer at BBK BSC, Head of Corporate Banking Analysts at BISB, Area Credit Manager at Bank ABC, and Project & Structured Finance Manager at GIB.

Abdulrahman graduated with an MBA from The University, of Manchester and holds a Bachelor of Commerce from Concordia University Canada. He also holds various professional certificates in Risk Management, Islamic Finance, and Real Estate, in addition to completing a comprehensive credit program (Credit Culture) with Moody's.

Nada Mohamed Abdulrahman

Chief Technology Officer

Joined BDB: 2020

Nada has vast experience in the Information Technology field having held various IT leadership roles in the banking sectors over her 21-year career. Prior to joining BDB as Chief Technology Officer in 2020, Nada has held various key position in the financial sector in Bahrain, she was the Head of Information Technology at Khaleeji Commercial Bank, prior to this she was in charge of IT Infrastructure and Support at Bahrain Islamic Bank. Since joining BDB, Nada has supported the BDB's digital transformation journey based on her experience in managing, and delivering major projects related to Electronic Channels and Customer Facing Solutions, Security and Availability, Internal Systems and automation.

Nada holds a BSc in Computer Science and a master's degree in Project Management along with number of professional certificates in IT.

Shohra Abdulnabi Abbas Husain

Head of Human Resources

Joined BDB: 2020

Shohra is an experienced HR professional with almost two decades of local and regional experience in the field. Before joining BDB in 2020 as Head of Human Resources and Administration, she was the Human Capital Director at Majid Al Futtaim where she led the Najm Human Capital function. Prior to this, Shohra was the MENA Region Resourcing Partner at Citibank and she also held leading positions at Emirates airlines and Ernst & Young.

Shohra holds a bachelor's degree in accounting from the University of Bahrain, an MBA in Human Resources Management from Middlesex University Business School of London and is a Fellow Chartered Institute of Personnel and Development CIPD member.

Maitham A. Hameed Abbas

Head of Business Development

Joined BDB: 2017

Maitham brings more than 15 years of diverse experience to BDB. Prior to his appointment as head of Business Development at BDB in 2017, Maitham served Kuwait Finance House in the corporate banking and credit risk management divisions. Prior to this, he worked with UNIDO in investment promotion and entrepreneurship training and SMEs counselling. Before this, he worked at BDO in strategy consulting. In addition to his role as Head of Business Development, Maitham is also the Bank's Board Secretary.

Maitham holds a Bachelor in Economics and Physics from McGill University in addition to various professional qualifications in finance and risk management.

Vijay Kumar T.

Chief Risk Officer

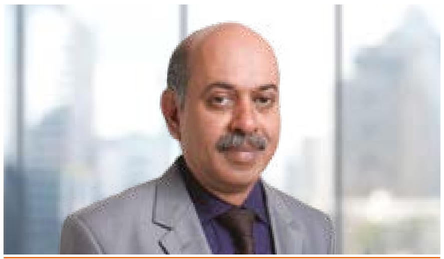
Joined BDB: 2016

Vijay brings to the bank 28 years of regional and global banking and financial services industry experience across multiple streams of Risk Management, Solutions implementation and Consultancy services. Prior to joining BDB as Chief Risk Officer in 2016, Vijay was the Head of Risk Analytics for United Arab Bank in the UAE, and served in key roles for leading banks within the GCC and across the globe. In his current role, he has led the conceptualization and implementation of a multi-dimensional bank wide Enterprise Risk Management (ERM) framework.

Vijay holds an MBA in Finance from Osmania University, India, is a keynote speaker at Risk Management events and has conducted a number of training programs.

Executive Management
(continued)

Areije Karim Al-Shakar
Head of Development Services



Samuel Verghese
Chief Financial Officer

Siddharth Chaudhary
Head of Internal Audit

Farah Ayad Rabea
Head of Digital Marketing

Isa Ahmed Al Doseri
Head of Investment Division

Mariam Safdar Mohammed
Head of Compliance & MLRO

Dana Abdulrahman Alsendi
Head of Legal

Areije Karim Al-Shakar

Head of Development Services

Joined BDB: 2010

Areije has extensive expertise in banking and entrepreneurship, gained from over 16 years of experience in the field. Prior to joining BDB in 2010 where she currently serves as Head of Development Services and also leads the Fund management team of Al Waha Venture Capital Fund of Funds, Areije served at Investcorp, Citibank, BNP Paribas and Lehman Brothers.

Areije holds a Bachelor of Commerce in Finance from Concordia University, a Master of Science in Public Policy and Management from the University of London, a Business Coach and Mentor certification from the Chartered Management Institute, UK, and is a Kauffman Fellow. Areije plays an active role in the development of the startup and entrepreneurial ecosystem regionally.

Samuel Verghese

Chief Financial Officer

Joined BDB: 2007

Samuel brings over three decades of experience, with 25 years of service in the banking sector. He Joined Bahrain Development Bank in 2007 as Senior Manager in the Financial Control division and served as the Head of Internal Audit from 2008 until his promotion to Chief Financial Officer in 2015. Prior to BDB, he held a number of key roles in institutions regionally and globally including Chief Accountant for Oman Development Bank, General Manager (Finance) at Kerala Financial Corporation, and Chief Manager (Corporate Financial Management) for The South Indian Bank Ltd.

Samuel holds a Bachelor of Commerce degree from the University of Calicut, India; and an FCA from the Institute of Chartered Accounts of India.

Siddharth Chaudhary

Head of Internal Audit

Joined BDB: 2018

Siddharth offers more than 17 years of experience in internal audits, assurance engagements and other financial advisory services. Prior to his appointment at BDB in 2018, he worked with SICO in the Internal Audit Department, served BDO's Risk Consulting division where he led risk-based internal audits for various financial service companies, firms, and other entities, and had also worked at Ernst and Young India.

Siddharth holds a Master of Commerce degree from India, is a Chartered Accountant, a Certified Internal Auditor, and a member of the Institute of Internal Auditors (USA).

Farah Ayad Rabea

Head of Digital Marketing

Joined BDB: 2021

Farah brings with her an extensive knowledge and experience in digital banking and marketing. Prior to joining BDB, Farah held the position of Deputy Manager of Campaigns and Acquisition at ila Bank - Arab Banking Corporation, she also worked at Bank of Bahrain and Kuwait as part of the E-channels and Automation team focusing on mobile systems and digitization projects.

Farah holds a bachelor's degree in Computer Science with first class honors from the University of Bahrain, alongside several internationally accredited professional certifications in digital marketing, fintech and project management.

Isa Ahmed Al Doseri

Head of Investment

Joined BDB: 2011

Isa brings vast experience in venture capital, private equity, investments, retail, operations and financial control gained from a career that spans over more than 12 years. Isa joined BDB in 2011 in his current role as Head of Investment Division. He manages the bank's investment and properties portfolio. He also holds board, membership on several boards including Al Waha Venture Capital Fund Company, Bahrain Agriculture Foods Company, Bahrain Business Incubator Center, The Bahrain Business - Angels Company - Tenmou, Food Corp WLL. and Al Dar Wood Furniture Manufacturing WLL.

Isa is a BSc honors graduate majoring in Accounting and Finance from Ahlia University, a Certified Public Accountant from the State of Colorado, USA, and a Series 79 Investment Banking certificate holder accredited by the Central Bank of Bahrain.

Mariam Safdar Mohammed

Head of Compliance & MLRO

Joined BDB: 2010

Mariam has over 18 years of extensive experience in compliance, risk management, credit review & analysis. Previous to her appointment with the BDB in 2010, Mariam served various prestigious financial institutions including Al Baraka Islamic Bank, BMI Bank, Bahrain Credit and Bahrain National Holding company.

Mariam holds a bachelor's degree in business management from the University of Bahrain, a Master's degree in Business Administration from New York Institution of Technology, an Advanced Diploma in Islamic Banking (CIMA) and an ICA International Diploma in Governance, Risk & Compliance. Mariam is also a member of ACAMS Organization.

Dana Abdulrahman Alsendi

Head of Legal

Joined BDB: 2018

Dana is a qualified Bahraini lawyer with over a decade of legal experience. Prior to joining BDB in 2018, Dana was the Assistant Legal Advisor and Board Secretary at Gulf Air, and previous to this was the Legal Counsel and Assistant to the Board Secretary in the Legal and Corporate Affairs Department at Aluminum Bahrain (ALBA), and before this served as an Associate in the Haya Rashed Al Khalifa Law Firm.

Dana holds a Bachelors' Degree in Law (LLB) from the University of Leicester (UK) and a Masters' Degree (LLM) in International Corporate Governance and Financial Regulation from the University of Warwick (UK).

Group CEO's Statement

In line with BDB's digital transformation agenda, the Bank's leadership and management structure was enhanced through filling key management gaps with senior Bahraini talent in the areas of Technology, Credit, Human Resources and Digital Marketing.

Sanjeev Paul
Group Chief Executive Officer

It is my pleasure to present to you the Annual Report of Bahrain Development Bank Group for the year ended December 31, 2020. In 2020, we experienced economic and social upheaval on a scale never experienced in living memory due to the pandemic impacting every aspect of life and economies.

The COVID-19 pandemic severely impacted our customers, businesses and the communities we serve. BDB has been at the forefront of helping SMEs and small businesses to mitigate the impact of the pandemic, working with the government in all the alleviating measures that the leadership of the country initiated. The bank became the focal point for assisting SMEs under the Government's Liquidity Support Fund and Sports Club initiatives and is playing a crucial role in supporting the economy and mitigating the impact of the pandemic on businesses.

Against this backdrop, BDB demonstrated a resilient performance for 2020, recording a net profit of BD 563k, resulting in the second consecutive year of strong profits.

During the year, the bank significantly stepped up its financing activity to support SMEs with total disbursements increasing by 179% to BD 105.8 million (2019 BD 37.9 million). This steep increase has been achieved through a concerted effort to streamline our internal processes and organizational architecture and the extraordinary efforts put in by the entire BDB team.

BDB grew its overall financing portfolio to BD 162 million while maintaining a healthy Capital Adequacy Ratio (CAR) of 64%.

As part of ensuring inclusive development and with ongoing support of Tamkeen, the bank also continued to offer financial services under the exclusive 'BDB-Riyadat Scheme' - which aims to support women owned enterprises and help them

Capital Adequacy Ratio

64%

BDB maintained a healthy Capital Adequacy Ratio (CAR) of 64%.

Total Disbursements

179%

During the year, the bank significantly stepped up its financing activity to support SMEs with total disbursements increasing by 179% to BD 105.8 million (2019 BD 37.9 million).

grow their businesses. An amount of BD 1.067 million was disbursed during the year under this scheme.

Alongside the positive financial results in 2020, we are also well on our way to the cloud with several workloads already migrated to Cloud over 2020. We have also kicked off the digital transformation project 'Ru'ya' where the bank has selected the Tata Consultancy Services (TCS) BaNCS Global Banking Platform, enabled with APIs and cognitive tools such as Artificial Intelligence (A.I.) and analytics, facilitating the launch of one of the region's first digital state-of-the-art SaaS-based core banking system completely on the Cloud. The launch of 'Ru'ya' will further strengthen BDB's position as Bahrain's premier SME Bank, thus streamlining the bank's offering of innovative products and services to the SMEs sector through a world-class omni-channel platform. This visionary project aims to put the Kingdom of Bahrain at the forefront of digital banking, with a one-of-a-kind cloud-based core banking system.

In line with BDB's digital transformation agenda, the bank's leadership and management structure was enhanced with the filling in of key management gaps with senior Bahraini talent in the areas of Technology, Credit, Human Resources and Digital Marketing.

BDB today is fit for growth with a complete overhaul of our customer, risk and compliance management processes including risk ratings for all borrowers, institutionalization of sales culture, a performance measurement system based on sales and risk metrics, better awareness of Compliance, Personal Data Protection Law (PDPL), Anti-money laundering (AML) requirements and effective client monitoring and remedial processes.

As a team, we continue to build on the foundation that will help us deliver a better, stronger, and more efficient performance over time. Our ongoing organizational, operational and digital transformation will make us better -able- to meet the needs of our customers in the ever-changing environment.

In the coming months and years, our aim is to be a more agile and customer-centric bank - for our customers and the Bahraini communities we serve.

I would like to take this opportunity to extend my sincere thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their continued support and wise leadership that has carried us through a turbulent year. I would also like to thank the Chairman and Board of Directors of the Bank for their continued support and guidance.

My gratitude also goes to the Ministry of Finance and National Economy, The Economic Development Board, Bahrain Chamber of Commerce and Industry, The Ministry of Industry, Commerce & Tourism as well as our strategic partners Tamkeen, National Initiative for Agricultural Development and the Supreme Council for Women for their guidance.

I would also like to express my thanks and appreciation to the Executive Management and team members of Bahrain Development Bank Group who have spared no efforts to achieve our development mandate.

Sanjeev Paul
Group Chief Executive Officer

NURTURING GROWTH THROUGH TECHNOLOGY

Bahrain Development Bank is accelerating its journey in the progression of its internal technologies. The first of these exciting new improvements include the digital transformation of both the bank's core-banking system along with the soon-to-be launched new digital interface of the BDB. These new technological updates will make the BDB one of the first banks to be built on a state-of-the-art SaaS-based core banking system on the cloud.

Upgraded IT Infrastructure

to maintain strong momentum with growth, transformation and innovation.

Automation and Digitization of Services

to become an industry leader and trusted partner for entrepreneurs and SMEs in the Kingdom of Bahrain.

Digital Communications Channels

to enable communicating with customers and expanding the brand's reach and digital footprint.

The Bank looks forward to participate more actively in providing financing solutions to the SMEs segment, and remains committed to render all possible assistance to SMEs in the various stages of their business especially when they are facing challenges due to the pandemic, and enable them to overcome all difficulties to conduct their business smoothly.

Business Banking

SMEs are vital drivers of economic growth and essential to build a healthy and vibrant economy. In line with its mandate, Bahrain Development Bank is strengthening its support to the sector in terms of financing, development and effective co-ordination with the government entities of the Kingdom of Bahrain, with an aim to create a robust underlying ecosystem for SMEs.

The COVID-19 pandemic and the necessary measures of confinement, including but not limited to the lockdown of some countries and travel bans, have created one of the most challenging environments for the SMEs sector in modern history and has severely disrupted many existing supply chains. The impact on supply and demand during the pandemic has had serious economic effects on the private sector, especially for SMEs.

Another impact of the pandemic is the drastic loss of companies revenues which has an immediate impact which made it difficult for SMEs to keep the business functioning. Liquidity for SMEs has also been compromised by reducing spending during the uncertain economic situation and restricting on business operations in various sectors, such as retail, tourism and hospitality. The fear of contagion of consumers has also contributed to SMEs liquidity shortages that have further restricted the sustainability of these companies.

In addition to the usual products and support extended to SMEs, during the pandemic, Bahrain Development Bank was mandated by The Ministry of Finance and National Economy to process SMEs requests under the Liquidity Support Funds, where another BD 50 million was allocated to BDB over the BD 30 million that was allocated to BDB last year.

Liquidity Support Fund

BD 50m

During 2020, BDB was allocated an additional BD 50 million of the Liquidity Support Funds, over the BD 30 million that was allocated to the Bank last year.

Financing Activity

BD 105.8m

The Bank significantly stepped up its financing activity to support SMEs during the year with total disbursements increasing by 179% to BD 105.8 million.

The Bank significantly stepped up its financing activity to support SMEs during the year with total disbursements increased by 179% to BD 105.8 million compared to BD 37.9 million in 2019.

Furthermore, in compliance with the guidelines received from CBB, BDB deferred instalments for qualifying customers for up to 10 months to assist SMEs to maintain healthy liquidity in these uncertain times. The first deferral was for 6 months where the bank did not charge any interest/ profit or fees.

The financing made by the Bank is expected to create additional 996 jobs and contribute to incremental exports of BD 0.8 million, import substitution of BD 0.6 million and value addition of BD 14.7 million over the next two years.

Moreover, the Bank continues its financial assistance to other primary sectors like fisheries and agriculture, as well as professional services such as doctors, training and consultancy firms, etc. Thus enabling the clients to acquire gainful self-employment and earn their livelihood. The Bank also contributes towards enhancing the level of education of Bahraini youth through its Education Finance Scheme. The Bank looks forward to participating more actively in providing financing solutions to the SMEs segment, and remains committed to render all possible assistance to SMEs in various stages of their business that are facing difficulties or challenges due to the pandemic and enable them to overcome all those difficulties and conduct business smoothly. Our strategy of supporting Bahraini youth and women to start their own entrepreneurship ventures shall continue with a strong focus and dedicated efforts.

Investment Division

The Investment Division plays a major role in driving the overall mission of the bank to support SMEs through managing the bank's private equity and start-up portfolio. The Division plays a very active role in supporting the bank's investee companies to achieve their key goals and objectives.

The bank's investments are based on key criterion that is mainly focused on contributing to the development of the economy of the Kingdom of Bahrain with a particular focus on the development of SMEs within the Kingdom. The Banks investment portfolio is spread across several industries including health care, food security, manufacturing, venture capital funds, transportation, services, micro-finance and financial institutions in addition to technology and technology enabled startups. The Investment Division invests in companies throughout all stages of the business cycle that include startups, scaleups, SMEs and other strategic investments.

Information Technology

Despite the challenges of the year 2020, digital transformation and technology initiatives have accelerated on multiple fronts during the year. With a focus toward enabling the business to continue efficiently, Office 365 is implemented as well as a cloud workstation to empower employees to work safely from home. In addition, the cloud migration of the bank workload to AWS was completed successfully.

The bank kicked off the digital transformation journey by signing with Tata Consultancy Services for a full-fledged banking technology stack that will help BDB to transform customer engagement through the delivery of contextual experiences. The bank has selected the front-to-back digital offering, TCS BaNCS

Despite of the challenges of the year 2020, Digital transformation and technology initiatives accelerated on multiple fronts during the year.

Global Banking Platform, enabled with APIs and cognitive tools such as AI and analytics. The platform will help BDB meet the unique needs of the small and medium business segment spanning digital banking channels, origination, core banking, trade finance, treasury and supporting services like AML and reconciliations. It will also interface with Customer Relationship Management (CRM), sales, risk management and other enterprise functions. The full stack will be hosted in AWS and provided as a SaaS-based core banking system.

Regulatory compliance and participation in the national projects were also an area of focus in 2020, the bank managed to successfully achieve all mandates and implemented required services like wage protection system, Account Balance in BenefitPay, Bahrain Cheque Truncation System (BCTS) upgrade and direct debit features. Moreover, the technology played an important role in facilitating the loan deferment facility provided twice during 2020 and the automation of the repayment schedule has helped the business to accomplish the deferment process in a timely manner.

Information Security remained a key focus area and further measures were taken to strengthen the security of the Bank's IT system. On-going E-learning Security training and awareness sessions on information security were also provided to employees to ensure that customers' information and systems are highly secured and protected against cybercrime.

Disaster Recovery and Business Continuity Plan

BDB has placed a Disaster Recovery and Business Continuity Policy and plan, which ensures that BDB continues its critical activities following any disastrous event. Disaster Recovery Sites has been set up within the Kingdom of Bahrain and the business continuity site is also equipped with the required infrastructure. In 2020, DR and BCP test has been conducted successfully as per the CBB requirement to test the critical systems of BDB. In addition, the cloud-hosted services both in AWS and Azure were tested successfully for the first time during 2020 DR test.

Operations

The department was actively engaged in supporting lending activities for our customers who were experiencing financial hardship caused by the COVID-19 pandemic by ensuring to expedite disbursements under the Liquidity Support Funds Scheme as mandated by the Ministry of Finance and National Economy and also ensuring operational execution of payment deferral programs in line with the guidelines received from CBB.

In addition to the above, the Bank has taken important steps in aligning its operations and streamlining its processes to achieve maximum impact towards a positive customer experience and ensure compliance with regulatory changes as below:

1. Ongoing Know Your Customer (KYC) review for due diligence and compliance purpose.
2. Updated customer forms to comply with CBB guidelines.
3. Obtained & updated PDPL status of customers to ensure compliance with PDPL regulations.
4. Upgraded BCTS system to ensure compliance with CBB & Benefit guidelines.
5. Updated department policies and procedures in line with revised guidelines and ensure smooth processing of transactions.

Administration

The administration department plays an important role in coordinating daily operational functions, streamlining management systems, monitoring budgets, improving business and ensuring successful completion of projects to upgrade BDB facility. The department constantly pursues innovative means for cost optimization while maintaining efficiency. The department maintains transparency toward all service providers, which includes a new Vendor Management policy to achieve optimal support for all departments of the bank.

During 2020, administration department successfully completed 48 projects to upgrade BDB facilities in different divisions including security, safety, telecommunications, heating, ventilation and air conditioning (HVAC), etc.

Moreover, 2020 was a different year due to COVID-19 implications, however, BDB has successfully overcome the pandemic as we gradually increased the number of protective measures and took the necessary precautions while minimizing disruption and ensuring the health and safety of our customers and staff in order to prevent further transmission and reduce the impacts of the outbreak as per the disinfection guidelines from CBB and the Ministry of Health.

Compliance

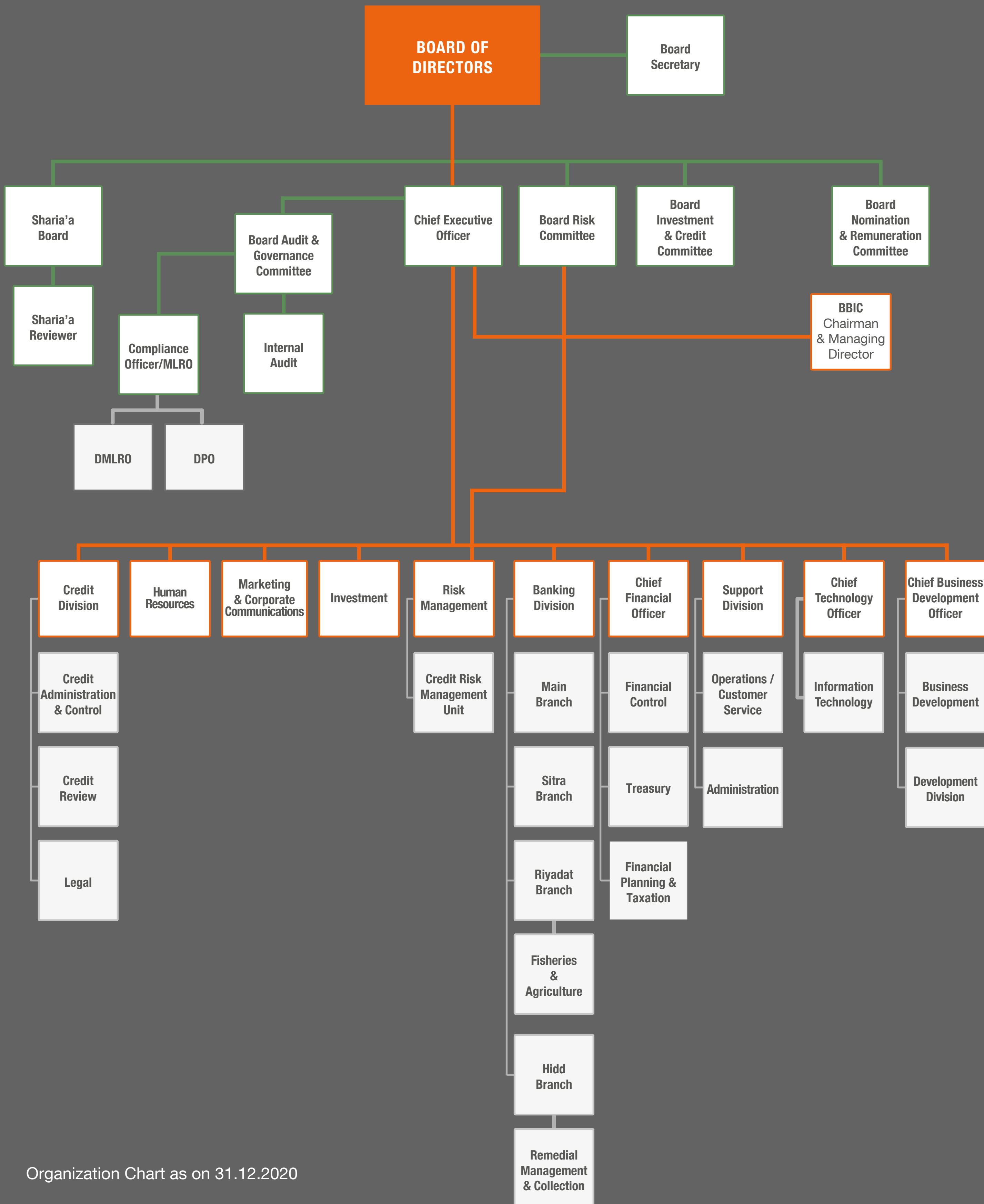
BDB is committed to comply with all applicable laws and regulations across all of its business activities, including the requirements of the Central Bank of Bahrain and adapting any best practice compliance principles. The bank has acquired a Regulatory Compliance solution to regularly monitor and assess the adequacy and effectiveness of the systems and controls in place on a risk-based approach including the actions taken to address any deficiencies in one platform in order to comply with the standards and requirements. The Compliance Department is independent and reports to the Board Audit and Governance Committee.

The bank's policies and procedures prohibit and actively prevent, detects and report any money laundering and terrorist financing through implementing appropriate systems, processes and control to combat these prohibited activities. The AML framework is routinely evaluated, updated and enhanced in order to reflect changes in business activities, as well as applicable supervisory standards and legal requirements. The bank adopts rigorous due diligence measures to ensure that the financial activities of BDB customers are in accordance with the guidelines issued by the regulatory authorities to ensure more transparency and the building of a solid profound customer profile.

Human Resources

BDB has initiated its Digital Transformation journey. As in any organization, the main pillar of any business strategy is its People Strategy. The Organizational Transformation journey is well on its way. The bank has started to carve its People & Reward strategy with a focus on creating an optimum operating model that moves away from its traditional structure to an agile model that is fully digitized helping deliver its key mission of becoming a market leader in Bahrain for multiple digital products. The Human Capital Department plays a key role in fostering and cultivating a high-performing talent & culture with the aim to become an employer of choice. BDB invests in talent who in turn invests in the economy, supporting the growth and success of Bahraini-owned businesses.

Organization Chart



Organization Chart as on 31.12.2020

Corporate Governance

(BDB) is committed to full compliance with the values and the best international practices/standards of personal and professional ethics. Fulfilling this commitment requires that everything done by the group, collectively or individually, is consistent with the highest ethical and professional standards.

BDB's Board Directors have validated the Corporate Governance principles and practices in the policy documents, (1) Commitment by Board of Directors & Management of BDB Group to the Code of Conduct and (2) the Code of Ethics & Business Conduct, which is endorsed by BDB employees. The bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the bank's business operations. The Code of Conduct contains rules on conduct, ethics on avoiding conflict of interest applicable to all the employees and directors of the bank. The bank has an Annual Declaration for employees and directors, whereby each member is responsible to disclose any material interest related to business transactions and agreements.

BDB has no individuals who are occupying controlled functions and who are relatives of any approved persons.

BDB's Board of Directors, nominated by a Royal Decree, presently comprises of eight non-executive directors, including the Chairman. On joining the Board, all Directors are provided with a Directors' Induction File that includes the bank's Memorandum and Articles of Association, the Charters of the Board and its subcommittees, the latest annual report, the Corporate Governance and other key policies, and the bank's strategy document. Induction sessions are also held with the Chairman and Chief Executive Officer, which focuses on a broad overview of the bank, its direction, challenges and opportunities may be supplemented by sessions on the special characteristics of development banking and its role in economic development. Select meetings may then be arranged with members of the senior management on an as needed basis, as well as a tour of the bank's facilities.

The Board is guided by its charter framed in accordance with applicable regulations. The Board establishes the objectives of the bank, provides guidance & approves the strategy, budgets for achievement of the bank's objectives, adopts and reviews the systems and controls framework, monitors the implementation of strategy by the management, overall group & management performance, ensures accurate preparation along with disclosure of the financial statements, monitors conflicts of interest in preventing improper related party transactions. The Board also assists in securing funding from government and semi-government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities, and the achievement of its vision and mission.

The Board of Directors is assisted by following Board Committees: (1) Nomination & Remuneration Committee (NRC), (2) Audit & Governance Committee, (3) Risk Committee (BRC), (4) Investment & Credit Committee (BICC), and (5) Sharia'a Supervisory Board. The members of Senior Management regularly attend Board & Committee meetings. The responsibilities of these committees for oversight are governed by their respective charters, terms of reference and functions under its supervision that are reviewed and updated periodically. The NRC assists the Board in the implementation of sound remuneration and HR practices, the Audit & Governance Committee assists the Board in carrying out its duties regarding the integrity of the bank's financial reporting system; the adequacy of the bank's internal control processes; the performance of independent auditors and internal audit function; the independent auditor's qualifications & independence and the bank's compliance with legal obligations. The Board Risk Committee (BRC) develops the Board's risk appetite statement and ensures an appropriate risk management and reporting framework is in place to allow the implementation and monitoring of the bank's risk profile and alignment of this to its risk appetite. BRC is additionally responsible for the appointment and remuneration determination of the Chief Risk Officer (CRO) and the development of the bank's business continuity and disaster recovery plans. The BICC reviews credit and investment proposals, exercises oversight of credit and investment related activities, reviews and recommends the bank's business strategy and operational plan, reviews and approves appropriate asset allocation strategy and evaluates the investment and credit portfolio of the bank. The Sharia'a Supervisory Board, comprising three Islamic scholars, provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

In addition, the Nomination & Remuneration Committee, Investment & Credit Committee, Audit & Governance Committee and Risk Committee also assists the Board in conducting self-evaluation of the Board & Committees achieving a high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements.

Corporate Governance
(continued)

BDB Disclosure on HC Module

Status of compliance with CBB's Corporate Governance guidelines (high-level controls module)

Banks are required to comply with the High-level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance to be explained by way of an annual report to the shareholders and to the CBB. The bank has not complied with certain guidance under HC-4 pertaining the appointment of the Board of Directors. This is due to the fact that the members of Board of Directors of the bank were appointed as per the Royal Decree resolution No. 5 of 2019, issued on 28th November 2019.

The section HC-5.3 states that members of the remuneration committee must have independence of any risk-taking function or committees. The bank is not complying with this requirement as two (2) Remuneration & Governance Committee members Mr. Tariq Al Saffar and Ms. Tala Fakhro are also represented on the Investment & Credit Committee of the Board. This has been permitted by CBB in view of the fact that the Board members are limited to eight (8) who were appointed through a Royal Decree resolution and, to meet independency, more members should be appointed which is not deemed practical given the current Board structure which is commensurate with the bank's size and activities.

Board & Board Committee Meetings and Attendance

Details of meetings held during 2020 and attendance of directors are as follows:

Board of Directors

No.	Name	24 Feb	11 May	9 Aug	15 Nov
1.	Khalid Al Rumaihi (Chairman)	✓	✓	✓	✓
2.	Sabah Khalil Al Moayyed	✓	✓	✓	✓
3.	Tariq Jaleel Al Saffar	✓	✓	✓	✓
4.	Tala Abdulrahman Fakhro	✓	✓	✓	✓
5.	Marwan Khalid Tabbara	✓	✓	✓	✓
6.	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓
7.	Maryam Adnan Al Ansari	✓	✓	✓	✓
8.	Marwa Khaled AlSaad	✓	✓	✓	✓

Board Audit & Governance Committee (BAGC)

No.	Name of the Director	16 Feb	5 May	28 Jul	27 Oct
1.	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓
2.	Maryam Adnan Al Ansari	✓	✓	✓	✓
3.	Marwa Khaled AlSaad	✓	✓	✓	✓

Board Risk Committee

No.	Name of the Director	16 Feb	18 Mar	3 Jun	5 Aug	4 Oct	19 Oct
1.	Marwan Khalid Tabbara	✓	✓	✓	✓	✓	✓
2.	Maryam Adnan Al Ansari	✓	✓	✓	✓	✓	✓
3.	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓	✓	✗

Board Investment & Credit Committee

No.	Name of the Director	3 Feb	16 Mar	31 Mar	12 May	11 Jun	12 Jul	5 Aug	23 Sep	29 Nov
1.	Sabah Khalil Al Moayyed	✓	✓	✓	✓	✓	✓	✓	✓	✓
2.	Marwan Khalid Tabbara	✓	✓	✓	✓	✓	✓	✓	✓	✓
3.	Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓	✓	✓	✓	✓
4.	Tala Abdulrahman Fakhro	✓	✓	✓	✓	✓	✓	✓	✓	✓

Board Nominations and Remuneration Committee

No.	Name of the Director	18 Feb	5 Apr	20 May	2 Jul	2 Sep	13 Oct	30 Dec
1.	Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓	✓	✓
2.	Tala Abdulrahman Fakhro	✓	✓	✓	✓	✓	✓	✓
3.	Marwa Khaled AlSaad	✓	✓	✓	✓	✓	✓	✓

Shari'a Board Meetings and Attendance

No.	Name of the Director	5 Jan	12 Feb	29 Apr	22 Sep	6 Oct
1.	Sh. A. Nasser AlMahmood	✓	✓	✓	✓	✓
2.	Dr. Mohammed Burhan Arbouna	✓	✓	✓	✓	✓
3.	Dr. Omar Abdulaziz Alaani	✓	✓	✓	✓	✓

Remuneration Report

BDB follows a total compensation approach to remuneration for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talents. It is the bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. These elements support help achieve of the objectives through balancing rewards for both, short-term results and long-term sustainable performance. The strategy is designed to share the success, of the bank and to align employees' incentives with the risk framework and risk outcomes. The quality and long-term commitment of all of the employees are fundamental to the success of the bank.

The bank, therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the bank, and who perform their role in the long-term interests of its shareholders. The bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting. Unlike commercial banks, BDB is a "not-for-profit" development banking institution, with core objective of supporting economic development of Bahrain in line with Bahrain 2030 Vision. The bank's remuneration policy has no variable components as per the contractual obligation and the performance bonus will be paid at the discretion of the Board of Directors. There is no separate policy for business and controlling staff of the bank. As such, the need to "defer" variable remuneration does not apply in case of BDB. Consequently, there are no "claw-back" or "malus" stipulations as well. The exceptions were approved by the Central Bank of Bahrain. The Remuneration Policy for all staff (including the approved persons) consist of fixed and variable remunerations in the form of cash only. Bonus entitlement including approved persons are aligned to the bank's performance, department and individual performance, but in all cases, it shall be made at Bank's sole discretion.

Details of Remuneration Paid for the Financial Year Ended 2020

		Fixed Remuneration (BD)			Variable Remuneration (BD)	
Categories	No.	Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	Total (BD)
1. Members of the Board	11		91,900	91,900		91,900
2. Approved Persons (not incl in 1,3, to 7)	9	456,344	126,471	582,816	47,330	630,146
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	204,590	82,487	287,077	12,049	299,126
4. Employees Engaged in Risk taking activities (Business Areas)	43	664,186	140,145	804,331	33,299	837,630
5. Employees other than approved persons engaged in functions under 3	23	286,618	58,644	345,262	22,144	367,405
6. Other Employees	80	1,146,004	238,940	1,384,944	82,487	1,467,431
7. Outsourced Employee/Service providers(engaged in risk taking activities)						
Total	**172**	**2,757,743**	**738,588**	**3,496,331**	**197,308**	**3,693,639**

* The amount paid as sitting fees to the Board Nomination and Remuneration Committee during the year 2020 was BD 19,200/- (2019: BD 12,800/-).

The details of remuneration paid to auditors for audit and other assignments are available at the BDB corporate office.

Details of Remuneration Paid for the Financial Year Ended 2019

Categories	No.	Fixed Remuneration (BD)			Variable Remuneration (BD)	Total (BD)
		Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	
1. Members of the Board	11		73,450	0	0	0
2. Approved Persons (not including 1,3, to 7)	7	416,367	121,562	537,929	135,550	673,479
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	191,580	80,973	272,553	58,750	331,303
4. Employees Engaged in Risk taking activities (Business Areas)	41	549,621	118,728	668,349	131,138	799,487
5. Employees other than approved persons engaged in functions under 3	23	255,670	56,890	312,560	58,322	370,882
6. Other Employees	80	988,086	222,387	1,210,473	227,962	1,438,435
7. Outsourced Employees/Service providers (engaged in risk taking activities)						
Total	**168**	**2,401,324**	**600,540**	**3,001,864**	**611,722**	**3,613,586**

Deposit Protection Scheme:

Deposits held with the bank's Bahrain operations are covered by the Regulation Protecting Deposits and unrestricted investment accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with the bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Financial Statements 2020

Contents

Corporate Information

Commercial Registration No.	26226 obtained on 20 January 1992
Directors	Mr. Khalid Al Rumaihi – Chairman Ms. Sabah Khalil Almoayyed - Board Member Mr. Tariq Jaleel Al Saffar – Board Member Mr. Marwan Khalid Tabbara – Board Member Ms. Tala Abdulrahman Fakhro – Board Member Mr. Ghassan Ghaleb Abdulaal – Board Member Ms. Maryam Adnan Al Ansari – Board Member Ms. Marwa Khaled Al Saad – Board Member
Registered Office	Building 170 Road 1703 Diplomatic Area P.O. Box 20501 Manama Kingdom of Bahrain
External Auditors	Ernst & Young P.O. Box 140 Manama Kingdom of Bahrain

Independent Auditors’ Report to the Shareholders

Bahrain Development Bank B.S.C.(c),
Manama, Kingdom of Bahrain

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Development Bank B.S.C. (c) (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 consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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 auditors’ report, we obtained the Board of Directors’ report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Independent Auditors' Report to the Shareholders (Continued)

Bahrain Development Bank B.S.C.(c),
Manama, Kingdom of Bahrain

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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

d) satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Ernst + Young

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 BD '000	2019 BD '000
ASSETS			
Cash and balances with Central Bank of Bahrain	7	**2,568**	1,976
Placement with banks and other financial institutions	7	**3,722**	14,850
Islamic financing and loans to customers	8	**146,630**	76,731
Investment securities	9	**56,364**	41,447
Investment in associates	10	**374**	322
Investment properties	11	**11,071**	11,527
Property and equipment	12	**1,926**	1,991
Other assets	13	**3,828**	2,416
TOTAL ASSETS		**226,483**	151,260
LIABILITIES AND EQUITY			
Liabilities			
Term loans	14	**35,304**	42,293
Deposits	15	**118,030**	34,918
Other liabilities		**4,444**	4,723
Total liabilities		**157,778**	81,934
Equity			
Share capital	16	**65,000**	65,000
Statutory reserve	17	**1,186**	1,186
Other capital contribution	18	**4,048**	4,048
Other reserves		**1,146**	654
Accumulated losses		**(2,656)**	(1,544)
Equity attributable to owners of the Bank		**68,724**	69,344
Non-controlling interest		**(19)**	(18)
Total equity		**68,705**	69,326
TOTAL LIABILITIES AND EQUITY		**226,483**	151,260

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

As at 31 December 2020

	Note	2020 BD '000	2019 BD '000
Income			
Islamic financing and interest income	19	8,536	8,234
Islamic financing and interest expense	20	(1,213)	(1,588)
Net islamic financing and interest income		7,323	6,646
Fee and commission income	21	452	357
Investment income	22	(416)	(288)
Rental income		1,054	1,706
Other income		280	194
Total operating income		8,693	8,615
Expenses			
Staff costs		(4,749)	(4,170)
Other operating expenses		(3,321)	(3,472)
Total operating expenses before allowance for expected credit losses		(8,070)	(7,642)
Allowance for expected credit losses / provision - net	23	(112)	1
Total expected credit losses / impairment		(112)	1
Net operating income		511	974
Share of profit from associates	10	52	63
Net profit for the year		563	1,037
Net profit for the year attributable to:			
- Owners of the Bank		563	1,036
- Non-controlling interest		-	1
		563	1,037

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income

For the year ended 31 December 2020

	2020 BD '000	2019 BD '000
Net income for the year	**563**	1,037
Other comprehensive income:		
Items that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value through other comprehensive income reserve - equity instruments	**(5)**	(25)
Items that will be reclassified to profit or loss in subsequent periods:		
Net unrealized gains in cash flow hedges	**411**	-
Changes in fair value of investments classified as fair value through other comprehensive income - debt instruments	**86**	829
Total comprehensive income for the year	**1,055**	1,841
Total comprehensive income attributable to:		
- Owners of the Bank	**1,055**	1,840
- Non-controlling interest	**-**	1
	1,055	1,841

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2020	65,000	1,186	4,048	654	(1,544)	69,344	(18)	69,326
Total comprehensive income for the year	-	-	-	492	563	1,055	-	1,055
Recognition of modification loss net of government grant (note 36)	-	-	-	-	(1,675)	(1,675)	-	(1,675)
Minority interest movement	-	-	-	-	-	-	(1)	(1)
As at 31 December 2020	65,000	1,186	4,048	1,146	(2,656)	68,724	(19)	68,705

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2019	65,000	1,186	4,048	(150)	(2,580)	67,504	(13)	67,491
Total comprehensive income for the year	-	-	-	804	1,036	1,840	1	1,841
Minority interest movement	-	-	-	-	-	-	(6)	(6)
As at 31 December 2019	65,000	1,186	4,048	654	(1,544)	69,344	(18)	69,326

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 BD '000	2019 BD '000
OPERATING ACTIVITIES			
Net profit for the year		563	1037
Adjustments for:			
Depreciation		1,114	854
Allowance for expected credit losses/ provision - net	23	669	440
Changes in fair value of investments classified as FVTPL	22	416	348
Changes in revaluation of loans and deposits classified as FVTPL		(61)	-
Dividend income	22	-	(77)
Share of profit from associates	10	(52)	(63)
Loss on foreign currency translation		14	17
Operating profit before changes in operating assets and liabilities		2,663	2,556
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions having original maturity of more than 90 days		6,825	2,272
Islamic financing and loans to customers		(84,812)	9,908
Other assets		(1,607)	277
Deposits		96,094	(83)
Other liabilities		(143)	(618)
Net cash flow from operating activities		19,020	14,312
INVESTING ACTIVITIES			
Additions to property and equipment	12	(610)	(1,217)
Purchase of investment securities		(60,658)	(54,830)
Proceeds from sale of investment securities		45,402	44,970
Dividend income received	22	-	77
Liquidation of Investment Securities		55	8
Net cash flow used in investing activities		(15,811)	(10,992)
FINANCING ACTIVITIES			
Repayment of term loans	14	(6,989)	(8,314)
Net cash flow used in financing activities		(6,989)	(8,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,780)	(4,994)
Cash and cash equivalents at beginning of the year		7,759	12,753
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	3,980	7,759
Additional information:			
Islamic financing and interest received		7,991	8,038
Islamic financing and interest paid		1,247	1,667

*The addition to property and equipment and other liabilities of BD 44 thousand (31 December 2019: BD 714 thousand) is a non-cash item.

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2020

1. INCORPORATION AND ACTIVITIES

Bahrain Development Bank B.S.C. (c) ("the Bank" or "BDB") was established as a Bahraini closed shareholding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is registered with the Ministry of Industry, Commerce and Tourism (MOICT) under commercial registration (CR) number 26226. The Bank's registered office is in the Kingdom of Bahrain. The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"). The majority shareholding of the Bank is owned by the Government of the Kingdom of Bahrain ("Parent") and it's related entities ("pension funds").

The core activities of the Bank consist of advancing loans for project finance, working capital, premises and equipment for developing industries and service sectors such as Tourism, Health and Education in the Kingdom of Bahrain, and also invests in the share capital of such entities. As part of this activity, the Bank also renders management consultancy services and subscribes to ordinary and preference shares in locally incorporated companies. Additionally, loans are advanced for Agriculture, Fisheries and Higher Education purposes. Other activities of the Bank comprise making a direct contribution towards the economic development of the Kingdom of Bahrain.

The outbreak of coronavirus ("COVID-19") pandemic across the globe has caused disruption to business and economic activities and uncertainties in the global economic environment. The fiscal and monetary authorities have announced several stimulus packages to the Bank's customers, which has been implemented. The Bank has considered potential impacts of the current market volatility in the determination of the reported amounts of the Bank's financial and non-financial assets and are considered to represent management's best assessment based on current observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations. Refer to supplementary Financial Information at the end of the consolidated financial statements.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 21 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, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer note 36 for further details; 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, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of International Accounting Standard 20 ("IAS 20"). Please refer note 36 for further details.

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

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 those detailed in note 5 that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. All intra-group transactions and balances including unrealised gains and losses on transactions between the Group companies have been eliminated on consolidation.

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 (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, and the terms of the Bank's memorandum and articles of association.

2. BASIS OF PREPARATION (Continued)

2.3 Accounting convention

These consolidated financial statements are prepared on a historical cost basis, except for certain investment securities carried at fair value through profit or loss, or through other comprehensive income, that have been measured at fair value.

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

2.4 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the “Group”), all of which have 31 December as their year end and are incorporated in the Kingdom of Bahrain. The Bank has the following principal subsidiaries:

	Ownership Interest		
Name	**2020**	2019	**Principal Activity**
Bahrain Business Incubator Centre S.P.C.	**100%**	100%	Development and assistance to emerging Bahraini entrepreneurs
Bahrain Export Development Center S.P.C. (BEDC)*	**100%**	100%	Management consultancy activities
Al-Waha Venture Capital Fund Company	**99%**	99%	Trusts, Funds and Similar Financial Entities - Fund Company
Middle East Corner Consultancy Co. W.L.L. (MECC) **	**28.60%**	28.60%	Consultancy to small and medium enterprises

* BEDC is in the process of liquidation.

** The Bank is exposed, or has rights, to variable returns from its involvement with MECC; and has the ability to affect those returns through its power over MECC and thus is deemed as a subsidiary of the Bank. The bank’s petition for forced liquidation is pending with the court.

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:

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

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

a) The contractual arrangement with the other vote holders of the investee;
b) Rights arising from other contractual arrangements; and
c) 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of 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 each component of 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 into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

2. BASIS OF PREPARATION (Continued)

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:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;

b) Derecognises the carrying amount of any non-controlling interests;

c) Derecognises the cumulative translation differences recorded in equity;

d) Recognises the fair value of the consideration received;

e) Recognises the fair value of any investment retained;

f) Recognises any surplus or deficit in profit or loss; and

g) Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

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

Going concern

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

Fair value of financial instruments

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

Business model in classifying financial instruments

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:

a) Management's stated policies and objectives for the portfolio and the operation of those policies in practice;

b) Management's evaluation of the performance of the portfolio; and

c) Management's strategy in terms of earning contractual interest revenues or generating capital gains.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). Refer to note 6 for further details.

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

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (Continued)

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:

a) The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;

b) Determining criteria for significant increase in credit risk;

c) Choosing appropriate models and assumptions for the measurement of ECL;

d) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;

e) Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;

f) Establishing segments of similar financial assets for the purposes of measuring ECL; and

g) Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

4. 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.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the Board 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.

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.

The amendments apply prospectively to transactions or other events that occur on or after 1 January 2022.

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

4. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

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.

The amendments apply prospectively to transactions or other events that occur on or after 1 January 2022.

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

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

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

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE (Continued)

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.

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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment in associates

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

The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate 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. Significant influence 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.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. 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, 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 is eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate 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.

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 its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of profit or loss.

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.2 Property and equipment

All items of property 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.

6.2.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated Impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in the consolidated statement of profit or loss.

6.2.2 Subsequent measurement

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

6.2.3 Depreciation

Depreciation is calculated to write off the cost of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the consolidated statement of profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of significant items of property and equipment are as follows:

Buildings on freehold premises	15 - 30 years
Furniture, fixtures, vehicles, computers and office equipment	3 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

6.2.4 Reclassification to investment property

When the use of a property changes from owner occupied to investment property, the property is classified to investment property and carried at cost in line with the accounting policy as per note 6.4.

6.3 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 statement of financial position.

b) Lease liabilities

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.4 Investment property

Investment properties are those which are held by the Group to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost using the straight-line method at annual rates which are intended to write off the cost of the investment property over their estimated useful lives that range from 10 to 40 years. Any gain or loss on disposal of the investment property (calculated as the difference between the net process form the disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

6.5 Trade receivables

Accounts receivable are stated at original invoice amount net of discounts and provisions for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

6.6 Term loans

Term loans are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

6.7 Deposits

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

6.8 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

6.9 Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19 - Employees Benefits, is recognised as an expense in the consolidated statement of profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour law for the Private Sector 2012, based on length of service and final remuneration. Provision for this which is unfunded has been made by calculating the notional liability had all employees left at the reporting date. These charges are recognised as an expense in the consolidated statement of profit or loss.

6.10 Income recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest ratio is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period to the carrying amount of the financial asset or financial liability). When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or financial liability.

6.11 Dividend income

Dividend income is recognised when the right to receive income is established.

6.12 Fee and commission income

Fee and commission income and related expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fee and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the service is received.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.13 Rental income

Rental income from investment property is recognised as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

6.14 Other capital contribution

This represents a non-reciprocal contribution, has no interest and no repayment terms and will only be repaid on liquidation of the Bank and accordingly, it has been classified as equity.

6.15 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in the consolidated statement of profit or loss.

6.16 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

6.17 Derivatives

In the ordinary course of business, the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payment is dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forward exchange contracts.

Forwards 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.

6.18 Financial assets and financial liabilities

The Bank's key accounting policies in compliance with IFRS 9 are summarised below:

6.18.1 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.

6.18.2 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.18.2 Classification (continued)

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Financial assets designation at fair value through profit or loss

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

- 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.18.3 Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

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

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

Financial liabilities

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

6.18.4 Impairment of financial assets

Impairment of financial assets are determined using an "expected credit loss' model ("ECL") as required under IFRS 9. This is impairment model is also applied to certain loan commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under the previous standard.

6.18.5 Expected credit loss (ECL)

The Bank recognises ECL on the following financial assets that are not measured at fair value through profit or loss:

a) Debt investments;

b) Placements with banks and other financial institutions;

c) slamic financing and loans to customers;

d) Letters of credit and bank guarantees; and

e) rrevocable undrawn commitments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the other financial assets on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL. 12-month ECL are the portion of ECL that result from default events on a financial asset that is possible within the 12 months after the reporting date.

6.18.6 Presentation of allowance for ECL in the statement of financial position

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

a) financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and

b) where a financial instrument includes both a drawn and an undrawn component (as in the case of overdraft, letter of credit / bank guarantee limits etc.), the Bank presents a loss allowance for the approved limit of the facility in 'other liabilities'.

6.18.7 Write-offs

The Bank's accounting policy for write-offs under IFRS 9 remains the same. Financial assets are written off either partially or in their entirety only when the Bank has thoroughly explored most avenues of recovery and it is recognized thereafter that the outstanding amount of the debt is clearly not recoverable. However, in all written-off cases, the Bank's efforts towards the recovery of the outstanding amount continues and periodic updates are provided to the Board of Directors. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'other income'.

Refer to note 28 for further details.

7. CASH AND CASH EQUIVALENTS

	2020 BD '000	2019 BD '000
Cash and balances with Central Bank of Bahrain	**2,568**	1,976
Placement with banks and other financial institutions	**3,722**	14,850
	6,290	16,826
Less: reserve with Central Bank of Bahrain	**(2,014)**	(1,494)
Less: placements with banks and other financial institutions having original maturity of more than 90 days	**(301)**	(7,660)
Add: allowance for expected credit losses	**5**	87
Cash and cash equivalents at end of the year	**3,980**	7,759

	2020 BD '000	2019 BD '000
Cash and balances with Central Bank of Bahrain (excluding reserves)	**554**	482
Placements with banks and other financial institutions having original maturity of 90 days or less	**3,426**	7,277
	3,980	7,759

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS

	2020 BD '000	2019 BD '000
Project finance - Islamic	**136,660**	73,418
Project finance - conventional	**19,625**	19,965
Fisheries and agriculture	**3,304**	3,905
Other loans	**2,406**	1,549
	161,995	98,837
Less: allowance for expected credit losses / provision *	**(15,365)**	(22,106)
	146,630	76,731

* This includes credit losses of BD 11,915 thousand (31 December 2019: BD 13,591 thousand) against Islamic financing to customers

Included in islamic financing and loans to customers, facility at zero interest rate carried at a discount of BD 12,922 thousand (31 December 2019: BD Nil) with undiscounted amount of BD 50,000 thousand (31 December 2019: BD Nil).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

Below is the movement for expected credit losses on Islamic financing and loans to customers:

	2020			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at 1st January	642	196	21,268	22,106
Changed due to financial assets recognised in opening balances that have:				
- transferred to 12-month ECL	584	(91)	(493)	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(7)	36	(29)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(5)	(71)	76	-
Net re-measurement of loss allowance	355	414	2,297	3,066
Recoveries / write-backs	(607)	(55)	(1,591)	(2,253)
Allowance for expected credit losses - net	320	233	260	813
Write offs during the year	-	-	(7,554)	(7,554)
Balance at 31 December	962	429	13,974	15,365

	2019			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance as at 1 January	742	998	22,830	24,570
Changed due to financial assets recognised in opening balances that have:				
- transferred to 12-month ECL	577	(491)	(86)	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(24)	150	(126)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(22)	(277)	299	-
Net re-measurement of loss allowance	233	112	1,468	1,813
Recoveries / write-backs	(864)	(289)	(1,433)	(2,586)
Allowance for expected credit losses - net	(100)	(795)	122	(773)
Write offs during the year	-	(7)	(1,684)	(1,691)
Balance at 31 December	642	196	21,268	22,106

At 31 December 2020, interest in suspense on past due loans that are credit impaired amounted to BD 1,879 thousand (31 December 2019: BD 2,780 thousand) and are treated as a memorandum account.

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

The following table sets out information about the credit quality of Islamic financing and loans to customers:

	31 December 2020 (Audited)			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Corporate	74,200	2,255	17,561	94,016
SME	38,305	616	5,731	44,652
Small business	13,377	312	3,237	16,926
Taxi loans	-	-	21	21
Education loans	241	-	434	675
Overdrafts	1,486	-	528	2,014
Others	2,438	60	1,193	3,691
	130,047	3,243	28,705	161,995
Less: allowance for expected credit losses	(962)	(429)	(13,974)	(15,365)
	129,085	2,814	14,731	146,630

	31 December 2019 (Audited)			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Corporate	30,852	575	23,891	55,318
SME	12,757	893	5,987	19,637
Small business	11,811	717	4,234	16,762
Taxi loans	-	-	59	59
Education loans	355	28	1,229	1,612
Overdrafts	580	-	535	1,115
Others	2,395	206	1,733	4,334
	58,750	2,419	37,668	98,837
Less: allowance for expected credit losses	(642)	(196)	(21,268)	(22,106)
	58,108	2,223	16,400	76,731

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2020 amounts to BD 8,617 thousand (31 December 2019: BD 13,594 thousand).

The contractual amount outstanding on financing assets written off by the Group as at 31 December 2020 and that are still subject to enforcement activity was BD 13,336 thousand (31 December 2019: BD 5,876 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

9. INVESTMENT SECURITIES

	2020 BD '000	2019 BD '000
At fair value through profit or loss:		
Conventional equities	**5,575**	5,245
Islamic equities	**82**	355
	5,657	5,600
At fair value through other comprehensive income:		
Conventional equities	**126**	181
Conventional debt securities*	**17,607**	17,521
Sukuk*	**6,498**	6,498
	24,231	24,200
At amortized cost:		
Conventional debt securities*	**26,476**	11,647
	56,364	41,447

*These are sovereign exposures based in Kingdom of Bahrain, with low risk profile and fully recoverable and hence, ECL assumed to be minimal.

10. INVESTMENT IN ASSOCIATES

	Ownership interest		
	2020	2019	**Principal activity**
Arabian Taxi Company	**20.00%**	20.00%	Operating and managing taxi services
EBDA Bank ("EBDB")	**21.13%**	21.13%	Providing microfinance and related advisory services.

Associates are incorporated in Bahrain and accounted for using the equity method in these consolidated financial statements.

	2020 BD '000	2019 BD '000
The carrying amount of investment in associated companies		
At 1 January	**322**	259
Share of profit from associates	**52**	63
At 31 December	**374**	322

11. INVESTMENT PROPERTIES

	2020 BD '000	2019 BD '000
At 1 January	11,527	12,000
Capital work in process	17	-
Depreciation charge for the year	(473)	(473)
At 31 December	11,071	11,527

As of 31 December 2020, investment properties include 4 buildings (2019: 4 buildings) with a fair value of BD 17,761 thousand (2019: BD 15,047 thousand) as determined by the management.

The fair value measurement of the investment properties has been categorized as a Level 3 fair value based on the inputs to the valuation technique used. The discounted cash flows model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discounted rates. Among other factors, the discount rate estimation considers quality of a building and its location, tenant credit quality and lease terms.

12. PROPERTY AND EQUIPMENT

	Freehold land BD '000	Right of Use assets BD '000	Freehold premises BD '000	Furniture, fixtures, vehicles and office equipment BD '000	Total BD '000
Cost:					
At 1 January 2020	293	741	1,659	2,389	5,082
Additions	-	44	-	610	654
Disposals / write offs	-	(54)	-	(15)	(69)
At 31 December 2020	293	731	1,659	2,984	5,667
Depreciation:					
At 1 January 2020	-	34	1,352	1,705	3,091
Charge for the year	-	281	55	329	665
Disposals / write offs	-	-	-	(15)	(15)
At 31 December 2020		315	1,407	2,019	3,741
Net book values:					
At 31 December 2020	293	416	252	965	1,926

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

12. PROPERTY AND EQUIPMENT (Continued)

2019	Freehold land BD '000	Right of Use assets BD '000	Freehold premises BD '000	Furniture, fixtures, vehicles computers and office equipment BD '000	Total BD '000
Cost:					
At 1 January 2019	293	-	1,659	1,917	3,869
Additions	-	741	-	476	1,217
Disposals / write offs	-	-	-	(4)	(4)
At 31 December 2019	293	741	1,659	2,389	5,082
Depreciation:					
At 1 January 2019	-	-	1,297	1,417	2,714
Charge for the year	-	34	55	292	381
Disposals / write offs	-	-	-	-	-
Adjustment	-	-	-	(4)	(4)
At 31 December 2019	-	34	1,352	1,705	3,091
Net book values:					
At 31 December 2019	293	707	307	684	1,991

13. OTHER ASSETS

	2020 BD '000	2019 BD '000
Rent and other accounts receivable	3,389	2,898
Receivable related to Sitra Mall	542	542
Profit/ Interest receivable	1,871	1,326
Receivable from Ministry of Finance	407	418
Prepayments and other assets	706	278
Total of other assets	6,915	5,462
Provision for impairment	(3,087)	(3,046)
Net of other assets	3,828	2,416

14. TERM LOANS

	2020 BD '000	2019 BD '000
Saudi Fund for Development	7,519	8,023
Arab Fund for Economic and Social Development	27,785	34,270
	35,304	42,293

The movement of the term loans during the year is as follows:

	2020 BD '000	2019 BD '000
At 1 January 2020	42,293	50,607
Repayment of loans	(6,989)	(8,314)
At 31 December 2020	35,304	42,293

Saudi Fund for Development

During 2012, the Bank obtained a loan of SAR 100 million from Saudi Fund for Development. The facility has been fully availed and is repayable semi-annually over 25 years (5 years grace period for principal) at an interest rate of 2.0%. The Ministry of Finance is a guarantor to the loan.

Arab Fund for Economic and Social Development

During 2013, the Bank had obtained a loan of USD 30 million from Arab Fund for Economic and Social Development (AFESD). The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2014, the Bank had obtained a second loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2016, the Bank had obtained a third loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually over 10 years (3 years grace period for principal) at an interest rate of 3.0%. Arab Fund has allowed an interim grace period for one year as concessionary measure in response of COVID-19 pandemic.

15. DEPOSITS

	2020 BD '000	2019 BD '000
Deposits from banks	-	5,467
Deposits from non-banks	118,030	29,451
	118,030	34,918

Deposits from customers include BD 112,010 thousand (31 December 2019: BD 15,432 thousand) kept as margin deposits against financings provided.

Included in the deposits, a deposit with zero interest rate provided by Ministry of Finance and National Economy and carried at a discount and amounting to BD 12,982 thousand (31 December 2019: BD Nil) while the undiscounted amount is BD 52,500 thousand (31 December 2019: BD Nil).

16. SHARE CAPITAL

	2020 BD '000	2019 BD '000
Authorized:		
100 million (2019: 100 million) shares of BD 1 each	100,000	100,000
Issued and fully paid-up:		
65 million (2019: 65 million) shares of BD 1 each	65,000	65,000

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

17. STATUTORY RESERVE

In accordance with the provisions of the Bahrain Commercial Companies Law and the Bank's articles of association, an amount equivalent to 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. No such transfers have been made during the year ended 31 December 2020 and 2019, as the Bank is having accumulated losses.

18. OTHER CAPITAL CONTRIBUTION

Other capital contribution mainly includes a contribution by a majority shareholder for a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 11) that was recognised at its fair value on the date of transfer and as a capital contribution in the statement of changes in equity of BD 3,623 thousand.

19. ISLAMIC FINANCING AND INTEREST INCOME

	2020 BD '000	2019 BD '000
Profit on Islamic financing	5,288	4,969
Interest on conventional loans	1,304	1,133
Profit and interest on securities	1,740	1,740
Profit and interest on placements	204	392
	8,536	8,234

20. ISLAMIC FINANCING AND INTEREST EXPENSE

	2020 BD '000	2019 BD '000
Interest on term loans	1,085	1,305
Interest on deposits from non-banks	100	260
Profit on deposits from Islamic banks	20	17
Interest on deposits from conventional banks	8	6
	1,213	1,588

21. FEE AND COMMISSION INCOME

	2020 BD '000	2019 BD '000
On Islamic financing and loans to customers	414	311
On contingent liabilities	38	46
	452	357

22. INVESTMENT INCOME

	2020 BD '000	2019 BD '000
Loss on sale of FVTPL investments	-	(17)
Changes in fair value of investments classified as FVTPL	(416)	(348)
Dividend income	-	77
	(416)	(288)

23. ALLOWANCE FOR EXPECTED CREDIT LOSSES / PROVISION - NET

	2020 BD '000	2019 BD '000
Placement with banks and other financial institutions	(82)	26
Islamic financing and loans to customers	813	(773)
Other assets	194	953
Contingent liabilities and commitments	(256)	234
Recoveries from written-off loans	(557)	(441)
	112	(1)

24. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank issues letters of credit and guarantees to its existing customers. These instruments commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import of goods.

Irrevocable commitments to extend credit are the Islamic financing and loans, which have been approved by the Bank but have not been disbursed as of the reporting date.

Details of contingent liabilities and commitments are given below:

	2020 BD '000	2019 BD '000
Contingent liabilities:		
Letters of credit *	-	46
Letters of guarantee *	1,530	1,461
	1,530	1,507
Commitments:		
Irrevocable commitments to extend credit *	1,450	3,557
Commitment to invest in equity **	2,317	2,746
Capital expenditure	2,181	-
	5,948	6,303
	7,478	7,810

* The Bank carries an allowance of ECL of BD 96 thousand (31 December 2019: 352 thousand) against these off-balance sheet items which is classified under other liabilities.

** This represents the Bank's commitment to invest a 10% equity portion in Al-Waha Venture Capital Fund established with a total value of USD 100 million (equivalent BD 37.7 million). During the year, the Bank paid BD 429 thousand (2019: 739 thousand) toward this commitment.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

Term loans obtained by the Bank are from Development Funds in Kuwait and the Kingdom of Saudi Arabia. There is no secondary market for such loans which are at lower than market rates due to the nature of these loans. The Bank has estimated that its financing rates and terms are comparable to that of the objectives of other similar development banks in the region and accordingly believes the carrying value of term loans obtained are a close approximation of their fair values.

The fair value of deposits approximates the carrying value as at the reporting date given their short term nature.

There is no change in the valuation techniques used for valuation of investments during the period as compared to the year ended 31 December 2020.

The valuation technique for Level 2 financial assets is arrived on the basis of the market multiples approach and discounted cash flows. The key inputs used include a range of weighted average cost of capital used for discounting cash flows, discount for lack of marketability, control premium etc.

The bank uses various valuation techniques such as discounted cash flows, market multiples and adjusted net assets value to arrive at the fair value of Level 3 financial assets. The key inputs used are discount rate and growth rate, price earning multiple and net assets value. The reasonable potential shift in any of the above mentioned inputs will not have any significant effect on the consolidated statement of profit and loss.

The table below analyses financial instruments, measured at fair value as at both reporting dates, in the fair value hierarchy into which the fair value measurement is categorised. The fair values of financial assets and financial liabilities carried at amortised cost approximate their carrying values as at the reporting dates.

Financial assets measured at fair value:	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total fair value BD '000	Total carrying value BD '000
31 December 2020					
Investment securities - equity	**1**	**81**	**5,701**	**5,783**	**5,783**
Investment securities - debt	**24,105**	**-**	**-**	**24,105**	**24,105**
31 December 2019					
Investment securities - equity	1	354	5,426	5,781	5,781
Investment securities - debt	24,019	-	-	24,019	24,019

The Bank has outstanding forward forex contracts to buy USD, SAR & EUR from Central Bank of Bahrain ("CBB") with a nominal value of BD 35,148 thousand (2019: BD 27,808 thousand) with tenors of less than one year.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Below is the reconciliation of Level 3 financial assets carried at fair value:

	2020 BD '000	2019 BD '000
At beginning of the year	**5,426**	4,796
Changes in fair value recognised in the statement of profit or loss	**(98)**	(84)
Additions during the year	**429**	739
Written off during the year	**(55)**	(25)
At end of the year	**5,701**	5,426

Sensitivity analysis

FVTPL investments comprises investments in private equity entities and funds. The main principles, estimates and assumptions adopted to arrive at fair value include estimated future cash flows which have been provided by the management of the investee companies but have been reviewed for reasonableness by the Group and the external valuer. Cash flows have been projected for an initial period of five years or over the project life in certain cases and then a terminal value has been estimated at a growth rate of 2% to 3%.

The potential effect of using reasonable possible alternative assumptions for fair valuing the investments at FVTPL are summarised below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2020 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	**Discount rate**	**2,824**	**+/- 0.5%**	**(61) / 67**
	Growth rate		**+/- 0.5%**	**42 / (38)**
Adjusted Net Assets Value	**NAV**	**2,751**	**+/- 5%**	**70 / (30)**

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2018 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	2,873	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Adjusted Net Assets Value	NAV	2,367	+/- 5%	71 / (31)

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

26. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties which comprise major shareholders, associates, directors, senior management and entities controlled jointly or significantly influenced by such related parties in the ordinary course of business at agreed rates. Amounts due from related parties are unsecured.

The year end balances in respect of related parties included in the consolidated statement of financial position are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2020			
Islamic financing and loans to customers	**1,225**	**-**	**1,225**
Investment in associates	**-**	**374**	**374**
Other assets	**-**	**407**	**407**
Deposits	**253**	**100,345**	**100,598**

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2019			
Islamic financing and loans to customers	569	-	569
Investment in associates	-	322	322
Other assets	-	418	418
Deposits	10	3,715	3,725

The transactions with related parties included in the consolidated statement of profit or loss are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2020			
Islamic financing and interest income	**17**	**-**	**17**
Islamic financing and interest expense	**-**	**30**	**30**
Share of profit for associates	**-**	**52**	**52**

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2019			
Islamic financing and interest income	24	-	24
Islamic financing and interest expense	-	57	57
Share of profit for associates	-	63	63

Compensation of key management personnel is as follows:

	2020 BD '000	2019 BD '000
Board remuneration	**165**	178
Salary and short-term employee benefits	**951**	908
Termination benefits	**75**	87
	1,191	1,173

27. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. In the course of its regular business, the Bank is exposed to multiple risks notably credit risk, liquidity risk, market risk, operational risk and other risks like compliance risk, strategic risks and reputational risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. The Bank's risk governance is manifested in a set of established policies, procedures and controls through which the existing organizational structure meets its strategic targets. This philosophy revolves around the knowledge of various risks and their willingness to accept the same commensurating with their risk appetite and strategic plan approved by the Board of Directors.

a) Organizational structure

A cohesive organizational structure is established within the Bank in order to identify, assess, monitor, and mitigate risks.

b) Board of Directors

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Bank. Oversight of the day-to-day management of the Bank is conducted by the BOD committees, the Chairman and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises eight members.

c) Audit & Governance Committee of the board

The Audit & Governance Committee ("AGC") comprises three members of the Board and the Head of Internal Audit is the AGC's Secretary. This AC is principally responsible for reviewing the internal audit program and assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and the Bank's compliance with legal and regulatory requirements.

d) Nomination & Remuneration Committee of the board

The Nomination & Remuneration Committee ("NRC") comprises three members of the BOD (including the Chairman) and the Head of Human Resources & Corporate Communications is the committee's Secretary. NRC has the overall responsibility of setting the criteria and processes for identification of candidates for the Board level committees and senior management. The Committee also assists the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees and the Chief Executive Officer and of the Executive Management. The Committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance as well as with any legal or regulatory requirements. NRC also overseas the Bank's HR policies and rewards policy framework, corporate governance practices. Chairman of the NRC has been changed from Khalid Al Rumaihi to Tareq Al Saffar.

e) Investment & Credit Committee of the Board

The Investment & Credit Committee ("ICC") comprises four members of the BOD. The Committee has overall responsibility of setting the criteria for managing credit and investment risks and oversee the investment and credit strategies and objectives of the Bank. The Committee assists the Board of Directors in managing credit risk and reviews internal credit policies, grants approvals for credit and investment facilities in addition to reviewing the quality and performance of the Bank's lending portfolio and investment in line with the agreed risk appetite and best credit risk management practices.

f) Risk Committee of the Board

The Risk Committee ("RC") comprises three members of the BOD. The Committee has overall responsibility of overseeing the Bank's enterprise risk management framework, approach and pertinent policies. The Committee recommends to the Board, guidelines in relation to the Bank's current and potential future risk exposures and risk strategy, determination of risk appetite including risk limits and tolerance levels as well as the Bank's capital and liquidity strategy.

g) Executive Management

Executive Management is responsible for the day to day operations towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole.

h) Management Executive Committee

The Management Executive Committee ("MEC") is a senior management level committee that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategic plan as approved by the BOD. The responsibilities of MEC include approving and monitoring the Bank's various business activities in accordance with the strategic plan approved by the Board.

In order to fulfil its responsibilities, the Committee has appointed other Sub-Committees and delegated specific tasks and adequate powers and authorities for effectively and efficiently carrying out the responsibilities assigned to them. The composition, guiding principles and detailed roles and responsibilities of MEC are covered in the MEC's charter.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

27. RISK MANAGEMENT (Continued)

i) Risk Executive Committee

The Risk Executive Committee ("REC") has the primary responsibility of overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk and other risks. REC has to ensure that the Bank has adequate risk management framework, policies, procedures and processes in place in order to identify, measure, monitor, mitigate and manage risks across all of its operations.

j) Asset and Liability Committee

The Assets and Liabilities Committee ("ALCO") is mainly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. ALCO monitors the Bank's liquidity and market risks and the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk / reward guidelines approved by the Delegated Approval Authority / Board.

k) Credit Committee

The Credit Committee ("CC") has the responsibility to grant / approve credit facilities as within their Delegated Authority and also makes decisions relating to the execution of investments in line with the Banks investment strategy and management of credit and concentration risks. Proposals exceeding their Delegated Authority are escalated to the ICC for consideration.

l) Risk management

Risk Management Department is an independent function responsible for the preparation, implementation and updating the policies and procedures within the framework of the Bank's strategy and in line with the guidelines of the CBB. They are also responsible for the identification and continuous evaluation of all significant risks, design and implementation of appropriate internal controls to mitigate the risks and the processes involved in the remedial function. The risk management department is overseen by the Chief Risk Officer.

m) Legal Department

The Bank has engaged a panel of external legal counsels to handle all legal cases initiated for recovery of difficult loan cases. The progress and outcomes on such cases are monitored by the Head of Legal.

n) Internal Audit Department

Risk Management processes are audited annually by Internal Audit, which examines the adequacy of the controls in place in addition to compliance with the policies by the respective departments. The internal audit results are discussed with the MEC and the findings, together with recommendations, to mitigate the findings are presented to the Audit & Governance Committee of the Board..

o) Treasury Department

The Treasury Department is responsible for the day to day operations necessary to fund banking activities and implement ALCO's strategies in managing / optimizing interest rate and liquidity risks.

p) Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on the approved limits and the strong internal control structures established by the Board. The limits reflect the business strategy and the market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept.

Strict assessment processes are factored during the review and approval processes. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Quarterly updates are provided to the BOD and on a monthly basis to all other members of the management on the utilization of market limits, proprietary investments, liquidity and other developments.

q) Risk Mitigation

Significant risk mitigation activities are focused in the credit area. The risk mitigation process comprises of an appropriate and adequate structure for the credit facilities at the initial stage followed by ongoing and regular monitoring, enforceable documentation and collateral.

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

28. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and Islamic financing to customers, placements and debt securities.

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices..

Risk management is performed by the Credit Risk Management Unit under policies approved by the Board of Directors. The Credit Risk Management Unit identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, and price risk.

28.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), deposits held with other banks and investments made in debt type instruments. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to the purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend the credit. Credit risk monitoring and control is performed by the Credit Risk Management Unit (CRMU) which sets parameters and thresholds for the Bank's financing activities.

28.2 Significant Increase In Credit Risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such an increase and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank monitors the effectiveness of the criterion used to identify SICR by regular reviews and validations.

The Bank classifies its financial instruments into Stage 1, Stage 2 and Stage 3, based on the applied methodology, as described below:

Stage 1: for financial instruments where there has not been a SICR since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination are classified as Stage 1.

Stage 2: for financial instruments where there has been a SICR since initial recognition but are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings and loans categorised in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

Stage 3: for financial instruments where there has been a SICR since initial recognition but are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings and loans categorised in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

28. CREDIT RISK (Continued)

28.3 Measurement of ECL

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

Type of financial instrument	Measurement basis
a) 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 Bank expects to receive).
b) 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.
c) Irrevocable undrawn commitments	As the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
d) Letters of credit and bank guarantees	As the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, Probability of Default (PD), Loss Given Default (LGD), Credit Conversation Factor (CCF) and discount rate.

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

a) Probability of Default (PD);

b) Loss Given Default (LGD); and

c) 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.

Linear Regression has been used to develop macroeconomic models specific to portfolios of the bank. Department variable has been the default rate specific to portfolios and independent variables considered are Macro variables.

The Modelling methodology adopted by the Bank involved a systematic approach with statistically rigorous analyses' to arrive at the final model for each of the portfolios. The underlying development process involved steps of data transformation, variable reduction, model performance , check for variable collinearity etc.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For facilities that include both a drawn and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and / or turning the outstanding balance into a loan with fixed repayment terms.

28. CREDIT RISK (Continued)

28.4 Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime 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 macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: gross domestic product / economic growth, interest rates, unemployment rates and inflation.

Based on consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

For the financing portfolio, through the yearly review of the corporate portfolio, the Bank observes yearly performances to compute a count based PD over the one year horizon for the past 5 years.

PDs for each segment are measured using observed default estimation and PD is calculated based on a DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

28.5 Restructured financial assets

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 impairment 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.

In project finance, there could be delays in implementation of the project and in some cases, the projects may take a longer time to generate surplus. The Bank has in such cases, where there is a genuine need and commitment from the customer, approved a restructuring.

Maximum tenor of the facility post restructuring does not exceed 15 years from the first disbursement of the facility. As has been prescribed by the CBB, restructured accounts are transferred to Stage 2 directly for a minimum period of 12 months.

28.6 Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost 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.

Notes to the Consolidated Financial Statements (Continued)
As at 31 December 2020

28. CREDIT RISK (Continued)

28.7 Definition of 'Default' and 'Cure'

The Bank's definition of default is aligned with regulatory guidelines and internal Credit Risk Management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence a relevant financial asset or a group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the expected credit losses as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset. The following are certain indicators to identify the impairment of assets (indicators are not necessarily to be observed on an individual basis):

a) significant financial difficulty of the issuer or the obligor;

b) material breach of facility covenants, conditions and contract (subject to management discretion);

c) grant to the borrower a concession that the lender would not otherwise consider except for economic or legal reasons relating to the borrower's financial difficulty;

d) imminent bankruptcy or other financial reorganization of the borrower;

e) significant downgrading in credit rating by an external credit rating agency;

f) disappearance of an active market because of financial difficulties;

g) presence of past due contractual payments of either principal or profit; or / and

h) deterioration in the value of security and likelihood of successfully realising it.

In general, counterparties with facilities exceeding 90 days past dues are considered in default.

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 review, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

28.8 Incorporation of forward looking assumptions

The Bank incorporates forward-looking assumptions into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank annually sources macro-economic forecast data for various variables from many databases including the International Monetary Fund (IMF) database for Bahrain, Bloomberg, Reuters and World Bank.

Macro-economic variables are checked for correlation with the PD for the past five years and only those variables for which the movement can be explained are used. Management judgment is exercised when assessing the macroeconomic variables.

i) Limits and concentrations

Limits are assigned for each individual counterparty group and for each industrial segment. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties to the transactions. In addition, the Bank obtains security, where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

ii) Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk as at the reporting date.

	2020 BD '000	2019 BD '000
Balances with Central Bank of Bahrain	2,391	1,709
Placement with banks and other financial institutions	3,722	14,850
Islamic financing and loans to customers	146,630	76,731
Investment securities	50,581	35,666
Other assets	3,550	2,148
	206,874	131,104
Contingent liabilities	1,530	1,507
Commitments	1,450	3,557
	2,980	5,064
Maximum credit risk exposure	209,854	136,168

iii) External credit assessment

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

iv) Concentration of credit risk

Since the Group's operations are restricted only to the Kingdom of Bahrain, it is primarily effected by the changes in the economic and other conditions prevailing in the Kingdom of Bahrain.

	2020 BD '000	2019 BD '000
Industry sector		
Banks and financial institutions	56,694	52,225
Trading and manufacturing	91,639	48,688
Education and health	8,681	6,777
Hospitality, media and transportation	14,454	8,392
Fisheries, agriculture and dairy	5,390	6,216
Food processing	8,641	1,587
Others	24,355	12,283
	209,854	136,168

v) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the facility structure and the associated 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 cash margin, bank guarantees and real estate title deeds.

Market value of collateral is closely monitored by the Bank in addition to requesting additional collateral in accordance with the underlying agreement and evaluation of the adequacy of the allowance for impairment / ECL.

It is the Bank's policy to normally dispose off repossessed collateral in an orderly fashion after due notice has been provided to the defaulting customer. The proceeds are used to reduce or settle the outstanding claim. The Bank did not occupy repossessed properties for its own business use, as at the reporting date.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

v) Collateral and other credit enhancements (continued)

The Group holds collateral and other credit enhancements against certain of its credit exposures.The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	2020				
	Gross Exposures	Expected Credit Loss	Carrying Amount	FV of Collateral Held	Guarantee Available
	BD 000	BD 000	BD 000	BD 000	BD 000
Project finance - Islamic	16,922	10,767	6,155	2,127	4,709
Project finance - conventional	10,055	2,635	7,420	6,490	-
Fisheries and agriculture	1,193	41	1,152	-	-
Other loans	534	531	3	-	-
Total	28,705	13,974	14,731	8,617	4,709

	2019				
	Gross exposure	Expected Credit Loss	Carrying Amount	FV of Collateral Held	Guarantee Available
	BD 000	BD 000	BD 000	BD 000	BD 000
Project finance - Islamic	19,372	12,817	6,555	6,057	5,791
Project finance - conventional	15,642	7,490	8,152	10,977	-
Fisheries and agriculture	1,733	41	1,692	-	1,692
Other loans	921	919	2	-	-
Total	37,668	21,268	16,400	17,034	7,483

vi) Carrying amount per class 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 renegotiated financial assets during the year.

	2020 BD '000	2019 BD '000
Islamic financing and loans to customers	2,603	417

28. CREDIT RISK (Continued)

28.8 Incorporation of forward looking assumptions (continued)

vii) Credit quality per class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2020				2019
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit impaired BD '000	Total BD '000	Total BD '000
Placement with banks and other financial institutions	3,727	-	-	3,727	14,937
Less: Allowance for ECL	(5)	-	-	(5)	(87)
	3,722	-	-	3,722	14,850
Islamic financing and loans to customers					
Corporate	74,200	2,255	17,561	94,016	55,318
SME	38,305	616	5,731	44,652	19,637
Small business	13,377	312	3,237	16,926	16,762
Taxi loans	-	-	21	21	59
Education loans	241	-	434	675	1,612
Overdrafts	1,486	-	528	2,014	1,115
Others	2,438	60	1,193	3,691	4,334
	130,047	3,243	28,705	161,995	98,837
Less: Allowance for ECL	(962)	(429)	(13,974)	(15,365)	(22,106)
	129,085	2,814	14,731	146,630	76,731
Contingent liabilities and commitments					
Letters of credit and bank guarantees	1,530	-	-	1,530	1,507
Undrawn commitments	1,450	-	-	1,450	3,557
Less: Allowance for ECL	(96)	-	-	(96)	(352)
	2,884	-	-	2,884	4,712
Other assets	17	17	3,084	3,118	3,136
Less: Allowance for ECL	(12)	(8)	(3,067)	(3,087)	(3,047)
	5	9	17	31	89

29. MARKET RISK

Market risk is the risk of loss attributable to adverse changes in the values of financial instruments, whether on or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or price.

i) Interest rate risk

Interest rate risk arises from the possibility that changes to the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risk due to mismatches of interest rate repricing of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

29. MARKET RISK (Continued)

i) Interest rate risk (continued)

The Bank primarily deals with 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars, in which the Bank's interest sensitive financial instruments are denominated predominantly. The following table demonstrates the Bank's sensitivity to a reasonable possible change in interest rates, with all other variables held constant.

	Change in basis points	Impact of change on net interest Income		Change in basis points	Impact of change on net interest Income	
		2020	2019		2020	2019
		BD '000	BD '000		BD '000	BD '000
Bahraini Dinars	+100	964	1,074	-100	(964)	(1,074)
Kuwaiti Dinars	+100	-	1	-100	-	(1)
Saudi Riyals	+100	(144)	(1)	-100	144	1
United States Dollars	+100	(205)	(327)	-100	205	327

ii) Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Net open positions are monitored on a daily basis to ensure compliance within the established limits.

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US dollar is insignificant since the Bahraini Dinar is pegged to the US dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2020 and 2019:

	Equivalent long / (short)	
	2020	2019
Kuwaiti Dinars	7	65
US Dollars	(165)	(78)
Euro	1	6
GBP	4	7
Saudi Riyals	(97)	57
UAE Dirhams	19	4

iii) Derivatives

A derivative 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 forex forward contracts. 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. The Group has entered into forex forward contracts with the Central Bank of Bahrain with a nominal value of BD 34,978 thousand (31 December 2019: BD 27,808 thousand).

30. 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 profit or loss (as a result of a change in the fair value of equity instruments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities		Effect on Profit or Loss		
	2020 BD '000	2019 BD '000	% change in Index	Total 2020 BD '000	Total 2019 BD '000
Bahrain Bourse	1	1	± 15%	0	0

31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2020 and 2019 based on expected maturities.

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2020								
Assets								
Cash and balances with Central Bank of Bahrain	2,568	-	-	-	-	-	2,568	2,568
Placements with banks and other financial institutions	3,722	-	-	-	-	-	3,722	3,722
Islamic financing and loans to customers	5,238	8,901	24,501	54,035	79,263	65,970	237,908	146,630
Investment securities	50,581	-	-	-	-	5,783	56,364	56,364
Investment in associates	-	-	-	-	-	374	374	374
Investment properties	-	-	-	-	-	11,071	11,071	11,071
Property and equipment	-	-	-	-	-	1,926	1,926	1,926
Other assets	-	-	3,828	-	-	-	3,828	3,828
Total assets	62,109	8,901	28,329	54,035	79,263	85,124	317,761	226,483
Liabilities								
Term loans	-	251	-	251	13,972	20,830	35,304	35,304
Deposits	15,233	2,541	1,315	752	94	98,095	118,030	118,030
Other liabilities	-	-	4,444	-	-	-	4,444	4,444
Total liabilities	15,233	2,792	5,759	1,003	14,066	118,925	157,778	157,778
Net liquidity gap	46,876	6,109	22,570	53,032	65,197	(33,801)		
Cumulative liquidity gap	46,876	52,985	75,555	128,587	193,784	159,983		

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2019								
Assets								
Cash and balances with Central Bank of Bahrain	1,976	-	-	-	-	-	1,976	1,976
Placements with banks and other financial institutions	7,274	5,125	-	2,451	-	-	14,850	14,850
Islamic financing and loans to customers	3,582	7,428	9,506	14,566	45,258	19,357	99,696	76,731
Investment securities	35,666	-	-	-	-	5,781	41,447	41,447
Investment in associates	-	-	-	-	-	322	322	322
Investment properties	-	-	-	-	-	11,527	11,527	11,527
Property, plant and equipment	-	-	-	-	-	1,991	1,991	1,991
Other assets	-	-	2,416	-	-	-	2,416	2,416
Total assets	48,498	12,553	11,921	17,017	45,258	38,978	174,225	151,260
Liabilities								
Term loans	-	251	3,242	3,493	13,972	21,335	42,293	42,293
Deposits	11,466	7,933	3,464	524	36	11,495	34,918	34,918
Other liabilities	-	-	4,723	-	-	-	4,723	4,723
Total liabilities	11,466	8,184	11,429	4,017	14,008	32,830	81,934	81,934
Net liquidity gap	37,032	4,369	492	13,000	31,250	6,148		
Cumulative liquidity gap	37,032	41,401	41,894	54,894	86,144	92,291		

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2020 and 2019 based on the contractual undiscounted repayment obligations. See note 32 for the expected maturities of these liabilities.

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2020								
Term loans	-	-	327	-	324	34,775	26,968	62,394
Deposits	15,155	79	2,567	1,344	766	96	98,097	118,104
Other liabilities	-	-	-	4,444	-	-	-	4,444
Total liabilities	15,155	79	2,894	5,788	1,090	34,871	125,065	184,942

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2019								
Term loans	-	-	332	8,785	8,997	34,795	27,599	80,508
Deposits	11,774	5,521	2,491	3,473	533	37	11,495	35,324
Other liabilities	-	-	-	4,723	-	-	-	4,723
Total liabilities	11,774	5,521	2,823	16,981	9,530	34,832	39,094	120,555

The table below summarises the maturity profile of the Bank's contingent liabilities and commitments at 31 December 2020 and 2019 based on the contractual undiscounted repayment obligations.

	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
31 December 2020					
Contingent liabilities	363	465	456	246	1,530
Commitments	1,450	-	617	1,700	3,767
Capital expenditure	-	53	1,074	1,054	2,181
Total	1,813	518	2,147	3,000	7,478
31 December 2019					
Contingent liabilities	337	195	330	645	1,507
Commitments	3,557	-	2,746	-	6,303
Total	3,894	195	3,076	645	7,810

	2020	2019
Liquidity Coverage Ratio	491%	420%

The Bank expects that not all of the commitments will be drawn before expiry of the commitments.

33. OPERATIONAL RISK

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses, if any will not be material.

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 computer systems that enable it to run operations with speed and accuracy. The operational risk management unit operates independently from other units of the Bank and reports to the Chief Risk Officer. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately. The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") team. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank is conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

34. CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Bank is as follows:

	2020 BD '000	2019 BD '000
Capital base		
Tier 1 capital	71,637	69,344
Tier 2 capital	1,194	1,233
Total capital base (a)	72,831	70,577
Risk-weighted assets (b)	114,089	134,416
Capital adequacy ratio (a/b*100)	63.84%	52.51%
Minimum requirement	12.5%	12.5%

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements, the CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The capital adequacy regulations of the CBB are based on the principles of Basel III of the IFSB guidelines.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

34. CAPITAL ADEQUACY (Continued)

The Bank's regulatory capital is analysed into two tiers:

• Tier 1 capital, includes CET1 and AT1.

CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments are required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common share capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

Capital management

The primary objectives of the Bank's capital management are i) to ensure that the Bank complies with externally imposed capital requirements ii) maintain healthy capital ratios in order to support its business and iii) to maximise shareholders' value. The Bank manages its capital structure and makes adjustments to it in the light of changes in business 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.

35. CLASSIFICATION OF ASSETS AND LIABILITIES

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

	Designated as at FVTPL BD '000	FVOCI – sukuk/debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2020					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	2,568	2,568
Placements with banks and other financial institutions	-	-	-	3,722	3,722
Islamic financing and loans to customers	-	-	-	146,630	146,630
Investment securities	5,657	24,105	126	26,476	56,364
Investment in associates	-	-	-	374	374
Investment properties	-	-	-	11,071	11,071
Property and equipment	-	-	-	1,926	1,926
Other assets	-	-	-	3,828	3,828
Total assets	5,657	24,105	126	196,595	226,483
Liabilities					
Term loans	-	-	-	35,304	35,304
Deposits	-	-	-	118,030	118,030
Other liabilities	-	-	-	4,444	4,444
Total liabilities	-	-	-	157,778	157,778

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

	Designated as at FVTPL BD '000	FVOCI – debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	1,976	1,976
Placements with banks and other financial institutions	-	-	-	14,850	14,850
Islamic financing and loans to customers	-	-	-	76,731	76,731
Investment securities	5,600	24,019	181	11,647	41,447
Investment in associates	-	-	-	322	322
Investment properties	-	-	-	11,527	11,527
Property and equipment	-	-	-	1,991	1,991
Other assets	-	-	-	2,416	2,416
Total assets	5,600	24,019	181	121,460	151,260
Liabilities					
Term loans	-	-	-	42,293	42,293
Deposits	-	-	-	34,918	34,918
Other liabilities	-	-	-	4,723	4,723
Total liabilities	-	-	-	81,934	81,934

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

36. CAPITAL MODIFICATION LOSS AND GOVERNMENT ASSISTANCE

During the current year, based on a regulatory directive issued by the CBB (refer note 2.1) as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 2,360 thousand arising due to the 6-month payment holidays provided to financing customers without charging additional interest has been recognized 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 Bank provided payment holidays on financing exposures amounting to BD 62 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD 684 thousand (representing specified reimbursement of a portion of staff costs, utilities & land rent) received from the government, in response to its COVID-19 support measures, has been recognized directly in equity. Thus the net amount from the Modification loss and government assistance amounted to BD 1,675 thousand.

37. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net loss, total assets, total liabilities and total equity of the Group.

38. NET STABLE FUNDING RATIO

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	71,632			1,242	72,874
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits					
Less stable deposits					
Wholesale funding:					
Operational deposits					
Other wholesale funding		19,340	1,003	132,991	143,163
Other liabilities:					
NSFR derivative liabilities					
All other liabilities not included in the above categories		4,444			
Total ASF	71,632	23,784	1,003	134,233	216,037
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	53,372				2,524
Deposits held at other financial institutions for operational purposes					
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		3,397			510
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		19,590	5,171		12,381
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines				107,137	91,066
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					
Other assets:					
Physical traded commodities, including gold					

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

38. NET STABLE FUNDING RATIO (Continued)

	Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Assets posted as initial margin for for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	37,816				37,816
OBS items	42,626				2,131
Total RSF	133,814	22,987	5,171	107,137	146,428
NSFR (%) - As at 31 December 2020					148%

38. NET STABLE FUNDING RATIO (Continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	68,690			1,232	69,922
Other Capital Instruments					-
Retail deposits and deposits from small business customers:					
Stable deposits					-
Less stable deposits		5,467			4,920
Wholesale funding:					
Operational deposits					-
Other wholesale funding		20,894	4,017	46,837	59,293
Other liabilities:					
NSFR derivative liabilities					-
All other liabilities not included in the above categories		4,578			-
Total ASF	68,690	30,939	4,017	48,069	134,135
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	37,413				1,775
Deposits held at other financial institutions for operational purposes					
Performing financing and loans / securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		12,454	2,452		3,094
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		1,434	2,141		1,788
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines				56,756	48,243
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					-
Other assets:					-
Physical traded commodities, including gold					-

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2020

38. NET STABLE FUNDING RATIO (Continued)

	Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Assets posted as initial margin for for derivative contracts and contributions to default funds of CCPs					-
NSFR derivative assets					-
NSFR derivative liabilities before deduction of variation margin posted					-
All other assets not included in the above categories	39,634				39,634
OBS items	35,671				1,783
Total RSF	112,718	13,888	4,593	56,756	96,317
NSFR (%) - As at 31 December 2020					139%

Supplementary Financial Information

As at 31 December 2020 (Unaudited)

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

SUPPLEMENTARY INFORMATION TO AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Global economy measures changes + impact of COVID-19

The COVID-19 pandemic has caused a significant global economic downturn which has adversely affected businesses. The future impact of the COVID-19 pandemic on the global economy and the businesses remain uncertain. The COVID-19 pandemic has resulted in authorities implementing numerous measures to contain the spread and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter in place orders, and limitations on business activity, including closures.

These measures are, among other things, severely restricting global economic activity. The key impact of these are outline below:

- Disruption of global supply chains: The Bank realises that such disruptions will have an adverse impact on the performance and affect the cash flows/liquidity of our SME financing customers. The Bank is closely monitoring the performance of customers especially those who are considered vulnerable and is devising proactive measures to assist them in tiding over such difficulties. The Ministry of Finance & National Economy (MOFNE) has devised a Liquidity Support Fund (LSF) Scheme to fund the SME segment, of which an aggregate amount of up to BD 80 million can be utilised by BDB for onward lending to affected SME's to tide over such difficulties & minimise the ill effects;
- Lowering asset valuations: This is not expected to have a significant impact since BDB does not undertake asset backed financing and a major portion of the investments done by the Bank are in Government Securities held solely for the purpose of Principal & Profit (SPPI). However this may affect the valuations for collateral securities held by the Bank and lead to an increase in the requirement for provisions for ECL;
- Significantly increasing unemployment and underemployment levels: Changes in employment level will impact the purchasing power of the citizens/demand for goods & services of our SME financing customers and their performance/liquidity. As stated earlier we are monitoring the situation closely and also taking proactive steps to minimise the ill effects; and
- Decreasing liquidity in markets for certain securities and causing significant volatility and disruptions in the financial, energy and commodity markets: The above is not expected to have a direct impact on the Bank since the Long Term Stable funding of the Bank is mainly from the Government and Regional Financial Institutions. In addition the Bank has HQLA of nearly 60 million which is considered sufficient for the growth envisaged for next year. However the Bank is continuously exploring all possible avenues for raising stable funds for future growth.

These measures have also negatively impacted, and could continue to negatively impact, businesses, market participants, our counterparties and clients, and the global economy for a prolonged period of time. Should current economic conditions persist or continue to deteriorate, we expect that this macroeconomic environment will have a continued adverse effect on our business and results of operations, which could include, but are not be limited to:

- Demand for our products and services: Though it is very difficult to assess the long term impact on demand for the products & services, presently the Bank is experiencing an increased demand due to the tight liquidity situation on account of disruption in the supply chain, and slack in demand for products/services;
- Protracted periods of lower interest rates: Not much impact is expected since a major portion of the interest bearing liabilities are at fixed rates from Regional Financial Institutions at rates much below the market;
- However margins earned by the Bank on its financing & investment portfolio is under stress due to the reduction in yields;
- Lower asset management fees; Not much impact is expected since the Bank has negligible fee based activities and does not undertake asset management activities;
- Lower sales and trading revenue due to decreased market liquidity resulting from heightened volatility; Not applicable. BDB does not undertake trading activities;
- Increased noninterest expenses, including operational losses; The operational expenses of BDB are at the bare minimum and have reduced substantially over the past few years on account of the strict control exercised. Further the total operating expenses during the first HY of 2020 despite the incremental costs incurred to facilitate smooth working from home, enhanced safety of the working environment etc. has been marginal;

Supplementary Financial Information (Continued)

As at 31 December 2020 (Unaudited)

BDB Supplementary Public Disclosure – Financial Impact of COVID-19 (Continued)

- Increased credit losses due to deterioration in the financial condition of our consumer and commercial borrowers, including declining asset and collateral values, which may continue to increase our provision for credit losses and net charge-offs. BDB has been traditionally following a conservative approach for recognising credit losses on account of the high risk segment it caters to. Further the entire Fisheries and Agriculture Portfolio is guaranteed by MOFNE and a substantial portion of the exposures to the SME segment is with Tamkeen guarantee. Further the incremental portfolio targeted currently is fully secured by way of third party cash; and
- Disruption in the Bank's operations. The Bank's response in terms of business continuity has been very robust.

(a) 75% of the branch network remained open for business, and

(b) The Bank has been able to deploy its technological resources/capabilities to enable nearly 60% of the employees to work from home

Our provision for credit losses and net charge-offs could also be impacted by continued volatility in the energy and commodity markets.

Any elevation in ECL charges as a result of COVID-19

	ECL Balance as at 31/12/2019	Elevation in ECL charges as a result of COVID-19	ECL Balance as at 31/12/2020
Stage 1	642	320	962
Stage 2	196	(196)	429
Stage 3*	21,268	(7,294)	13,974

**** Reduction is due to Technical write off of financing assets by the Group which are still subject to enforcement activity***

Additionally, although general liquidity may be effected and/or regulatory capital could be adversely impacted by customers' withdrawal of deposits, volatility and disruptions in the capital and credit markets, volatility in foreign exchange rates and continued customer draws on lines of credit and potential downgrades to credit ratings, these are not expected to have a significant direct impact on BDB on account of the following :

- The Bank's funding is entirely by way of share capital/long-term funding at fixed rates from regional financial institutions;
- Incremental funding during the current FY is from the LSF scheme funded by MOFNE;
- As against the regulatory requirement of 12.5% the Bank maintains a CAR of above 50%; and
- The Bank does not keep any open position in forex above the equivalent of BD 0.5 million.

Key capital and liquidity indicators

	Regulatory minimum	Q4 2020	YE 2019	Reasoning behind movement
LCR	100%	491%	420%	Funding from MOFNE
NSFR	100%	148%	139%	
CET 1 Ratio	12.50%	62.79%	51.59%	Major portion of the incremental lending is against cash collateral from MOFNE

If we become unable to successfully operate our business from remote locations including, for example, failure of our internal or external information technology infrastructure, increased rates of employee illness, or governmental restrictions placed on our employees or operations, this could also have an adverse effect on our business continuity status and result in disruption to our business.

To the extent the COVID-19 pandemic continues to adversely affect the global economy and adversely affects our business, results of operations or financial condition, it may also have the effect of increasing the likelihood and/or magnitude of other risks. In response to the economic and market conditions resulting from the COVID-19 pandemic, governments and regulatory authorities, including central banks, have acted to provide fiscal and monetary stimuli to support the global economy. In the Bahrain, the Central Bank of Bahrain (CBB) and other government entities have, among other things:

BDB Supplementary Public Disclosure – Financial Impact of COVID-19 (Continued)

- Lowered the required cash reserve; Cash Reserve Requirement has been reduced by CBB from 5% to 3% which has released BD 949K of funds maintained with CBB;
- Implemented programs to promote liquidity including interest free repurchase agreements: BDB has sufficient liquidity and may not require to avail this facility;
- Required banks to provide 6-month payment holiday to customers without charging additional interest and further deferral of four months with interest. In compliance with the above directives we had allowed deferment of instalments falling due during the 6 month period from March 1, 2020 to August 31, 2020 in 2,466 accounts aggregating to BD 60.64 million without any additional interest or profit. The aggregate amount of instalments deferred was BD 16.66 million. The modification loss of BD 1.68 million (net of subsidies received from the Government) was charged to retained earnings as directed by CBB;
- Announced programs for supporting businesses by providing direct government assistance. The Bank (including subsidiaries) received BD 576K as wages support from SIO towards salaries of Bahraini employees for 3 months, BD 108K as waiver of electricity charges and BD 19K as land rent support from MOIC;
- Clarified supervisory expectations regarding loan modifications due to COVID-19 related non-payment; and
- Clarified expectations for certain bank regulations related to counterparty credit risk, the current expected credit loss accounting standard and capital adequacy regulatory treatment.

However, there can be no assurance that these measures will stimulate the global economy or avert continued recessionary conditions in markets or economies in which we conduct operations. Our participation in and execution of these and other measures taken by governments and regulatory authorities could result in reputational harm and has resulted in, and may continue to result in, litigation, including class actions, or regulatory and government actions and proceedings. Such actions may result in judgments, settlements, penalties, and fines adverse to the businesses. We continue to closely monitor the COVID-19 pandemic and related risks as they evolve globally. The magnitude and duration of the current outbreak of COVID-19, the likelihood of further outbreaks of COVID-19, future actions taken by governmental authorities and/or other third parties in response to the COVID-19 pandemic, and its future direct and indirect effects on the global economy and our business and results of operation are highly uncertain. The COVID-19 pandemic may cause prolonged global or national recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on our business, results of operations and financial condition.

Economic Outlook: The uncertainties in the Global as well as regional economic situation on account of COVID-19 is still unclear and the decrease in Global as well as regional GDP, decline in Oil prices, and changes in inflation are all expected to affect performance of Banks. However a reliable estimate on BDB may be possible only with the passage of time. We are closely monitoring the situation and shall be take measures to minimise the ill effects.

EBITDAC (earning before ITDA and COVID-19); separate lines items for any extraordinary, non-recurring, unusual costs such as: loss of income, purchase of PPE, paying idle employees, redundancy/restructuring costs, increased screening/cleaning/security costs, paying more for transportation, cost of buying insurance, etc.

	31-Dec-20
EBITDA	1556K
Add: Expenses directly attributable to COVID-19	29
EBITDAC	1585K

How Group is coping + measures in place + strengths/weaknesses of current structure

Qualitative explanation on the nature of Bank's largest exposures & how sensitive those are/have been to the impact of COVID-19, and the Business strategies implemented as a response (investing in government bonds etc.)

The mitigants available/measures taken by the Bank to the minimise the ill effects of enhanced risks on account of COVID-19 has been enumerated against each of the above table. Additionally the Bank has recently concluded a COVID-19 impact assessment of Bank's largest exposures. These exposures are well diversified within multiple industry sectors. Based on the impact assessment, the Bank has created certain action plans to deal with the loans that would require restructuring.

The above information should not be considered as an indication of the results of the entire year or 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 out of date. In addition, this information does not represent a full comprehensive assessment of the COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.

Risk and Capital Management Disclosures

For the year ended 31 December 2020

1. EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar 3 disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". The report has been designed to provide BDB Group's stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

BDB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the period ended 31st December 2020 presented in accordance with the International Financial Reporting Standards (IFRS).

2. INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB's capital adequacy framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar 1: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: rules for the disclosure of risk management and capital adequacy information.

CBB CAPITAL ADEQUACY RULES:

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, the capital conversation buffer is newly introduced limits and minima by the CBB, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB).

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB's capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

i) Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The bank has a robust credit risk management architecture which is explained in greater detail in Note 2 of the consolidated financial statements.

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk.

2. INTRODUCTION TO THE BASEL III FRAMEWORK (Continued)

ii) Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of financial instruments as a result of changes in market rates (such as interest rates and foreign exchange rates).

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

iii) Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations and activities.

For the regulatory operational risk capital requirement, BDB is using the Basic Indicator Approach for the calculation of regulatory operational risk capital.

Regulatory Reforms

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"), with headquarters and branches in Bahrain. The Bank's capital adequacy requirements are computed on a consolidated basis.

3. GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. As at 31st December 2020, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation
Bahrain Business Incubator Centre WLL	Kingdom of Bahrain
Bahrain Export Development Center WLL	Kingdom of Bahrain
Al-Waha Venture Capital Fund Company BSC	Kingdom of Bahrain
Middle East Corner Consultancy CO. WLL*	Kingdom of Bahrain
Neotech WLL	Kingdom of Bahrain

* The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

Restrictions on capital and transfer of funds within the Group

Since the Bank's subsidiaries are not regulated financial institutions, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as a separate legally incorporated entity, the transfer of paid in capital and mandatory reserves would require shareholder action. As the major shareholder (either direct or indirect) in the entity, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2020

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's regulatory capital base comprises of (a) CET 1 capital which includes share capital, reserves and retained earnings. (b) Tier 2 capital which consist of general loan loss provisions.

Capital structure, minimum capital and capital adequacy

The Bank's paid up capital consists only of ordinary shares and does not have any other type of capital instruments.

The bank's shareholders are Ministry of Finance (89.74%), Social Insurance Organization and Pension Fund (5.13% each)

The Bank's regulatory capital base is as detailed below:

	As at 31 December 2020
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	65,000
Legal / Statutory reserve	1,186
Retained earnings	(306)
Other reserves	4,048
Current period Profit	563
Cumulative fair value changes on FVOCI investments (Debt)	1,146
Total Common Equity Tier 1 (CET1) (A)	71,637
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	71,637

Tier 2 Capital (T2)	
Expected Credit Losses (ECL)	1,194
Total Tier 2 (T2) (B)	1,194
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	72,831

Capital Requirement for Risk Weighted Exposure

	Credit Exposure before credit risk mitigant	Eligible financial collateral	Credit Exposure after risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31 December 2020					
Cash items	177	-	177	-	-
Sovereigns	91,797	-	91,797	-	-
Banks	622	-	622	409	51
Corporates	137,002	43,629	93,373	49,769	6,221
Past due exposures	14,731	7,641	7,090	7,678	960
Investment in securities	5,003	-	5,003	7,878	985
Holding of Real Estate	13,186	-	13,186	25,411	3,176
Others assets	4,386	-	4,386	4,386	548
Total Credit Risk Exposure	266,904	51,270	215,634	95,531	11,941
Market Risk				725	91
Operational Risk				17,833	2,229
Total Risk Weighted Assets (D)				114,089	14,261
Capital Adequacy Ratio (C)/(D)				63.84%	

CET1 Capital Adequacy Ratio (A)/(D)	62.79%

5. CREDIT RISK – PILLAR 3 DISCLOSURES

This section describes BDB's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar 3 disclosure requirements.

Definition of exposure classes

The Bank has a diversified funded and unfunded credit exposure. These exposures are classified as standard portfolio per CBB's capital adequacy requirements.

Brief description of applicable standard portfolio are as follows:

a. Claims on sovereigns:

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Investment in securities and sukuk:

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

c. Claims on banks:

Claims on banks are risk weighted based on external rating agencies (S&P, Moody's, Fitch , and Capital intelligence). Short-term claims on locally incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollar.

Preferential risk weighting that is one category more favourable than the standard risk weighting is assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weight for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

d. Claims on corporates:

Claims on corporates are risk weighted based on credit ratings. Risk weighting for unrated (corporate) claims are assigned at 100%.

e. Impairment of assets:

The Bank assesses at each reporting date whether there is any objective evidence that a specific financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'impairment event') and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

f. Restructured financing facilities:

Where possible, the Bank seeks to restructure facilities. This may involve extending the payment arrangements and the agreement of new financing facility conditions. Management continuously reviews renegotiated financing facilities to ensure that all criteria are met and that future payments are likely to occur. The financing facilities continue to be subject to impairment assessment, calculated using the facility's original effective interest rate.

g. Past due exposures:

This includes claims, for which the repayment is overdue for more than 90 days. The risk weighting for such loans is either 100% or 150% is applied depending on the level of provisions maintained against the assets.

h. Equity Portfolio:

Investment in securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 10% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

i. Other assets:

These are risk weighted at 100%.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2020

5. CREDIT RISK – PILLAR 3 DISCLOSURES (Continued)

j. Holding of real estate:

All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

k. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 16 of the interim condensed consolidated financial statements as at 31 December 2020).

Amounts due from related parties are unsecured.

l. Highly leveraged counterparties:

The Bank does not lend to highly leveraged and other high risk counterparties as defined in PD-1-3-24(e).

6. FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereigns	56,072	35,148	92,180
Banks	622	-	2,377
Corporates	131,899	2,980	132,786
Past due exposures	14,731	-	15,321
Other assets and Cash items	3,550	-	3,181
Total credit risk	206,874	38,128	245,844

7. CONCENTRATION OF CREDIT RISK BY INDUSTRY & REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	2020			
	Country	Funded	Unfunded	Total
Government & public sector	Bahrain	56,072	35,148	91,220
Banks and financial institutions	Bahrain	622	-	622
Trading and Manufacturing	Bahrain	91,639	641	92,280
Educational Institutions & Healthcare	Bahrain	8,681	150	8,831
Hospitality, media and transportation	Bahrain	14,454	150	14,604
Fisheries, agriculture & dairy	Bahrain	5,390	-	5,390
Food processing	Bahrain	8,641	12	8,653
Others	Bahrain	21,375	2,027	23,402
TOTAL		206,874	38,128	245,002

8. CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit	2020
Sovereigns	91,390

9. SEGMENT WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION

	Impaired loans (net of provision)	Stage 3: Lifetime ECL credit impaired	Charge for the period	Write off
Project finance	13,566	13,974	260	7,554
Fisheries and Agriculture	1,165	-	-	-
	14,731	13,974	260	7,554

10. RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31st December 2020

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
2020										
Assets										
Cash and balances with Central Bank of Bahrain	2,391	-	-	-	-	-	-	-	-	2,391
Placements with banks and other financial institutions	3,722	-	-	-	-	-	-	-	-	3,722
Islamic financing and loans to customers	16,828	1,460	1,301	5,171	55,892	14,798	50,009	1,171	-	146,630
Investment securities	50,581	-	-	-	-	-	-	-	-	50,581
Other assets	-	-	3,550	-	-	-	-	-	-	3,550
Total funded credit exposures	73,522	1,460	4,851	5,171	55,892	14,798	50,009	1,171	-	206,874
Unfunded credit exposures	5,242	15,022	329	17,289	240	6	-	-	-	38,128
Total credit risk	78,764	16,482	5,180	22,460	56,132	14,804	50,009	1,171	-	245,002

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2020

11. PAST DUE AND IMPAIRED LOANS (NET) - AGE ANALYSIS

i) By Geographical area

	2020			
	Three months to one year	One to three years	Over three years	Total
Bahrain	16,387	3,401	1,102	20,890
TOTAL	16,387	3,401	1,102	20,890

ii) By Segment wise

	2020			
	Three months to one year	One to three years	Over three years	Total
Project finance	15,868	2,955	697	19,520
Fisheries and Agriculture	519	446	405	1,370
TOTAL	16,387	3,401	1,102	20,890

12. GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

The Bank and its subsidiaries operate and grant loans/financing facilities locally to Bahrain entities and persons only.

	2020
Bahrain	
Specific impairment provision - Stage 3	13,974
TOTAL	13,974

13. RECONCILIATION OF CHANGES IN EXPECTED CREDIT LOSSES

	2020		
	Stage 3: Lifetime ECL credit impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Total
Balance at 1 January 2020	21,268	838	22,106
Amounts written off during the year	(7,554)	-	(7,554)
Charge for the year	1,851	1,215	3,066
Recoveries during the year	(1,591)	(662)	(2,253)
At 31 December 2020	13,974	1,391	15,365

Restructured Credit Facilities

The Bank has restructured credit facilities amounting to BD 4,013 thousands during the year ended 31 December 2020. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

The above restructurings did not have a significant impact on the present or future earnings and were primarily extensions of the loan/financing tenor.

14. CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation. The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, residential / commercial property mortgage, investment securities, counter-guarantees from other banks, Tamkeen guarantees etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel III is taken into consideration.

15. ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Eligible financial collateral, and guarantees, presented by standard portfolio are as under:

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31 December 2020			
Sovereigns	91,797	-	91,797
Banks	622	-	622
Corporates	137,002	43,629	93,373
Past due exposures	14,731	7,641	7,090
Investments in equities/funds	5,003	-	5,003
Holding of real estate	13,186	-	13,186
Other assets and cash items	4,563	-	4,563
	266,904	51,270	215,634

Tamkeen guarantees a percentage of the outstanding balance of Islamic financing in accordance with the agreement between the Bank and Tamkeen. Moreover, agriculture and fisheries loans are guaranteed by the Government of Bahrain.

16. SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the year ended 31 December 2020

	2020
Bahraini Dinar	
Assets	249,529
Liabilities	221,691
(+) 200 basis points	557
(-) 200 basis points	(557)
US Dollar	
Assets	21,035
Liabilities	28,809
(+) 200 basis points	(155)
(-) 200 basis points	155
Kuwaiti Dinar	
Assets	8
Liabilities	-
(+) 200 basis points	0
(-) 200 basis points	(0)
Saudi Riyals	
Assets	6,855
Liabilities	7,583
(+) 200 basis points	(15)
(-) 200 basis points	15

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2020

17. MARKET RISK, INTEREST RATE GAP

Market risk

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity prices and commodity prices, market indices as well as volatilities and correlations between markets. As its primary tool, the Bank measures its market risk exposure using the Standardised Approach under Basel III.

The Bank uses the Standardised Approach for calculating market risk capital charges for the following market risk components:

- Equity exposure risk
- Interest rate exposure risk
- Foreign currency exposure risk
- Commodity risk

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on investments denominated mainly in Kuwaiti dinars, Saudi riyals and USD, and interest rate risk arising on the bond portfolio. The capital requirement for market risk using the Standardised Approach as at 31 December 2020 was as follows:

	Capital Requirements			
	2020	Maximum	Minimum	Average
Risk Type				
Equity risk capital	-	-	-	-
Foreign exchange risk capital	58	64	58	60
Interest rate risk capital	-	-	-	-
Commodity risk capital	-	-	-	-

Interest rate risk

Interest rate risk arises from the possibility that changes the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risks due to mismatches of interest rate repricing on maturity of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits. The Banks assets and liabilities reprice only on maturity.

The Bank's interest rate sensitivity position is based on the maturity dates, as follows

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2020								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	2,391	2,391
Placements with banks and other financial institutions	3,722	-	-	-	-	-	-	3,722
Islamic financing and loans to customers	16,828	1,460	1,301	5,171	70,690	51,180	-	146,630
Other assets	50,581	-	-	-	-	-	3,550	54,131
Total assets	71,131	1,460	1,301	5,171	70,690	51,180	5,941	206,874
Liabilities								
Term loans	-	251	-	251	25,875	8,927	-	35,304
Deposits	15,233	2,540	1,315	752	43,095	55,095	-	118,030
Other liabilities	-	-	-	-	-	-	4,444	4,444
Total liabilities	15,233	2,791	1,315	1,003	68,970	64,022	4,444	157,778
Net liquidity gap	55,898	(1,331)	(14)	4,168	1,720	(12,842)	1,497	49,096

18. EQUITY POSITION IN THE BANKING BOOK

	2020	
	Net exposure	Capital requirement
Publicly traded	1	0
Privately held	5,656	707
TOTAL	5,657	707

19. GAINS ON EQUITY INVESTMENTS

	2020
(i) Realised Gains/ Losses in the statement of profit or loss	-
(ii) Realised Gains/ Losses in retained earnings	-
(iii) Unrealised Gains/ Losses in CET1 Capital	(5)

The Bank does not have any equity investments subject to supervisory transition or grandfathering provisions.

20. DERIVATIVES

	Foreign exchange contracts
Notional – Banking book	35,148

21. OPERATIONAL AND LEGAL RISKS

Operational risk is the risk of loss arising from errors that can be made in instructing payments or settling transactions, breakdown in technology and internal control systems. The Bank uses the Basic Indicator Approach under the capital adequacy framework for measuring and managing its operational risk. Currently, the Bank conducts its business from a single location. BDB is a retail bank with some restrictions and accordingly, the number of client relationships and volume of transactions at BDB are moderate on average.

BDB's operations are conducted according to well-defined procedures. These procedures include a comprehensive system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash and securities accounts and other checks to enable it detect any erroneous or improper transactions which may have occurred. Specific limits are set up to mitigate and monitor the Bank's exposure.

Operational risk is managed by the Operational risk management unit in the Risk management department. The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. Products and services are reviewed by the Internal Audit department and assessed for operational risks. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Bank's ICAAP limit of 16% has been fixed to absorb any unforeseen event as compared to regulatory capital requirement of 12.5%.

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the group. The Group has developed controls and procedures to identify legal risks and believes that losses will not be material.

22. FINES & PENALTY

	Amount in BHD Actual 2020
Penalty paid to Central Bank of Bahrain	1

23. LIQUIDITY COVERAGE RATIO (LCR)

According to LM-11.1.2 under the "Liquidity Risk Management Module" in the CBB Rulebook, The Bank has calculated the Liquidity Coverage Ratio, which is at 491% as on 31st December 2020

24. LEVERAGE RATIO (LR)

According to CA-15.5.1 under the "Leverage Ratio & Gearing Requirements" Module in the CBB Rulebook, The Bank has calculated the Leverage Ratio, which is at 27.1% as on 31st December 2020

25. LEVERAGE RATIO (LR)

Organizational Restructuring: The Board of Directors has employed the services of an external consultant for recommendations on the Organization Structure, Remuneration Packages and incentive structure.

Composition of Capital Disclosure Requirements

As at 31 December 2020

Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2020

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2020

	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	2,568	2,568
Placements with banks and other financial institutions	3,722	3,727
Investment securities	56,364	56,364
Investments in associates	374	374
As at 31 December 2020	**56,738**	**56,738**
of which:		
Significant investments in capital of financials insitutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	11,071	11,071
Loans and advances	146,630	148,021
of which: General loan loss provision which qualify as capital	1,391	-
Prepayments, accrued income and other assets	3,828	3,848
Property, plant and equipment	1,926	1,926
Total assets	**226,483**	**227,899**
Liabilities		
Deposits from banks and other financial institutions	-	-
Customer accounts	118,030	118,030
Term Loans	35,304	35,304
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	4,444	4,348
Total liabilities	**157,778**	**157,682**
Shareholders' Equity		
Paid-in share capital	65,000	65,000
Shares under employee share incentive scheme		
Total share capital	**65,000**	**65,000**
of which amount eligible for CET1	-	65,000
of which amount eligible for AT1	-	-
Retained earnings	(2,656)	(2,656)
Statutory reserve	1,186	1,186
Other Reserve	4,048	4,048
General reserve		
Share premium		
Donations and charity reserve		
General loan loss provision which qualify as capital		1,512
Available for sale revaluation reserve	1,146	1,146
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital		
Minority interest in subsidiaries' share capital	(19)	(19)
Total shareholders' equity	**68,705**	**70,217**
Total liabilities & Shareholders' Equity	**226,483**	**227,899**

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2020

Step 3: Composition of Capital Common Template (transition) as at 31 December 2020

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	65,000	
2	Retained earnings	257	
3	Accumulated other comprehensive income (and other reserves)	6,380	
4	Not Applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**71,637**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable.	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2020

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	71,637	
29	**Common Equity Tier 1 capital (CET1)**	-	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	71,637	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2020

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
50	Provisions	1,194	
51	**Tier 2 capital before regulatory adjustments**	**1,194**	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: …		
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**1,194**	
59	**Total capital (TC = T1 + T2)**	**72,831**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
60	**Total risk weighted assets**	**114,089**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	62.79%	
62	Tier 1 (as a percentage of risk weighted assets)	62.79%	
63	Total capital (as a percentage of risk weighted assets)	63.84%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%	
67	of which: D-SIB buffer requirement (N/A)	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	%62.79	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.00%	
70	CBB Tier 1 minimum ratio	11.00%	
71	CBB total capital minimum ratio	12.50%	
	Amounts below the thresholds for deduction (before risk weighting)		

Composition of Capital Disclosure Requirements (Continued)

As at 31 December 2020

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
72	Non-significant investments in the capital of other financials	1,529	
73	Significant investments in the common stock of financials	374	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,512	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	1,194	
78	N/A	-	
79	N/A	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	