

NATIONAL BANK OF BAHRAIN



**Unlocking
Opportunities**

**Empowering
Generations**

Annual Financial and Sustainability Report 2023

About this Report

National Bank of Bahrain B.S.C. (NBB) is proud to present its Annual Financial and Sustainability Report for the year 2023. In addition to our financial performance, the report provides a comprehensive overview of the Group's progress on key material environmental, social, and governance (ESG) topics, in accordance with international standards and best practices.

This report covers the third year of NBB's three-year sustainability roadmap (2021 – 2023) and showcases the progress made to date. It also highlights the Bank's strategy for the next three-year period (2024–2026) to enhance and accelerate our sustainability journey. This level of transparency is designed to support the needs and decision-making of our key stakeholders.

Reporting Boundary

This Annual Financial and Sustainability Report covers the period from 1 January 2023 to 31 December 2023 (unless otherwise stated). Like previous reports, the reporting boundary for financial information reflects the performance of NBB Group while sustainability data reflects the activities of NBB Parent, including operations in Bahrain as well as our overseas branches in the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

Our subsidiary Bahrain Islamic Bank (BisB) issues a standalone 2023 Annual Financial and Sustainability Report disclosing its sustainability-related performance and activities.

To view the 2023 Annual Financial & Sustainability Report in PDF format, please visit www.nbbonline.com.

(GRI 2-1, GRI 2-2, GRI 2-3, GRI 2-4, GRI 2-5, G8, G9, G10)

Licensed by CBB as a conventional retail bank

Reporting Frameworks

The report has been prepared in accordance with internationally recognised reporting standards and frameworks. These include:

- The International Financial Reporting Standards (IFRS)
- The International Financial Reporting Standards (IFRS) S1 'General Requirements for Disclosure of Sustainability-related Financial Information' issued by the International Sustainability Standards Board (ISSB). The environmental section (Natural Capital) is aligned with the IFRS S2 'Climate-related Disclosures.'
- The Commercial Companies Law
- The Central Bank of Bahrain (CBB) and Financial Institutions Law 2006
- All applicable rules and regulations issued by the Central Bank of Bahrain (CBB)
- The International Integrated Reporting Framework (IIRF) and its principles of reliability, completion, consistency, and comparability
- The Global Reporting Initiative (GRI) Standards 2021 Update, which is effective for reports or other materials published on or after 1 January 2023. We have reported against all Universal Standards and material Topics Standards
- The Industry Standards issued by the Sustainability Accounting Standards Board (SASB) and disclosures related to our business and industry classification: Commercial Banks
- The ESG Reporting Guide of the Bahrain Bourse and its 32 ESG metrics, wherever relevant
- The Sustainable Development Goals (SDGs) that are considered most material to the Group's activities
- The Bahrain Vision 2030

Alignment with the relevant reporting standards and frameworks is clearly indicated under each segment. In addition, the reader may refer to the Appendix which includes the indexes indicating our alignment with the various standards and frameworks.

External Assurance

NBB is fully committed to transparency and accuracy in all its public disclosures. The Group has engaged Centre for Sustainability and Excellence, a third-party service provider, to conduct a limited assurance on a select number of ESG KPIs.

In addition, Financial Statements have been independently audited by KPMG Fakhro. The independent assurance statements and reports for both the financial and sustainability-related data are included in this report.

Board Responsibility

The Board of Directors acknowledges its responsibility for ensuring the integrity of this report and confirms that the information contained within fairly represents NBB's status and performance, and that the report accurately references the standards and frameworks used.

Forward-Looking Statements

Forward-looking statements involve uncertainty given the many external factors that could impact the business environment in which the Group operates. NBB holds no obligation to publicly update or revise forward-looking statements throughout the coming fiscal year unless required to do so by applicable laws and regulations.

Feedback

NBB welcomes any feedback that may support the enhancement of our reporting. Readers can submit comments and questions via the following channels:

- Email: ir@nbbonline.com
- Phone: +973 1722 8800
- LinkedIn: <https://www.linkedin.com/company/nationalbankofbahrain/>
- Instagram, Twitter, Facebook, @NBBonline
- YouTube: <https://www.youtube.com/c/nationalbankofbahraiofficial>



Late Amir
His Highness
Shaikh Isa bin Salman Al Khalifa



His Majesty
King Hamad bin Isa
Al Khalifa

The King of the Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince and Prime Minister
of the Kingdom of Bahrain



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Innovation and excellence play pivotal roles in the Group's strategic agenda, serving as a driver for creating value for its stakeholders. Our strategic direction for future business growth and expansion aligns with our long-term vision of enriching lives by contributing to economic development through seamless financial solutions and sustainable outcomes.



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Key Facts and Figures

Total Revenue
BHD 184m

Consolidated Net Profit
BHD 81.4m

Return on Equity
14.2%

Dividend per Share
35 Fils

Our Banking Solutions & Services

Retail Banking, Corporate and Commercial Banking, Strategic Accounts Management, Treasury, Capital Markets, Transaction Banking, Corporate Finance and Wealth Management.



2023 Customer Satisfaction Index at

78.8%
and Mystery Shopping
overall score at 90% across
all branches



90%
of employees
completed
sustainability
awareness e-learning
programme



Total energy consumption
has reduced by
6.7%
compared with 2022 and a reduction
of around 7% in our GHG emissions
(Scope 1 and 2) from 2022



Rolled out
the ESG Risk
Identification
and Assessment
Policy and
Toolkit

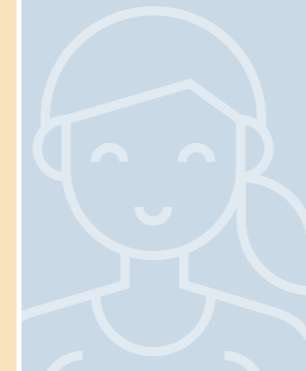
83%
Total procurement
spent on local
suppliers

Retail Banking
witnessed a
+23%
increase in number
of digitally registered
customers and

+44%
increase in number of new
to bank customers that
were onboarded digitally



Female employee
rate of
38%
with 25% of assistant to
executive management
levels filled by female
employees



95%
Nationalisation
Rate in Bahrain



Total of
47,920
of training hours,
of 55.3 hours per
employee



Waste recycling ratio
was over
22%
for 2023



BHD 3m
donated in 2023
to a range of worthy
causes in Bahrain

About Us

Who We Are

Established in 1957 as the first locally owned bank, National Bank of Bahrain B.S.C (NBB) is licensed by the Central Bank of Bahrain (CBB) as a conventional retail bank.

The Group has operations across three countries – The Kingdom of Bahrain, the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE) – and is focused on capturing business opportunities locally, regionally and internationally.

For over 65 years NBB has been a pillar of the Kingdom’s economic and social development, providing essential financial services to support citizens and businesses across the country to achieve their financial goals.

NBB works tirelessly to build the trust of all stakeholders and deliver on our vision of “enriching lives by contributing to economic development through seamless financial solutions and sustainable outcomes”. Constant innovation and adaptation to change have been key to enabling the Group to meet the growing demand for seamless, digitally enabled banking services.

NBB considers it our duty to support Bahrain’s national development and be a key contributor to the economy, strengthening its status as a regional financial hub, while remaining deeply rooted in the local community.

In line with the Bahrain Economic Vision 2030, NBB is pioneering the integration of Environmental, Social and Governance (ESG) practices in the banking sector, locally and regionally, and has made significant progress with its sustainability journey in recent years.

NBB’s sustainability framework and roadmap complement our longstanding commitment to responsible banking. Offering a full range of world-class banking solutions and services that create value for all stakeholders while supporting economic growth and community investment.



NBB at a glance

ESTABLISHED IN
1957

HEADQUARTERS
Manama, Bahrain

OVERSEAS BRANCHES

United Arab Emirates (UAE)

Abu Dhabi & Dubai

Kingdom of Saudi Arabia (KSA)

Riyadh

STOCK EXCHANGE

Bahrain Bourse

OWNERSHIP

Private and institutional shareholders: 45.09%

Bahrain Mumtalakat Holding Company: 44.06%

Social Insurance Organisation: 10.85%

OUR ISLAMIC BANKING SUBSIDIARY

Bahrain Islamic Bank (BisB)

NBB's stake in BisB is 78.8%



Operating
Branches

23



Cash Deposit
Machines (CDMs)

26



Automated Teller
Machines (ATMs)

91



Interactive Teller
Machines (ITMs)

3

Vision, Mission and Values

OUR VISION

Enriching lives by contributing to economic development through seamless financial solutions and sustainable outcomes

OUR MISSION

- Delivering an exceptional customer experience every time
- Creating real impact for communities through our sustainability-led initiatives
- Being the employer of choice by attracting, developing and retaining exceptional talent
- Consistently delivering attractive shareholder returns

OUR VALUES

Our corporate values act as the fundamental principles that influence our culture, guide our choices, and determine how we engage with stakeholders.

BRAND PROMISE

Closer to you

ADAPTABILITY
Thriving on agility and innovation

INTEGRITY
Upholding the highest standards of ethics & transparency

OWNERSHIP
Embracing responsibilities and challenges

COLLABORATION
Fostering relationships with stakeholders for collective success

EXCELLENCE
Striving for best-in-class solutions and experiences

Our Activities



NBB offers comprehensive world-class banking products and services to its institutional and retail clients.

NBB offers a full range of world-class banking solutions and services across four business units:

1

Retail Banking

NBB provides a comprehensive suite of retail banking products and services for customers across our many branches, digital banking app, online platforms and through our network of Automated Teller Machines (ATMs), Interactive Teller Machines (ITMs), and Bulk Cash Deposit Machines (CDM). We offer traditional banking services such as personal current and savings accounts, card services, and a wide range of financing solutions, as well as digital banking solutions available via our digital banking platform. These services are supported by digital loyalty programmes that reward our customers for their continued business.

2

Corporate and Commercial Banking

NBB provides an extensive range of services for corporate and institutional clients including large corporates, public sector and financial institutions. Many of these clients operate in key economic sectors in Bahrain and overseas such as infrastructure, oil and gas, utilities, construction & real estate, manufacturing, healthcare, and telecommunications. We provide financial advice and diverse solutions that includes financing, cash management and trade finance. NBB recognises the vital role that commercial, small and medium-sized enterprises (SMEs), including start-ups, play in the economic and social development of the Kingdom of Bahrain. For this reason, we provide specialised banking solutions tailored to meet their needs and support them to grow their businesses.

3

Treasury, Capital Markets, Transaction Banking, Corporate Finance and Wealth Management

NBB's Capital Markets and Wealth Management division is dedicated to ensuring clients have access to a diverse range of asset classes at competitive rates. Our team is fully committed to assisting clients in managing risks and collaborating on foreign exchange, rates, and commodity hedging requirements. We are privileged to have been appointed as a hedge coordinator for strategic transactions with key clients in the Kingdom. Additionally, NBB plays a crucial role as the bond house for the Kingdom, contributing significantly to primary market mandates. NBB's Transaction Banking services handle all cash management, trade finance, and payment solutions for clients. Our Corporate Finance team provides structuring, arrangement and lending on a wide range of facilities.

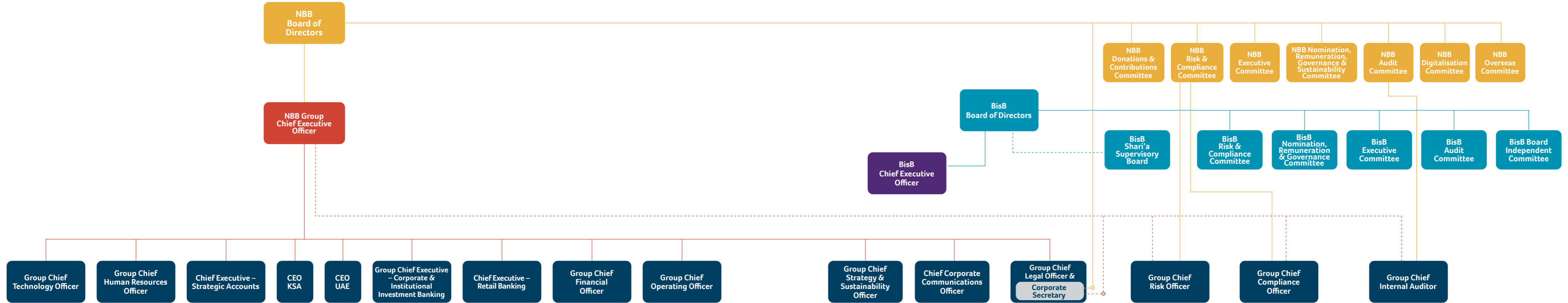
4

Strategic Accounts Management

NBB offers world-class, bespoke banking services and an exclusive experience to strategic clients who are our Ultra High Networth (UHNW), High Networth (HNW) and certain public sector clients that are strategic for the Group as well as the country. The business unit serves customers whose deposits significantly enhance the Group's liquidity position. In addition, by leveraging strong existing relationships with the public sector, which are among the top employers in the Kingdom, the department plays a significant role in ensuring that NBB remains the preferred banking partner for those entities and their staff.

Organisational Chart

31 December 2023



Our Islamic Banking Subsidiary

Bahrain Islamic Bank (BisB)

In 2020, NBB acquired a 78.8% controlling stake in BisB, the Country's first Islamic bank, creating a Group with a combined 23.5% approximate share of Bahrain's retail banking market and a deep portfolio of products and services spanning conventional banking and Islamic finance.



BisB at a glance


ESTABLISHED IN
1979

HEADQUARTERS
Manama, Bahrain


STOCK EXCHANGE
Bahrain Bourse

OWNERSHIP
Major shareholders (above 5%)
National Bank of Bahrain (NBB) Bahraini 78.81%
General Council of Kuwaiti Awqaf Kuwait 7.18%

 **Operating Branches & Financial Malls**
8

 **Automated Teller Machines (ATMs)**
46

 **Cash Deposit Machines (CDMs)**
3

 **Interactive Teller Machines (ITMs)**
2

In 2023 BisB was recognised as the Best Islamic Bank in the Kingdom by Euromoney which is a testament to the bank's efforts in providing the best Sharia-compliant banking services in Bahrain. In addition, BisB is the first Islamic bank in the Kingdom to receive the ISO 14001:2015 in Environment Management Systems and the ISO 45001:2018 in Occupational Health and Safety Management systems.

NBB & BisB put their employees forward for the best 'professional' and best 'newcomer' awards to showcase their progress in their Business Continuity Management (BCM). NBB's employee won the 'Continuity and Resilience Professional (Private Sector)' award and BisB's employee, won the 'Continuity and Resilience Newcomer' award.

With BisB's position as the leading Islamic Bank in the Kingdom, NBB Group is well positioned to deliver long-term value for its customers, employees and shareholders.

By continuing to build on this strong foundation, NBB Group is well-positioned to deliver long-term value for its customers, employees, and shareholders, and reaffirms BisB's position as the leading Islamic bank in the Kingdom. NBB's majority ownership of BisB delivers a positive outcome for investors across both banks. The equity lies not just within the balance sheet but also in the brands and their history and reputation. Operating as one Group enables both NBB and BisB to open more doors and expand beyond their respective individual capabilities.

We are positioning the Group for further growth, building on the solid foundations each entity has established over several decades of operations in Bahrain. As the national financial services champion, NBB Group is strongly positioned to explore new market opportunities that create value for all our stakeholders while driving robust sustainable economic growth and prosperity for the Kingdom of Bahrain, in line with the Economic Vision 2030.

NBB's majority ownership of BisB delivers a positive outcome for investors across both banks.

Awards and Achievements

NBB's leadership was recognised in 2023 with several awards from prominent regional and international institutions.

Euromoney Middle East Awards for Excellence 2023



Best Bank in Bahrain

MENA Banking Excellence Awards 2023



'Best App for Customer Experience in MENA 2023' for Points by NBB

Euromoney Middle East Awards for Excellence 2023



Best Bank for CSR in Bahrain

MENA Banking Excellence Awards 2023



'Best Retail Bank in Bahrain 2023' at the MENA Banking Excellence Awards

Euromoney Middle East Awards for Excellence 2023



Best ESG Integration in Bahrain

The Sharjah Excellence Award 2022



The Best Organisation in Bahrain

Board of Directors



1. Farouk Yousuf Khalil Almoayyed
Chairman



2. Dr. Esam Abdulla Yousif Fakhro
Deputy Chairman



3. Fawzi Ahmed Ali Kanoo
Deputy Chairman



4. Sh. Rashed Bin Salman Mohamed Al Khalifa
Director



5. Hala Ali Hussain Yateem
Director



6. Rishi Kapoor
Director



7. Yusuf Abdulla Yusuf Akbar Alireza
Director



8. Amin Ahmed Alarrayed
Director



9. Vincent Van Den Boogert
Director



10. Zaid Khalid Abdulrahman
Director



11. Dr. Paul Pester
Director

“On behalf of the National Bank of Bahrain’s Shareholders, the Board of Directors express their gratitude to Mohamed Tareq Sadeq who has retired from the Bank’s Board of Directors after serving 5 years, during which he has been an integral part of the Board and has contributed to the progress and development of NBB in particular and the banking sector in general”.

Board of Directors Report

Innovation For Growth

During the year, our strong financial performance, market leading focus on Sustainability and talented workforce have further strengthened our leading market position in Bahrain, while making us more regionally relevant.”

Farouk Yousuf Khalil Almoayyed
Chairman



In 2023, we enhanced our operational efficiency and scalability as we invested in upgrading our IT infrastructure and network to improve connectivity and the overall performance of the Group’s systems.

In 2023, the National Bank of Bahrain (‘NBB’) Group witnessed resilient growth underpinned by several prominent milestones. The Bank continues to implement a thorough and rigorous approach to successfully identifying and managing risks and opportunities.

With the aim of creating long-term value for our stakeholders, NBB has remained focused on delivering growth, driven by its client-centric and innovative banking solutions that are seamlessly delivered through its branches and digital channels. During the year, our strong financial performance, market leading focus on Sustainability and talented workforce have further strengthened our leading market position in Bahrain, while making us more regionally relevant.

Resilient Financial Performance

The Group’s total assets increased by 12% during the year to reach a record level of BHD 5,372.5 million (USD 14,250.7 million) compared to BHD 4,785.3 million (USD 12,693.1 million) recorded on 31 December 2022. The increase reflects the continued ability of the Group to serve its customers competitively, while effectively managing its balance sheet.

NBB Group has also registered 6% and 16% growth in its operating income and attributable net profit respectively, reflecting our continued commitment to delivering strong returns to our shareholders. The attributable net profit of BHD 79.1 million (USD 209.8 million) marks a historical level for the Group.

Recommended Appropriations

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

	BHD million
Cash dividend (30%)*	68
Donations and contributions	4

* Includes interim cash dividend of BHD 22.7 million that has already been distributed to the shareholders on 31 August 2023.

Elevated Business Operations

Building on our robust financial performance, NBB has consistently delivered curated customer services that directly align with our brand promise of being ‘Closer to You.’

Our drive for digital innovation has enabled us to meet the ever-evolving needs of our customer base through a seamless and cost-effective approach. Digitalisation plays an instrumental role in maintaining our high standards as we embed digital initiatives that reinforce our standing as a leading financial institution. NBB continues to develop superior banking solutions that ensure our customers receive an unparalleled banking experience across all aspects of our operations.

In 2023, we enhanced our operational efficiency and scalability as we invested in upgrading our IT infrastructure and network to improve connectivity and the overall performance of the Group’s systems. Simultaneously, we initiated

the roll out of our new corporate digital platform that aims to empower businesses with advanced functionalities and seamless transaction execution capabilities.

People-Driven and ESG-Focused Initiatives

Our dedicated workforce is fundamental to our business success, propelling the organisation forward and ensuring excellence across all levels. To further solidify the importance of our people, NBB has successfully achieved its Gold Accreditation from Investors in People for the third consecutive year. The prestigious accreditation reflects the Bank’s commitment to excellence in talent management and solidifies its position as a leading workplace.

In recognition of our team’s efforts, NBB launched the ‘Group CEO Awards for Excellence’ to recognise exceptional employee achievements.

To further elevate our human capital, a new digital workforce management system was introduced in 2023 to streamline all employee-related operations, from performance management to tailored training programmes. Through the new portal, employees can access over ten thousand training courses, covering a diverse range of topics including technical and leadership programmes.

Responsible banking remains central to our operations and among the core pillars of NBB’s sustainability strategy. Through responsible banking, we are able to strengthen our business performance as well as address social and environmental issues in an impactful way,

Attributable Net Profit

BHD 79.1m

The attributable net profit of BHD 79.1 million (USD 209.8 million) marks a historical level for the Group.

Board of Directors Report continued

while maintaining our focus on enabling economic development. As such, our Financial Literacy Programme continues to play an essential role in making banking accessible to all segments of society.

Throughout 2023, NBB’s responsible banking approach strategically incorporated Environmental, Social and Governance (‘ESG’) factors into lending activities, while also expanding our range of sustainability-related financing and risk management products to meet the needs of both our retail and corporate clients. NBB proudly arranged Bahrain’s first sustainability-linked interest rate swap.

The second phase of our sustainability roadmap (2024–2026) will accelerate our ESG efforts to further integrate sustainability considerations

into our operations. The Group has also increased its decarbonisation efforts by closely monitoring its greenhouse gas emissions and identifying ways to minimise carbon footprint. As a national enabler, NBB firmly believes in contributing to the Kingdom’s ambitious directives to achieve net-zero carbon emissions by 2060. NBB was also among the participating Bahraini entities at the 2023 COP28 Climate Change Conference.

Since its inception, uplifting local communities has been ingrained in NBB’s value system. As a pillar of the Bahraini community, the Group has been heavily involved in key collaborations with local government entities, non-governmental organisations and private sector organisations, sustaining a broad Corporate Social Responsibility (CSR) programme for several years.

NBB’s CSR programme has always been one of the most comprehensive and multifaceted in Bahrain and is central to the Group’s overarching sustainability vision. Our humanitarian efforts continue to make a notable difference, as we focus on supporting all segments of society. As part of its donations and contributions programme, NBB donates 5% of its annual attributable net profits to various social welfare, healthcare, education, youth, sporting, environmental, and governance programmes.

NBB has been one of the leading drivers of economic and social development in the Kingdom. In addition to spearheading the transition to a more sustainable economy, we continue to enable local businesses to thrive through essential financial services. NBB has supported 81 organisations throughout this

year, among them community and philanthropic institutions, schools, universities, hospitals and health centres, and local sporting events.

We are confident that the Group is poised for continued growth on both a national and regional level as we take advantage of new market opportunities that create value for all our stakeholders and grow our presence in Bahrain, the United Arab Emirates and the Kingdom of Saudi Arabia.

Board of Directors And Executive Management Remuneration

As part of NBB’s obligations and ongoing efforts for increased transparency, the following tables provide remuneration disclosures in relation to the Directors and selective executive management for the year ended 31 December 2023.

Board of Directors remuneration (reported in Bahraini Dinars)

Name	Fixed remunerations				
	Remunerations of chairman and BOD ¹	Total allowance for attending Board and committee meetings	Salaries	Others ⁶	Total
First: Independent Directors:					
1- Mr. Rishi Kapoor	45,000	4,500	-	-	49,500
2- Mr. Yusuf Abdulla Yusuf Akbar Alireza	45,000	5,500	-	-	50,500
3- Ms. Hala Ali Hussain Yateem	45,000	5,500	-	-	50,500
4- Mr. Zaid Khalid Abdulrahman	45,000	3,000	-	-	48,000
Second: Non-Executive Directors:					
1- Mr. Farouk Yousuf Khalil Almoayyed	70,000	3,000	-	-	73,000
2- Dr. Esam Abdulla Yousif Fakhro ²	45,000	5,500	-	-	50,500
3- Mr. Fawzi Ahmed Ali Kanoo	45,000	4,500	-	-	49,500
4- Sh. Rashid Bin Salman Mohamed Al Khalifa ³	45,000	5,500	-	-	50,500
5- Mr. Mohamed Tareq Mohamed Sadeq Akbar ^{2 4}	28,669	3,500	-	-	32,169

Name	Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of chairman and BOD	Bonus	Incentive plans	Others ⁷	Total			
-	-	-	-	-	-	-	49,500	-
-	-	-	-	-	-	-	50,500	-
-	-	-	-	-	-	-	50,500	-
-	-	-	-	-	-	-	48,000	-
-	-	-	-	-	-	-	73,000	-
-	-	-	-	-	-	-	50,500	-
-	-	-	-	-	-	-	49,500	-
-	-	-	-	-	-	-	50,500	-
-	-	-	-	-	-	-	32,169	-

Board of Directors Report continued

Board of Directors remuneration (continued)

Name	Fixed remunerations				
	Remunerations of chairman and BOD ¹	Total allowance for attending Board and committee meetings	Salaries	Others ⁶	Total
6- Mr. Amin Ahmed Alarrayed ²	45,000	4,500	-	-	49,500
7- Mr. Vincent Van Den Boogert ²	45,000	4,000	-	-	49,000
8- Dr. Paul David Pester ^{2 5}	16,331	1,000	-	-	17,331
Third: Executive Directors:					
- Not applicable	-	-	-	-	-
Total	520,000	50,000	-	-	570,000

Note: All amounts are stated in Bahraini Dinars

¹ Subject to AGM and regulatory approval

² Remuneration is paid to Bahrain Mumtalakat Holding Company B.S.C. (c), represented by the above-mentioned Board members

³ Remuneration is paid to Social Insurance Organisation, represented by the above-mentioned Board member

⁴ Board directorship ended on 20 August 2023

⁵ Board directorship commenced on 20 August 2023

Executive management remuneration

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash / in kind remuneration for 2023	Aggregate amount
Top 6 remunerations for executives, including the Chief Executive Officer ¹ and Chief Financial Officer ²	2,008,592	1,046,400	-	3,054,992

Note: All amounts are stated in Bahraini Dinars

¹ The highest authority in the executive management of the Bank

² The Bank’s highest financial officer. This includes Group CFO and Acting Group CFO during the year

Acknowledgements

The Board of Directors offers its sincere gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister of Bahrain. Their unwavering patronage has provided the means for NBB to flourish.

We also extend our appreciation to the Ministry of Finance and National Economy, and the Central Bank of Bahrain, for their exceptional support and collaboration. We remain grateful to our dedicated customers, partners, and shareholders for their invaluable loyalty and trust.

United by the enduring promise of delivering sustained and ever-growing value to our stakeholders, and under the visionary leadership of our Group CEO Mr. Usman Ahmed, we look forward to a year ahead that holds immense promise.

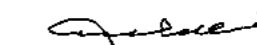
The remarkable synergy and passion of our teams forms the bedrock of our ambitious growth aspirations. We profoundly acknowledge each employee at NBB Group, and we are confident that they will continue to be the driving force behind great milestones in the years to come.

Name	Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of chairman and BOD	Bonus	Incentive plans	Others ⁷	Total			
-	-	-	-	-	-	-	49,500	-
-	-	-	-	-	-	-	49,000	-
-	-	-	-	-	-	-	17,331	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	570,000	-

Other remunerations:

⁶ Includes in-kind benefits – remuneration for technical, administrative and advisory works (if any)

⁷ Includes the board member’s share of the profits – granted shares (if any)



Farouk Yousuf Khalil Almoayyed
Chairman of the Board

27 February 2024



Dr. Esam Abdulla Yousif Fakhro
Deputy Chairman

Executive Management



1. Usman Ahmed
Group Chief Executive Officer

2. Abdul Aziz Al Ahmed
Chief Executive – Strategic Accounts

3. Hisham Al Kurdi
Group Chief Executive – Corporate and Institutional Investment Banking

4. Rana Qambar
Group Chief Compliance Officer

5. Subah Abdullatif Al Zayani
Chief Executive- Retail Banking

10. Hisham Abu Alfateh
Chief Corporate Communications Officer

11. Gaby El Hakim
Group Chief Legal Officer and Corporate Secretary

12. Sarah Abdulaziz Jamal
Group Chief Human Resources Officer

6. Fadhel Abbas Ahmed
Group Chief Internal Auditor

7. Razi Amin
Group Chief Technology Officer

8. Nabeel Mahmood Kazim
Group Chief Operating Officer

9. Isa Hasan Maseeh
Group Chief Risk Officer

13. Yogesh Kale
Chief Executive Officer – UAE

14. Mansour A. Alsaghayer
Chief Executive Officer – KSA

12. Sarah Abdulaziz Jamal

Group Chief Human Resources Officer

Date of joining
2023

Key Responsibilities

Mrs. Jamal oversees the development and execution of the human resources strategy in support of the overall business plan and strategic direction of NBB Group. Such responsibilities revolve around strategy formulation and implementation, HR strategy implementation, culture enhancements, employees experience, performance and rewards management, talent management, learning and development, organisation effectiveness and resourcing and change management.

Career Summary

Mrs. Jamal has over 17 years of experience in the domain of human resources management across multiple industries including telecommunication, Banking & Finance, and Training.

Prior to joining NBB, she was the Chief People Officer at stc Bahrain. Under her leadership and with consistent drive and commitment, Mrs. Jamal was awarded the "GCC CHRO of the Year", "CHRO Excellence Award", in addition to achieving the "Best Employer Award" and "Employer of Choice Award" for several years in a row. She holds a Bachelor's Degree in Business Information Systems from the University of Bahrain, besides multiple executive management and leadership certifications from London Business School and INSEAD.

Community Investments

Mrs. Jamal is a Tharwa Member of the Bahrain Society for Human Capital Management (BSCM)

13. Yogesh Kale

Chief Executive Officer – UAE

Date of joining
2021

Key Responsibilities

Mr. Kale oversees all NBB-UAE operations, and is focused on expanding the NBB UAE franchise. He is also committed to further enhancing the Bank's role as a conduit for the business corridor between Bahrain, UAE, and KSA, as well as diversifying NBB's portfolio and products to suit the UAE Market needs.

Career Summary

Mr. Kale has over 26 years of experience, both regionally and internationally, working for leading global banking institutions. Prior to joining NBB, he worked with SCB, HSBC and ADCB in various leadership roles. Mr. Kale holds an MBA from the renowned JBIMS, University of Mumbai India along with graduate degree in Economics and Accounting from Sydenham College, India.

Other Engagements

Mr. Kale represents NBB in various forums as a thought leadership speaker on Entrepreneurship and Banking at various industry events.

Community Investments

Mr. Kale is an honorary guest lecturer on Banking and Entrepreneurship with leading Universities.

14. Mansour A. Alsaghayer

Chief Executive Officer – KSA

Date of joining
2018

Key Responsibilities

Mr. Mansour oversees all NBB-KSA operations, and is focused on developing medium-term strategies, positioning NBB-KSA as a regional financial player within KSA.

Career Summary

Mr. Mansour has over 29 years of experience in the banking industry. Prior to joining NBB, he was the Regional Head of Corporate Banking in SABB, and had previously held the position of Chief Corporate Banker in NCB (SNB). Mr. Mansour earned his EMBA from the London Business School, graduating in 2010.

Other Engagements

Mr. Mansour holds several Board positions in both publicly listed and private companies in Saudi Arabia, including the board of United Cooperative Assurance, Saudi Fisheries, Southern Province Cement and Al-Saif Trading Agencies Co. He serves as the Chairperson of the Audit Committee and a Board member in Saudi Lightweight Construction Co. 'SIPOREX', and was the Chairman of the Foreign Banks Branches Committee (FBBC) for the year 2021.

Community Investments

Mr. Mansour is a member of Riyadh Angel Investors (RAI) and is an active angel investor in several start-up companies.

 **NBB's Executive Management team, with its rich experience in the financial sector and strong community connections allows us to continue leading the way in the banking industry.**



A Message from our Group CEO

Building an Innovative Business



With customer-centricity as our north star, we keenly look ahead towards 2024 and beyond with great enthusiasm and optimism for a brighter future.”

Usman Ahmed
Group Chief Executive Officer

Our financial performance has been the outcome of our relentless focus on providing innovative and seamless financial solutions to our customers across the network of NBB Bahrain, UAE, Saudi Arabia and our majority owned subsidiary, Bahrain Islamic Bank.

In 2023, the NBB Group delivered its strongest ever financial performance, closing the year with a record net profit attributable to shareholders of BHD 79.1 million (USD 209.8 million) - a 16% year-on-year growth over the previous year's corresponding figure of BHD 68.1 million (USD 180.6 million). The Group's balance sheet surpassed the BHD five billion benchmark to BHD 5.4 billion (USD 14.3 billion), as we grew total assets and customer deposits by 12% and 6%, respectively. As a consequence, we enhanced our return on equity from 12.6% to 14.2% for the year.

Our financial performance has been the outcome of our relentless focus on providing innovative and seamless financial solutions to our customers across the network of NBB Bahrain, UAE, Saudi Arabia and our majority owned subsidiary, Bahrain Islamic Bank. As a trusted and reliable financial partner, we have further enhanced our leading market position in Bahrain, while growing our franchises in Saudi Arabia and UAE.

The 2023 Annual Report also unveils our new Vision, Mission and Values. We have developed these as part of our refreshed strategy for the medium term, which is centered around our unwavering commitment to delivering an exceptional customer experience as we continue to enrich the lives of generations and contribute to economic development in the Middle East region.

During the year, we made significant investments in our infrastructure, implementing a modern new core banking platform, considerably enhancing the features of our digital channels for Retail, Corporate & Commercial Banking clients and adopting the latest technologies to protect the institution and our customers from the risks of fraud. To further drive innovation and the adoption of best-in-class technologies, we have formed a cross-business Innovation Council to harness the power of artificial intelligence, data analytics and partnerships with FinTechs in our future business model.

Total Operating Income

BHD 184m

NBB is deeply committed to supporting the communities it serves through strategic partnerships and sponsorships, targeted charitable donations and contributions, volunteer work, and purposeful internal initiatives

NBB takes pride in attracting and nurturing the most exceptional talent, while fostering a diverse and inclusive work environment where individuals can flourish professionally. In 2023, we implemented a new digital workforce management system to enhance the employee experience and our training programmes. The platform granted access to over 10,000 technical and leadership development courses, enabling our employees to continuously improve their skill sets and navigate their career paths with confidence.

NBB has also made great strides on our sustainability journey, being ranked by Refinitiv amongst the top 10% of banks globally for ESG performance. We have pivoted towards embedding ESG in our products and solutions, launching sustainable auto financing, arranging sustainable term lending for our corporate customers and most notably, executing a multi billion-dollar sustainability linked swap transaction for one of our clients, which was also celebrated and recognised at COP 28.

We are at an advanced stage of implementing a Sustainable Finance Framework, which will further streamline our assessment of climate related risks and rewards in particular, enabling us to drive significant positive impact in the years to come.

NBB is deeply committed to supporting the communities it serves through strategic partnerships and sponsorships, targeted charitable donations and contributions, volunteer work, and purposeful internal initiatives like our Evolve Summer Internship Programme. Notably, our Donations and Contributions Fund, which allocates 5% of our annual net income for charitable purposes, is driving enduring impact across a broad spectrum of community needs.

I would like to take this opportunity to express my deep gratitude to our customers, shareholders, regulators and all other stakeholders for their unwavering trust and confidence. With customer-centricity as our north star, we keenly look ahead towards 2024 and beyond with great enthusiasm and optimism for a brighter future.



Usman Ahmed
Group Chief Executive Officer



A new three-year roadmap now charts our course, prioritising enhanced customer service, an expanding regional footprint, and reinforcing critical pillars including digital transformation, operational efficiency, sustainability, and continuous innovation.



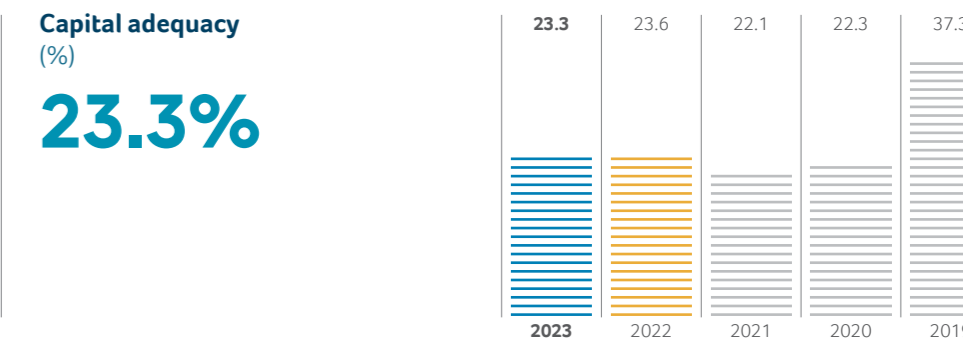
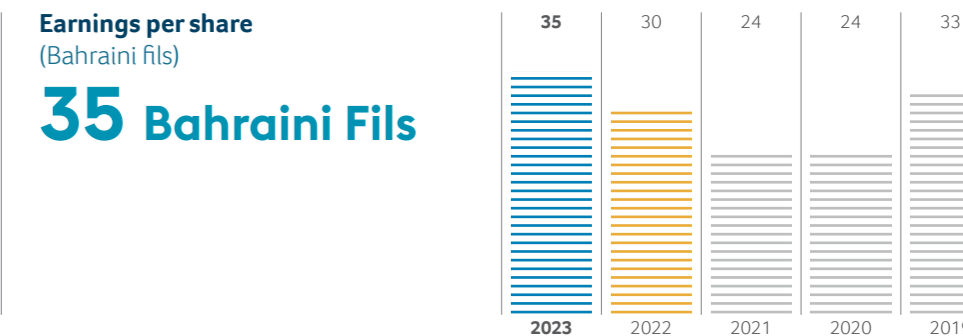
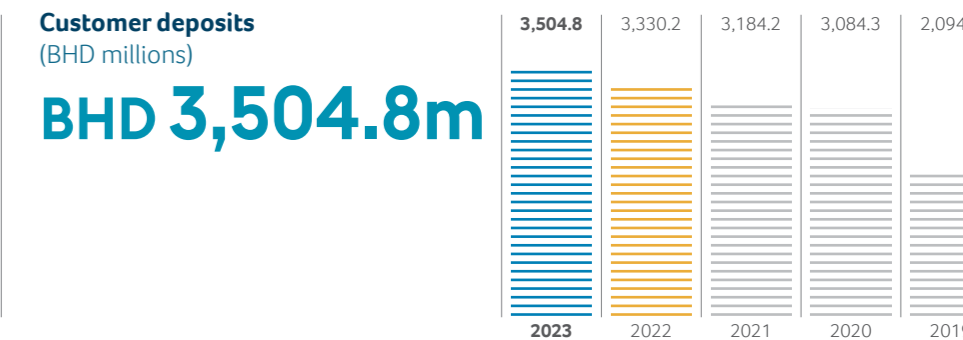
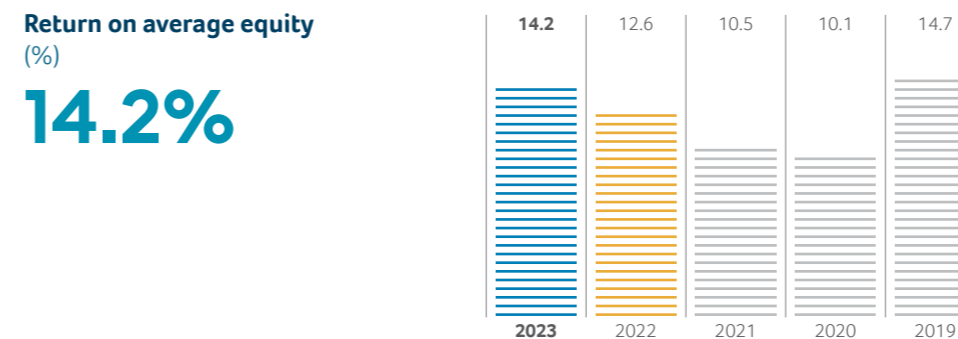
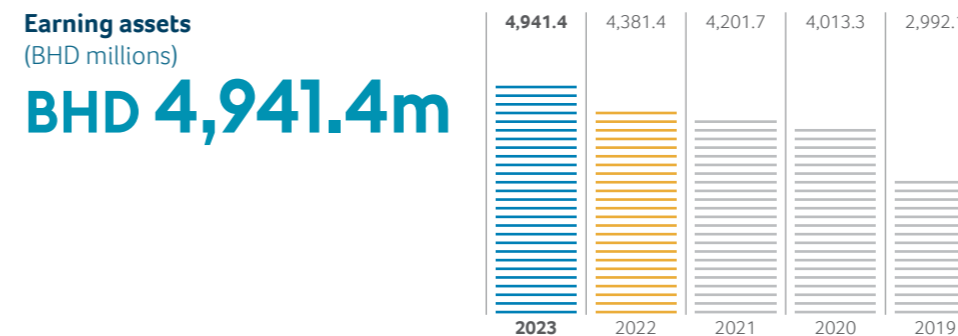
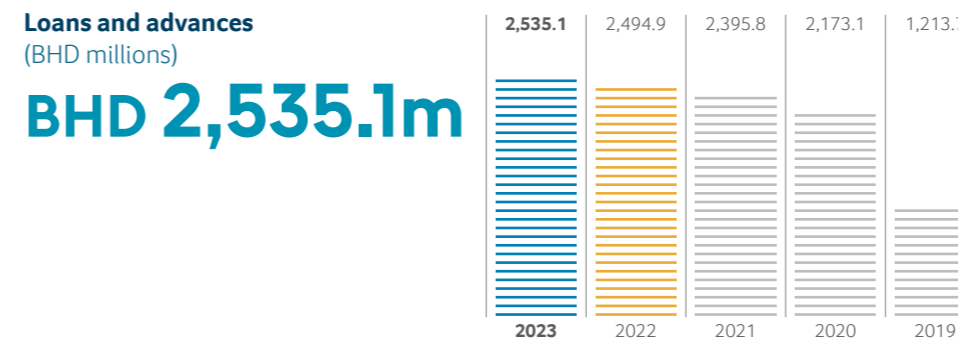
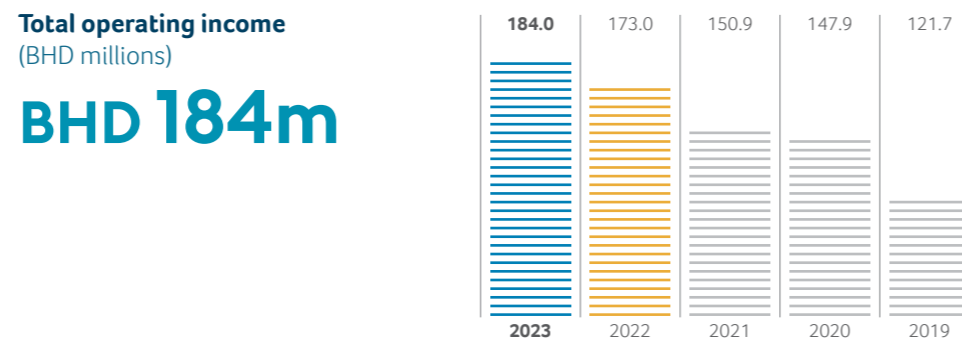
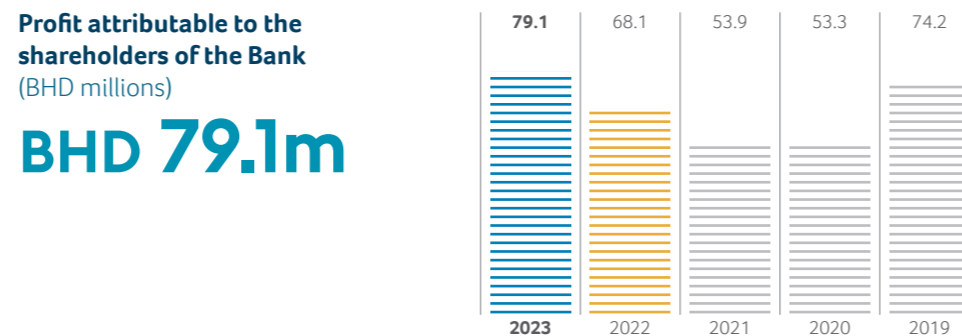
Financial Highlights

	2023	2022	2021	2020	2019
Earnings (BHD millions)					
Net interest income	141.4	131.8	120.5	116.0	93.3
Other income	42.6	41.2	30.4	31.9	28.4
Total operating income	184.0	173.0	150.9	147.9	121.7
Operating expenses	96.0	85.5	74.5	70.2	45.2
Operating profit	88.0	87.5	76.4	77.7	76.5
Profit attributable to the shareholders of the Bank	79.1	68.1	53.9	53.3	74.2
Consolidated net profit	81.4	70.7	55.0	50.7	74.2
Cash dividend	68.0	51.3	37.3	33.8	38.4
Stock dividend	-	20.6	18.7	17.0	15.5

Financial Position (BHD millions)					
Total assets	5,372.5	4,785.3	4,535.6	4,361.4	3,194.5
Loans and advances	2,535.1	2,494.9	2,395.8	2,173.1	1,213.7
Investment securities	1,155.0	1,241.4	1,258.6	1,231.4	1,070.7
Earning assets	4,941.4	4,381.4	4,201.7	4,013.3	2,992.1
Total deposits	4,636.5	4,046.9	3,923.8	3,741.7	2,599.0
Customer deposits	3,504.8	3,330.2	3,184.2	3,084.3	2,094.0
Shareholders' equity	577.2	575.9	535.3	526.3	532.3

Ratios (%)					
Earnings					
Return on average equity	14.2	12.6	10.5	10.1	14.7
Return on average assets	1.7	1.5	1.2	1.2	2.3
Earnings per share (fils)	35	30	24	24	33
Cost-to-income ratio	51.9	49.3	49.0	47.1	35.9
Net interest margin	3.3	3.2	3.1	3.0	3.3
Capital					
Shareholders' equity as % of total assets	10.7	12.0	11.8	12.1	16.7
Total liabilities to shareholders' equity (times)	8.3	7.3	7.5	7.3	5.0
Capital adequacy ratio	23.3	23.6	22.1	22.3	37.3

NBB's consolidated net profit increased by 15% from BHD 70.7 million (USD 187.5 million) in 2022 to BHD 81.4 million (USD 215.9 million) in 2023.



Our Sustainability Journey

Since our inception, NBB has been a key player in Bahrain's economic development and prosperity, providing seamless financial services to individuals and businesses, fostering growth, and contributing to the national economy.

In 1980, we established the Donations and Contributions Fund, allocating 5% of our annual net income for charitable purposes—a tradition proudly upheld to this day.

NBB strives to lead on sustainability within Bahrain and the regional banking sector. Our Phase 1 of the three-year Sustainability Roadmap concluded in 2023, successfully achieving the set strategic objectives that revolved around capacity building, assignment of responsibilities, alignment with international best practices, and integration of key ESG considerations within the operational conduct and business.

NBB is now embarking on Phase 2, with another three-year roadmap that encompasses building on existing initiatives and focusing on a number of strategic objectives with the vision of becoming the national partner of choice for various stakeholders in the upcoming sustainability journey.

The updated roadmap covers NBB's dedication to integrating ESG considerations into our operations and business models, in the form that promotes the Kingdom's Economic Vision 2030 while playing a key role in achieving the country's Climate Change Commitment of a 30% GHG Emissions reduction by 2035 and Net-Zero by 2060. Our sustainable approach takes into consideration the needs of all our stakeholders and effectively manages all associated risks and opportunities.

NBB's Sustainability Framework

NBB's sustainability strategy revolves around the implementation and progress of seven core pillars. In 2023, the third year of our Roadmap, NBB refined the second pillar from "Serving Our Customers" to "Customer Centricity", highlighting a sharper focus on fostering meaningful digital interactions with customers.

1 Economic Growth

About this Pillar: Commitment to continuous economic growth, leveraging strengths for the economy's foundation.

Our Objectives:

- Capture net impact on society and Bahrain's Economic Vision 2030
- Attain strategic advantage as the preferred impact-maximising banking partner
- Drive growth through increased financing in high-impact sectors
- Achieve solid financial performance consistently

2 Customer Centricity

About this Pillar: Fostering responsible customer relationships, driving digital transformation

Our Objectives:

- Offer the best sustainability-oriented products and services
- Emphasise sustainability in customer messaging
- Uphold transparency and fairness in all customer relations
- Ensure availability of communications and services on digital platforms
- Safeguard customer data and privacy

3 Responsible Banking

About this Pillar: Demonstrating discipline through a responsible approach in business operations.

Our Objectives:

- Enhance ESG criteria in lending and investment activities
- Offer sustainability-oriented products and services
- Promote financial literacy and responsible lending
- Expand SME clientele in line with Bahrain's Economic Vision 2030 ambitions

4 Nurturing Our Workforce

About this Pillar: Continuous development of employees' knowledge, skills, and mindset.

Our Objectives:

- Integrate sustainability-related values into policies, procedures, training, and services
- Empower Bahraini and female employees
- Abide by principles of fair treatment
- Link rewards and promotions to sustainability performance
- Contribute to the well-being of employees

5 Community Investment

About this Pillar: Upholding the promise of giving back to the community through various contributions.

Our Objectives:

- Effectively enhance community investments using NBB's full resources and capabilities

6 Preserving Natural Resources

About this Pillar: Conscious consideration of the environmental footprint and responsible conduct in operations.

Our Objectives:

- Significantly improve environmental performance, including action to mitigate climate change
- Minimise our direct environmental impact

7 Governance and Ethical Behaviour

About this Pillar: Adherence to regulations and an ethical mindset following corporate values and principles.

Our Objectives:

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

SUSTAINABILITY FRAMEWORK



NBB'S SUSTAINABILITY ROADMAP



PHASE 1: Integrating Sustainability into NBB's Operations (2021-2023)

NBB launched its three-year Sustainability Roadmap in 2021, ambitiously integrating sustainability into our planned business operations through 2023.

Year 1 (2021)

In 2021, NBB laid the foundation for its sustainability journey through its comprehensive Sustainability Framework.

NBB's Nomination, Remuneration, and Governance (NRG) Committee expanded its responsibilities to encompass ESG practices and was restructured into the Nomination, Remuneration, Governance, and Sustainability (NRGS) Committee. This committee plays a pivotal role in embedding sustainability within NBB's governance structure, ensuring ESG risks and opportunities are considered at the Board level of strategic planning and decision-making, ensuring transparency and accountability. It oversees NBB's sustainability roadmap, acting as the governing body responsible for implementing and periodically reporting on performance against targets and KPIs.

NBB also formed a Sustainability Committee to shape its sustainability roadmap and strategy, enabling the bank functions to integrate ESG-related objectives, KPIs and targets in their ways of working. The Committee monitors the progress on these KPIs and provides regular updates to the Board on progress achieved. Chaired by the Group Chief Human Resources & Sustainability Officer, the Committee comprises six young Bahraini professionals,

ensuring diverse representation from different NBB departments. The Committee has a 50-50 gender split and represents a range of business and operational backgrounds.

NBB began conducting regular ESG-related awareness sessions for employees. Since introducing these sessions, around 90% of NBB staff attended at least one Sustainability-related awareness session.

Year 2 (2022)

In 2022, NBB advanced its sustainability by integrating ESG across departments and services, improving tracking and reporting processes in line with international standards.

We expanded our commitment to responsible lending with the introduction of ESG-related products, such as financing for retail and commercial-scale sustainable projects, empowering customers to improve their environmental impact. We also deepened our work in financial inclusion through our Financial Literacy Programme for underserved groups.

NBB also expanded upon the previous year's efforts in fostering sustainability awareness among staff by establishing the ESG Academy in collaboration with the Supreme Council for Environment (SCE), which provided training on ESG practices for NBB Group employees and members of NBB's Sustainability Committee.

NBB joined the United Nations Global Compact, aligning business practices with Ten Principles on human rights, labour, environment, and anti-corruption. This commitment, reflecting the Sustainable Development Goals, reinforces NBB's dedication to inclusive global markets and thriving societies.

The Bank demonstrated strong sustainability performance in Bloomberg ESG Disclosure Scores, as well as Refinitiv ESG Scoring, where it achieved the top ranking for ESG performance in the Arab World's banking sector.

Recognised by the Euromoney Middle East Awards for Excellence 2022, NBB was awarded:

- 'Middle East's Best Bank for Corporate Responsibility'
- 'Best Bank for ESG in Bahrain'
- 'Best Bank for SME Banking in Bahrain'
- 'Best Bank for CSR in Bahrain'

Some of the achieved KPIs in 2022 include:

- Maintained the ISO 14001 Certification in Environmental Management Systems
- Attained the ISO 45001 Occupational Health and Safety certification
- Maintained a minimum of 37% female representation in the workforce
- Sustained Bahrainisation in the workforce at a minimum of 90%
- Recorded a 10% increase in training hours delivered
- Successfully launched the Evolve Internship Programme
- Established an ESG Risk Identification and Assessment Toolkit

Year 3 (2023)

In the final year of Phase 1 of our Sustainability Roadmap, NBB stands at the forefront of national and Middle East ESG leadership. We rolled out a transformative ESG Risk Identification and Assessment Policy and Toolkit to manage ESG risks and assess client ESG preparedness. Ongoing initiatives support efforts to integrate ESG considerations into products and lending decisions, with significant progress made as a result of operational changes implemented in previous years.

Positive increase in ESG ratings from various agencies underscore NBB's commitment to rigorous evaluation standards, and we established our position among the top 10% globally for ESG in the banking sector as per Refinitiv's ESG rating. In 2023, NBB ranked 1st across sectors in the MENA region as per Refinitiv's ESG rating, and 2nd on Banks in the MENA region as per Bloomberg ESG Disclosures. We are committed to continuous improvement, delivering on promises and creating sustainable value for all stakeholders.

The Bank also showcased ESG thought leadership through active participation in conferences addressing key sustainability themes. Topics included investment strategies for water and energy sustainability, challenges in transitioning to a net-zero approach, benefits of integrating ESG into Investor Relations, sustainable finance trends, the role of carbon markets in decarbonisation, and insights for university students on incorporating ESG into business strategy.

NBB representatives shared their expertise at many forums such as:

- Global Water, Energy, and Climate Change Congress

- Sustainability Forum Middle East - Business Transition to Net-Zero
- MEIRA Annual Conference & Awards - Integrating ESG into IR
- Refinitiv Event - Driving Sustainable Finance, Green Bonds, Sukuk, and ESG Insights
- Decarbonisation Roundtable Series Carbon Markets - Accelerating and Funding the Road to Net-Zero
- University of Bahrain - Benefits of Integrating Sustainability into Business Strategy
- COP28 - NBB's Sustainability Journey
- COP28 - Scaling up Private Sector Engagement towards Climate Action

NBB was awarded:

1. 'Best ESG Integration in Bahrain' in the Arab Federation of Capital Markets Awards Ceremony 2023
2. 'Best Bank for ESG in Bahrain' at Euromoney Awards for Excellence 2023
3. 'Best Bank for CSR in Bahrain' at Euromoney Awards for Excellence 2023
4. Albilad's Corporate Social Responsibility Award of the Year 2023

Some of the successful initiatives concluded in 2023:

- Rollout and application of the ESG Risk Identification and Assessment Toolkit
- Sole partner in the Ministry of Industry and Commerce's Green Factory Label
- Started developing NBB's Sustainable Finance Framework during 2023
- Arranged the first Sustainability-linked Interest Rate Swap in Bahrain for Bapco Energies

- GHG Emissions has reduced by more than 6% compared with 2022.
- Reduction in the overall electricity consumption by over 6% compared to last year
- Reduction in the overall water consumption by more than 10% year on year
- Delivered a full year financial literacy social media campaign

PHASE 2: Building on Success to Advance Our Sustainable Practices (2024-2026)

NBB's Sustainability Strategy for 2024-2026 outlines six strategic objectives to build on the achievements accomplished in Phase 1:

1. **Climate Commitment**
Spearhead initiatives to significantly reduce greenhouse gas emissions across all three scopes, aligning with Bahrain's 2035 emissions target and 2060 net-zero commitment.
2. **Exemplary Recognition**
Uphold our leadership position in national sustainable actions, becoming a regional benchmark for sustainable practices within the banking industry.
3. **People, Culture, and Community**
Facilitate ongoing employee development and well-being, ensure equitable and inclusive opportunities, and deploy community investment strategies to actively contribute to societal prosperity.

4. Alignment Across NBB's Group

Maintain strong alignment and collaboration among all NBB operating entities, including overseas branches and subsidiaries.

5. Business Integration

Develop and implement a dynamic Sustainable Finance Business Model, offering a comprehensive suite of products, services, and end-to-end digital solutions.

6. Risk Management Integration

Continue strengthening the integration of ESG considerations and climate-related financial risk factors into the Group's Risk Management Framework, ensuring a robust and sustainable risk management approach.

Materiality Assessment & Stakeholder Engagement (GRI 2-29, GRI 2-30, GRI 3-1, GRI 3-2)

NBB's Material Topics

In 2021, NBB laid the foundation for its sustainability strategy by aligning business operations with the needs of the broader economy, environment, and society, while incorporating stakeholder input. This approach led to the creation of a dynamic sustainability framework and roadmap, shaped by an assessment of our material ESG topics.

As a result of the expanding scope of our sustainability roadmap, we amended NBB's material topics in 2022, incorporating Climate Change and Training & Development as topics and replacing Responsible Finance with Sustainable Finance. We also noted changes in the ranking of topics, underlining the growing importance of Digital Transformation and Workforce Wellbeing as topics.

In 2023, Diversity, Inclusion and Equal Opportunity was replaced by Equal and Fair Opportunity, with the aim of broadening the scope of our positive impact and commitment to fairness and equity.

NBB's latest materiality analysis includes 16 topics.

Very Material Topics

1. Compliance and Ethical Behaviour

Robust compliance procedures are essential due to regulatory requirements, aligning with national and international legislation, and meeting customer demands.

2. Data Privacy and Security

Protecting customer and stakeholder data is fundamental, requiring robust security procedures and systems.

3. Governance, Transparency, and Accountability

Adhering to national and international regulations and standards is essential for our operational license and ensures transparent communication with stakeholders.

4. Financial and Economic Performance

Robust financial performance is vital for delivering economic value, pursuing opportunities, managing financial risk, and fostering national economic growth.

5. Responsible Customer Relationships

Customer satisfaction is a key priority, managed through understanding their needs and responsible interaction across product delivery, call centers, and complaint management.

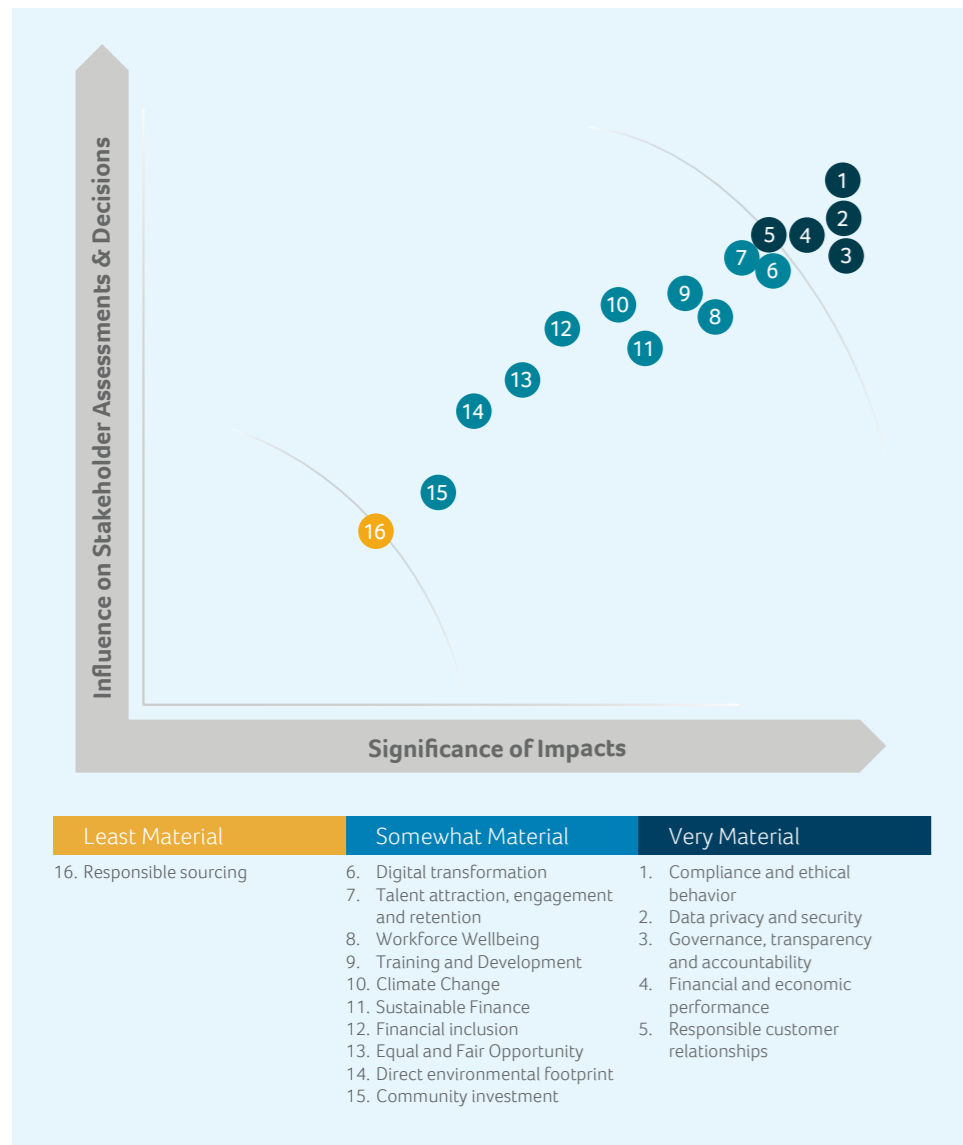
ESG ratings

NBB achieved the top ranking for ESG performance in the Arab World's banking sector.



Positive increase in ESG ratings from various agencies underscore NBB's commitment to rigorous evaluation standards, and we established our position among the top 10% globally for ESG in the banking sector as per Refinitiv's ESG rating. We are committed to continuous improvement, delivering on promises and creating sustainable value for all stakeholders.





Materiality Topics

Material Topics

6. Digital Transformation

Digitalisation, through NBB's state-of-the-art digital services, is integral to providing innovative products and services, delivering process and resource efficiencies.

7. Talent Attraction, Engagement, and Retention

Retaining and developing our people drives success, underlining the importance of continuous investment in employees' skills, knowledge, and experience, fostering opportunities within an inclusive and positive culture.

8. Workforce Wellbeing

Ensuring employee health and safety is essential, with an increasing focus on supporting mental and physical wellbeing.

9. Training and Development

Investing in employees' capabilities enables consistent delivery of high standards of customer service and fosters a culture of innovative thinking necessary for business growth, creating value for employees, the Bank, the economy and the community.

10. Climate Change

Managing the bank's exposure to climate risk, which includes monitoring and measuring impacts like direct emissions, supply chain, products, services and investment portfolio, is a key priority, along with leveraging opportunities to mitigate consequences and strengthen resilience to climate change.

11. Sustainable Finance

Developing products and services accounting for environmental and social needs through prudent product development, effective investment screening, and mindfulness of diverse customer needs.

12. Financial Inclusion

Aligning with Bahrain's financial vision for 2030, we aim to make financial services accessible and affordable for all as sustainably as possible.

13. Equal and Fair Opportunity

Encouraging a diverse workforce beyond compliance and providing equal and fair opportunities to all support improved business decision-making and help cultivate a more productive working environment.

14. Direct Environmental Footprint

Minimising the environmental impact of our activities is essential for responsible operations and complying with national regulators, customers, partners, and international efforts to tackle climate change.

15. Community Investment

Our investments, programmes, and initiatives positively impact local communities by providing financial support, addressing local needs, and diversifying the local economy.

16. Responsible Sourcing

Collaborating with partners to produce products and services responsibly, enforcing relationships and expectations through active engagement, assessments, and our Code of Conduct.

Our Stakeholders and Materiality Assessment (GRI 2-29, GRI 2-30, GRI 3-1, GRI 3-2)

Stakeholder Engagement

To create sustainable long-term value for all stakeholders and our business, we regularly engage with each stakeholder group to understand their needs and issues they consider material. This informs our reporting on material ESG topics and guides our sustainability strategy.

Since 2022, minor adjustments have streamlined our stakeholder engagement approach, refining categories like "Shareholders and Investors" to simply "Investors," "Suppliers and Partners" to "Partners," "Government and Regulators" to "Regulators," and "Communities" to "Community." These changes enhance clarity and precision, aligning our communication with stakeholders more directly, strengthening communication channels, and fostering better understanding and collaboration with each stakeholder category.

The following table below provides an overview of NBB's stakeholder engagement process and its findings:

Stakeholder	Relationship	Engagement Method	Key Concerns
Employees	Our employees are vital to our business, playing a crucial role in its operations and growth. A content and fulfilled workforce is essential for our long-term success, and we actively support their goals and career development.	<ul style="list-style-type: none"> Intranet Human Resource Management Software (HRMS) Newsletters CEO Communications Management/ Townhall Meetings Performance Reviews Surveys Team Building & In-house Training Events 	<ul style="list-style-type: none"> Employee Wellbeing Equal and Fair Opportunity Health & Safety Training & Development Sustainable Workplace Business Ethics
Customers	Customers depend on us for essential wealth and business services. We rely on their trust and loyalty for our business growth.	<ul style="list-style-type: none"> Customer Services & Interaction via Multiple Platforms (i.e. in person, phone, email, website, apps, social media, etc) NPS Surveys & Feedback 	<ul style="list-style-type: none"> Customer Experience and Service Data Protection Customer Satisfaction
Investors	Our business's growth relies on attracting investors who, in turn, depend on us to maximise returns for them over time.	<ul style="list-style-type: none"> Market Disclosures General Assembly Meeting Personal Contacts by Investor Relations Corporate Notices 	<ul style="list-style-type: none"> Business Ethics ESG Integration Economic Performance Data Protection Environmental Impact Marketing & Labelling Climate Risk
Suppliers	We boost the national economy by prioritising local suppliers and promoting their transition to sustainability. Collaborating with local entities on various initiatives creates value for stakeholders, including employees, customers, and the community.	<ul style="list-style-type: none"> Training & Workshops Events Service Portals 	<ul style="list-style-type: none"> Fair Procurement Practices Business Ethics ESG Integration
Regulators	We depend on government and regulators to provide the governance and oversight that create the conditions for a well-functioning and healthy banking system and a level playing field for all.	<ul style="list-style-type: none"> Voluntary Participations Interviews Publications & Social Events Exchange of Ideas & Communications with Regulators Projects & Surveys 	<ul style="list-style-type: none"> Economic Growth Regulatory Compliance Alignment with National Strategies Nationalisation Cybersecurity Compliance Community Wellbeing Climate Change
Community	NBB looks beyond its own operations to create value for the whole of society, including families and the most vulnerable groups, by contributing to wider community initiatives that support social development and provide opportunities for all.	<ul style="list-style-type: none"> Volunteering Events & Sponsorships Charitable Contributions 	<ul style="list-style-type: none"> Financial Inclusion Education Healthcare Social Welfare Environmental Conservation Diversity & Inclusion Sport



NBB promotes Financial Inclusion through:

- 1 NO POVERTY** No Poverty
- 2 ZERO HUNGER** Zero Hunger
- 3 GOOD HEALTH AND WELL-BEING** Good Health and Well-being
- 4 QUALITY EDUCATION** Quality Education
- 5 GENDER EQUALITY** Gender Equality
- 8 DECENT WORK AND ECONOMIC GROWTH** Decent Work and Economic Growth
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE** Industry, Innovation, and Infrastructure
- 10 REDUCED INEQUALITIES** Reduced Inequalities
- 17 PARTNERSHIPS FOR THE GOALS** Additionally, SDG 17 – Partnerships for the goals, highlights the importance of mobilising finance and promoting greater financial inclusion as a way of strengthening the means of implementation for all SDGs.

Contributing to National and International Sustainability Goals

As part of our commitment to contributing to national and international sustainability goals, NBB actively integrates the Sustainable Development Goals (SDGs) into its business model through a comprehensive sustainability framework and roadmap, while also aligning with Bahrain's national development agenda, including the Bahrain Economic Vision 2030, where sustainability and competitiveness & fairness are guiding principles.

As a leading financial institution, NBB contributes to a variety of SDGs, and particularly to SDG 8: Decent Work and Economic Growth and its individual targets.

- Target 8.1 - Sustainable Economic Growth**
 - NBB, established in 1957, has been a key driver of economic development in Bahrain, mirroring the country's growth.
 - Our banking services support individuals, businesses, and strategic clients in sectors like energy, infrastructure, real estate, manufacturing, and healthcare.
 - Group Institutional Remedial Management (GIRM) services includes supporting large businesses, preserving jobs, and supporting economic growth.
 - We prioritise local suppliers, contributing to the local economy.
- Target 8.2 - Diversify, Innovate, and Upgrade for Economic Productivity**
 - Diversification and innovation, including the acquisition of a majority stake in BisB, drive Group and Bahrain's growth.
 - Ongoing digital transformation, especially for retail and business accounts, is crucial for business evolution.

Target 8.3 - Promote Policies to Support Job Creation and Growing Enterprises

- Constant business growth at home and overseas creates opportunities for individuals and other businesses
- Extensive support for businesses of all sizes stimulates economic growth and job creation.
- Support for start-ups and SMEs shields them during difficult times, with upgraded financing schemes.
- Participation in designing the Liquidity Support Fund promotes entrepreneurship and cross-sector growth.

Target 8.4 - Improve Resource Efficiency in Production and Consumption

- Addressing our direct environmental footprint, we reduce energy and water consumption and waste production.
- Deepening ESG integration supports clients with sustainability transformations, addressing Scope 3 emissions.

Target 8.5 - Full Employment and Decent Work with Equal Pay

- Providing high-quality, well-paid jobs for 866 employees supports their families.
- Prioritising Bahraini nationals for work and achieving high rates of female employment.
- Initiatives and support for working mothers and people of determination.

Target 8.6 - Promote Youth Employment, Education, and Training

- Emphasis on Bahraini youth development through the Evolve internship scheme.
- Extensive internal training programmes nurture the next generation of leaders.
- Support for youth development and education through community initiatives and partnerships.

Target 8.7 - End Modern Slavery, Trafficking, and Child Labour

- Human Rights Policy and Global Credit Policy prohibit discrimination, human trafficking, forced or child labour.

Target 8.8 - Protect Labour Rights and Promote Safe Working Environment

- NBB's Code of Conduct ensures fair treatment for all workers.
- Pursuit of alignment with Kingdom of Bahrain commitments and ISO 45001 certification for safe workplaces.

Target 8.9 - Universal Access to Banking, Insurance, and Financial Services

- NBB initiatives promote financial inclusion for all individuals and businesses.



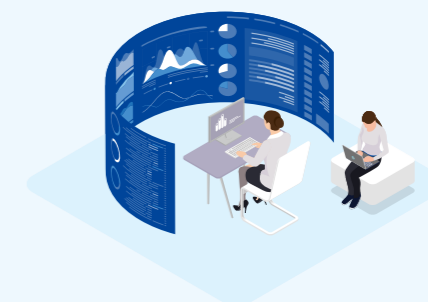
As a leading financial institution, NBB contributes to a variety of SDGs, and particularly to SDG 8: Decent Work and Economic Growth and its individual targets.

814

Providing high-quality, well-paid jobs for 814 employees

95%

Bahrainisation in the workforce



38%

Female representation in the workforce

Our sustainability journey continued

Our Value Creation Model

INPUT >>>

- FINANCIAL CAPITAL**
 - Total Deposits: BHD 3,504.8 million
 - Loans and Advances: BHD 2,535.1 million
 - Equity: BHD 577.2 million
- RELATIONSHIP CAPITAL**
 - Over 65 years of being "Closer to You" and delivering the highest standards of customer services
 - Strategic expansion and diversification with key local institutions
 - Diversified and comprehensive portfolio of products and services that support economic, environmental, and societal goals
- HUMAN CAPITAL**
 - A highly skilled workforce of 866 employees (791 in Bahrain, 31 in Riyadh and 44 in Abu Dhabi)
 - A workplace environment that prioritises respect for individuals, diversity and inclusivity, and equal opportunities for all
 - Largest employers of Bahraini nationals in the country
- NATURAL CAPITAL**
 - Robust sustainability governance with a well-defined roadmap and key environmental and climate-related goals
 - Increased monitoring of energy and water use in our towers and branches and implementation of resource efficiency initiatives including the introduction of renewable energy solutions
- SOCIAL CAPITAL**
 - Integral part of Team Bahrain and Supporter of the Bahrain Vision 2030
 - Community focused through initiatives, contributions and employee volunteering

BUSINESS MODEL >>>

NBB

OUR VISION
"Enriching lives by contributing to economic development through seamless financial solutions and sustainable outcomes"

OUR PRINCIPLES

Our Mission

- Delivering an exceptional customer experience every time
- Creating real impact for communities through our sustainability-led initiatives
- Being the employer of choice by attracting, developing and retaining exceptional talent
- Consistently delivering attractive shareholder returns

Our Values

- Adaptability**
Thriving on agility and innovation
- Ownership**
Embracing responsibilities and challenges
- Collaboration**
Fostering relationships with stakeholders for collective success
- Integrity**
Upholding the highest standards of ethics & transparency
- Excellence**
Striving for best-in-class solutions and experiences

OUR STAKEHOLDERS

OUR DIVERSIFIED MODEL

- Retail Banking
- Corporate and Commercial Banking
- Strategic Accounts Management
- Treasury, Capital Markets, Transaction Banking, Corporate Finance and Wealth Management

Our Sustainability Journey continued

OUTPUT & OUTCOME >>>

- FINANCIAL CAPITAL**
 - Consolidated Profit for the Year: BHD 81.4 million
 - Dividend per Share: 30 fils
 - Return on Average Equity: 14.2%
- RELATIONSHIP CAPITAL**
 - Retail banking witnessed a +23% increase in the number of digitally registered customer and +44% increase in the number of new to bank customers that were onboarded digitally.
 - 60% of our retail loan portfolio towards the Mazaya programme and 20% towards personal loans catered for retirees
 - 5 ATMs and 1 branch are in low populated and financially deprived areas
- HUMAN CAPITAL**
 - Female employee rate of 38% with 25% of assistant to executive management levels filled by female employees
 - 81% Employee Satisfaction Score
 - 10% Voluntary Turnover
 - Zero reported lost-time injuries or fatalities
 - Nationalisation rate in Bahrain of 95%
- NATURAL CAPITAL**
 - NBB and Bapco Energies Announce First ESG-Linked Interest Rate Swap in Bahrain
 - Total energy consumption has reduced by 6.68% compared with 2022 and a reduction of around 7% in our GHG emissions (Scope 1 and 2) from 2022.
 - Decreased in water usage from 19.61 m3/employee in 2022 to 17.01 m3/employee in 2023, a reduction of 13%
- SOCIAL CAPITAL**
 - BHD 2.2 million donated in 2023 to a range of worthy causes in Bahrain
 - Partnership with esteemed local organisations such as Ministry of Interior – 'Fael Khair', Royal Humanitarian Foundation, Royal Fund for Fallen Servicemen, and more

SDG ALIGNMENT

SDG 8: Decent Work and Economic Growth

SDG 9: Industry, Innovation and Infrastructure

SDG 10: Reduced Inequalities

SDG 11: Sustainable Cities and Communities

SDG 17: Partnerships for the Goals

SDG 1: No Poverty

SDG 3: Good Health and Well-being

SDG 5: Gender Equality

SDG 8: Decent Work and Economic Growth

SDG 10: Reduced Inequalities

SDG 13: Climate Action

SDG 11: Sustainable Cities and Communities

SDG 12: Responsible Consumption and Production

SDG 13: Climate Action

SDG 15: Life on Land

SDG 1: No Poverty

SDG 3: Good Health and Well-being

SDG 4: Quality Education

SDG 11: Sustainable Cities and Communities

SDG 17: Partnerships for the Goals

Our Resources

Responsible Business Practices

Our Commitment	Sustainability Pillars	Material Topics	Policies
	<ul style="list-style-type: none"> Customer Centricity Responsible Banking Governance and Ethical Behaviour 	<ul style="list-style-type: none"> Compliance and Ethical Behaviour Governance, Transparency and Accountability Responsible Customer Relationships 	<ul style="list-style-type: none"> Data Privacy Policy Human Rights Policy
Our Alignment	Bahrain Vision 2030	GRI Standards	SDGs
	 <p>أهداف التنمية المستدامة البحرين BAHRAIN SDGs</p>  <p>Upholding the values of the state & society</p>  <p>Financial sustainability & Economic Development</p>	<p>GRI 2: General Disclosures</p>	 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>



Governance

(GRI 2-9, GRI 405-1, GRI 2-23, GRI 2-24, GRI 410-1, G1, G2, G3, S9, S10)

NBB's corporate governance framework, committees, and policies are designed to ensure we consistently uphold best business practices and the highest standards of ethical behaviour.

Board of Directors

The Board of Directors guides NBB's strategic direction according to the Group's core values, oversees strategy implementation, and ensures top-tier corporate governance. The Board's composition is made of 11 members with extensive experience in banking and other key sectors.

For detailed profiles, qualifications, and experience, please refer to the Board of Directors Profile section of this report.

Board Diversity

	Board of Directors by Gender			
	Female		Male	
	Number	Rate	Number	Rate
2021	1	9%	10	91%
2022	1	9%	10	91%
2023	1	9%	10	91%

	Board of Directors by Age Group					
	Below 30 years old		Between 30-50 years old		Over 50 years old	
	Number	Below 30 years old %	Number	Between 30-50 years old %	Number	Over 50 years old %
2021	0	0.0%	2	18%	9	82%
2022	0	0.0%	2	18%	9	82%
2023	0	0.0%	2	18%	9	82%

Board Training

In accordance with Central Bank of Bahrain (CBB) requirements, each Board member is required to complete 15 hours of continuous professional development training per year. Board training covers various financial and sustainability topics.

Sessions covered various aspects: training on Economic Growth explored Enterprise risk at NBB Group and on a Macroeconomic level in a session led by JP Morgan. Responsible Banking training featured sessions covering fraud management and the dynamic landscape of risks. Nurturing Our Workforce sessions concentrated on the effectiveness of boards of directors and committees. Governance and Ethical Behaviour training encompassed Effective Boards of Directors sessions, an overview of CBB's high-level controls and discussions on fraud management and board committees.

	NBB's Board Completed Training Hours – General Overview				
	Governance and ESG related	Information Security	Banking Finance	Other Topics	Total Number of Training Hours
2021	65	19	77	75	236
2022	144	41	57	54	296
2023	128	19	84	54	285

Board Training continued

NBB's Board Completed Training Hours – Overview Across Sustainability Pillars							
	Economic Growth	Customer Centricity	Responsible Banking	Nurturing Our Workforce	Community Investment	Preserving Natural Resources	Governance and Ethical Behavior
2021	16.0	39.0	91.5	32.5	12.0	0.0	45.5
2022	39.5	22.0	24.5	20.5	13.0	4.0	172.0
2023	44.5	4.0	26.5	3.0	5.0	7.0	194.5

Committees of the Board of Directors

The Board of Directors has formed seven sub-committees to assist in implementing its responsibilities:

- **Executive Committee:**
 - o Assists the Board on lending and investments in debt securities and other non-delegated matters.
 - o Approves credit and investment proposals, reviews budgets, plans major initiatives for Board approval, and monitors business plan performance.
- **Audit Committee**
 - o Reviews accounting practices, reinforces internal and external audits.
 - o Assists the Board in ensuring effective internal control, recommends external auditors' appointment and compensation, oversees financial reporting integrity and internal audit activities
- **Donation and Contributions Committee**
 - o Manages fund distribution for corporate donations and contributions aligned with the bank's strategic and community outlook.

- **Risk and Compliance Committee**
 - o Oversees risk management and compliance frameworks & provides recommendations to the Board on current and future risk appetite and policies.
- **Nomination, Remuneration, Governance and Sustainability Committee**
 - o Identifies candidates for Board and senior officers.
 - o Reviews and recommends remuneration policies, corporate governance framework, and sustainability strategy in line with regulations and best practices.
- **Digitalisation Committee**
 - o Advises & oversees implementation of the bank's digital transformation and monitors associated risks to support the Risk and Compliance Committee.
- **Overseas Committee**
 - o Advises on matters related to overseas branches, including strategic direction and risk monitoring.

Executive Management Team

The Executive Management team executes the Board-approved strategy, develops products and solutions aligning with strategic objectives and adheres to regulations and best business practices. The team comprises 14 members with extensive global financial sector experience. For the detailed profiles, qualifications, and experience please refer to the Executive Management Profile section of the report.

Management Committees

To efficiently execute the Bank's strategy, NBB has 9 executive management committees, which meet regularly to discuss strategic and operational issues within their respective business areas. These include the Management Credit Committee, Operational Risk Management Committee, Group Asset Liability Committee, Project Steering Committee, Group Compliance Management Committee, Information Security Committee, Business Continuity Management Committee, Products and Services Approval Committee, and Tender and Asset Disposal Committee.

Compliance and Ethics

(GRI 2-25, GRI 2-26, GRI 2-27, GRI 205-1, GRI 205-2, GRI 205-3, G6)

NBB is committed to a robust compliance framework, ensuring adherence to applicable regulations and laws in Bahrain and other relevant global standards. Compliance areas encompass banking, labour, personal data protection, environmental and social governance, and tax. The NBB team is committed to upholding applicable regulations and laws, reflecting our values of integrity, ethics, and transparency and to actively building the foundations to reduce the risk of regulatory violations, financial losses, and reputational damage.

We foster a culture of compliance through employee awareness and training sessions. Training is delivered through NBB's Compliance team, professional qualifications, immersive scenarios, masterclasses and a continuous professional development programme. It covers all areas related to compliance including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), and Sanctions.

During 2023, and in compliance with CBB regulations, 100% of NBB employees completed AML and cybersecurity training while 99.9% of employees undertook Source of Fund Declaration, Health & Safety, and ESG training and 99.9% of staff completed Fraud Prevention training.

Compliance with laws and regulations

	Total Number of Significant Instances of Non-Compliance with Laws & Regulations	
	Instances for which fines were incurred	Instances for which non-monetary sanctions were incurred
2021	0	0
2022	0	0
2023	0	0

Awareness and training on anti-corruption policies and procedures

	Number of Governance Body Members that NBB Anti-Corruption Policies and Procedures have been Communicated to		
	Bahrain	KSA	UAE
2021	19	0	0
2022	7	0	0
2023	11	0	0

	Number of Employees that NBB Anti-Corruption Policies and Procedures have been Communicated to								
	Bahrain			KSA			UAE		
	Non-Management (Staff)	Middle	Senior	Non-Management (Staff)	Middle	Senior	Non-Management (Staff)	Middle	Senior
2021	348	152	19	8	12	0	11	4	1
2022	487	223	19	13	14	0	19	16	0
2023	447	250	5	12	19	1	21	17	0

Awareness and training on anti-corruption policies and procedures (continued)

Number of Governance Body Members That Have Received Training on NBB Anti-corruption Policies and Procedures	
2021	9
2022	7
2023	7

Total number of employees that have received training on anti-corruption

	Total no. of Employees								
	Bahrain			KSA			UAE		
	Non-Management (Staff)	Middle	Senior	Non-Management (Staff)	Middle	Senior	Non-Management (Staff)	Middle	Senior
2021	372	169	20	8	12	0	6	3	1
2022	506	241	20	13	15	1	19	16	0
2023	447	250	5	12	19	1	21	17	0

Compliance Governance and Framework

The Compliance function at NBB plays a pivotal role in identifying, assessing, and mitigating compliance risks. This involves the development and implementation of comprehensive compliance policies and procedures, monitoring and testing adherence to regulations, and reporting on compliance risks to the Group Compliance Management Committee and the Board Risk Compliance Committee.

The Compliance Department is organised into four pillars: Regulatory Compliance, Compliance Risk Assessment & Assurance, Financial Crime Compliance, and Compliance Advisory, ensuring a focused and effective approach to managing risks.

NBB has a robust governance structure overseeing compliance risks, with the Board of Directors holding overall responsibility. the Group Chief Compliance Officer implements and manages the compliance programme. The legal team, led by the Group Chief Legal Officer and Board Secretary, addresses legal risks in alignment with applicable rules and regulations.

Collaborating closely with stakeholders, the Compliance team continuously review policies and procedures, regularly conduct gap assessments to identify and address any gaps between its current compliance practices and the applicable regulations, perform compliance testing to evaluate the effectiveness of Bank's compliance status, involved in the product and services development, and plays a vital role with bank's stakeholders to assess the compliance risks associated to their operations, and advice on how to interpret and implement the regulations. Compliance training is provided to all employees across all departments.

The Compliance Governance and Framework, which was established in 2019, gives the Group Compliance Management Committee the authority to regularly review policies and procedures, carry out compliance testing to gauge the effectiveness of the Bank's compliance status, identify and address any gaps between its current compliance practices and the applicable regulations, participate in the development of new products and services, and assess compliance risks related to their operations with bank-wide stakeholders. Compliance training is provided to all employees across all departments.

The Compliance Department are key members in major management committees at the Bank.

This ensures that compliance is essential in being part of strategic goals and operations of the Bank. The department provides training on regulatory requirements, encourages employees to report concerns, and cultivates a culture of compliance and innovation.

Key activities taken on by NBB to ensure compliance include regular policy reviews, enhancing compliance culture through widespread training, and reporting the Bank's compliance performance to senior management and relevant Board committees. This approach underscores NBB's commitment to a strong and effective Compliance Governance and Framework.

The Compliance and AML role serves as a focal point for all regulatory compliance as well as the adaptation of other best practice compliance principles. The Bank is constantly striving to improve the level of compliance in all of its operations.

Financial Crime Compliance (FCC)

NBB uses a risk-based approach in preventing Financial Crime risks, which includes but not limited to Transaction Monitoring, Sanction's Screening and KYC.

In addition, our compliance framework has policies and procedures provides guidance to day to day operation and decision making, for payment/name screening and transaction monitoring with a mechanism to flag suspicious activities. Compliance officers are routinely trained on AML/CFT and sanctions to ensure that they can effectively perform their roles and responsibilities.

To strengthen our defences against financial crime, NBB consistently monitors and stress tests its compliance systems, making sure we follow relevant regulations and maintain strong protection. Regular, specialised training for compliance officers is a standard practice, improving their ability to handle responsibilities related to AML/CFT and sanctions. Significant concerns are promptly escalated and discussed with the Money Laundering Reporting Officer and other relevant stakeholders, showing our commitment to proactive risk management.

Anti-Corruption Prevention

NBB places a high priority on Anti-Corruption Prevention, supported by robust policies and procedures integrated in the Bank's processes and ways of working. These guidelines have been effectively communicated to members of the governance body within the Bank. NBB provides training on anti-corruption measures to both governance body members and employees. The Bank takes pride in its good track record, with no reported incidents.

	Total number of confirmed incidents of corruption	Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption	Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption
2021	0	0	0
2022	0	0	0
2023	0	0	0

Monitoring & Mitigating Compliance Risks

NBB has robust systems designed to monitor AML, CFT, Sanctions and Regulatory Compliance. In addition, NBB has a team of specialised resources dedicated to applying risk-based measures and testing the Central Bank of Bahrain's Regulations.

This programme incorporates regular compliance risk assessments, key performance indicators (KPIs), key risk indicators (KRIs), and compliance testing to track performance and identify any potential areas of concern. The Bank's strong risk culture and clear accountability of both support and business functions in running compliance risk assessments, identifying and mitigating compliance risks across the Group.

Proactive steps to address potential gaps:

The Compliance function proactively and regularly assesses the evolution of regulations and new requirements to identify potential discrepancies with current practices. This agility enables the Bank to swiftly develop and implement plans to address any gaps, ensuring ongoing compliance with regulations. NBB maintains a close relationship with the Central Bank of Bahrain (CBB) and other regulators, staying informed about upcoming changes and seeking clarification on new requirements.



Risk Management

NBB adopts a prudent risk management approach, seeking an optimal balance between risk and returns. The Bank assesses risks associated with political, economic, and market conditions and client creditworthiness that may impact income and asset values. The evolving global financial sector, marked by digital technology advancements and regulatory changes, requires continual review and refinement of risk management frameworks by the Bank.

NBB manages risk in various dimensions:

- Credit Risk
- Legal Risk
- Liquidity and Market Risk
- Operational Risk
- Fraud Risk
- Information Security Risk
- Reputation and Fiduciary Risk
- Regulatory Compliance and Financial Crime Risks

The Board of Directors is responsible for risk management, authorising policies based on executive management team recommendations, with oversight and input from the Risk and Compliance Committee.

NBB has five committees dedicated to risk management:

- Operational Risk Management Committee (ORMC)
- Group Asset Liability Committee (GALCO)
- Management Credit Committee (MCC)
- Business Continuity Management Committee (BCMC)
- Information Security Committee (ISC)

Business Continuity Management (BCM)

The Group initiated a full Business Continuity and Resilience programme aligned with industry best practices and standards. The Bank is certified against ISO22301:2019 Business Continuity Management System standard and aligned to all applicable regulatory requirements and the Business Continuity Institute (BCI) Good Practice Guidelines.

The programme is governed by the Group level Business Continuity Committee that oversees the implementation of strategic BCM actions and reviews and verifies Group readiness and resilience capabilities. During the year, a full testing and exercising schedule was developed to methodically assess the readiness of systems, people, premises and facilities, along with reviewing dependencies required to resume critical operations.

Representatives from across the Group are engaged in developing business impact analysis reports, departmental plans and exercises, in coordination with specialised teams.

A management level Crisis Management Team (CMT) oversees communication, actions and coordination activities in the event of a disaster. The CMT team has been trained through various exercises and simulations.

Data Security

(GRI 410-1, GRI 418-1, G6)

NBB employs robust systems to manage risks associated with information systems that support business operations. Security measures, including adherence to the ISO/IEC 27001 standard and PCI-DSS compliance (Payment Card Industry Data Security Standard), aim to protect customer privacy and secure personal data, fostering trust and confidence. Information security and privacy awareness training is provided to all staff to ensure we safeguard customers across digital platforms.

NBB's Information Security Management System (ISMS) framework systematically manages and secures sensitive bank information through the implementation of policies and procedures. Continuous review and strengthening, overseen by the Information Security Committee, ensure adherence to standards.

The Bank conducted a comprehensive gap assessment to enhance compliance in line with the Personal Data Protection Law (PDPL). Moreover, NBB prioritises alignment with all relevant data protection laws in the region beyond compliance with the PDPL.

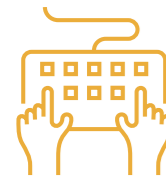
Compliance & Certifications

To maintain the highest standards of data privacy and security, we hold certifications in globally recognised frameworks:

- ISO 27701:2019 (International Standard for Security techniques for privacy information management)
- ISO 27001:2022 (Information security, cybersecurity and privacy protection)
- ISO 22301:2019 (International Standard for implementing and maintaining effective business continuity plans, systems and processes)
- PCI-DSS 4.0 (Payment Card Industry Data Security Standard)
- Swift CSCF 2023 (Swift Customer Security Controls Framework)

Breakdown of the ISO Certification that NBB has:

ISO Certification	Year of Completion
ISO27701 Privacy Information Management System	2023
ISO45001 Occupational Health and Safety	2022
ISO22301 Business Continuity Management	2022
ISO14001 Environmental Management Systems	2021
ISO27001 Information Security (has been upgraded in 2023, from version ISO27001:2013 to ISO27001:2022)	2020



NBB employs robust systems to manage risks associated with information systems that support business operations



Data Security Framework

NBB has a robust security incident response plan, which we regularly review and update with evolving external conditions, outlining steps including containment, investigation, remediation and communication. Continuous monitoring mechanisms, including intrusion detection systems, log analysis tools, and SIEM solutions, enable real-time detection and response to security incidents.

The Bank maintains comprehensive records of all data processing activities and respective security controls, as well as procedures for data protection, covering aspects like data subjects' rights, Privacy Impact Assessments, cross-border data transfers, data breach notifications, complaint management, and consent management.

To identify vulnerabilities, we conduct comprehensive asset inventories, covering hardware, software, networks, and data in our information systems. Regular internal assessments, utilising both automated and manual scanning, along with bi-yearly external vulnerability assessments, are performed to uncover potential threats from outside the Bank's network and public-facing systems.

Annual internal and bi-yearly external penetration tests simulate real-world attacks, engaging ethical hackers to identify vulnerabilities not easily detected by automated scans. Enhancing threat detection and response, the Bank utilises an Extended Detection and Response (XDR) solution, combining leading security technologies like endpoint detection and response (EDR), network traffic analysis (NTA), and security information and event management (SIEM) to mitigate threats across its information systems.

Key internal technology enhancement initiatives include training through webinars and a dedicated platform, bi-yearly external penetration testing, annual internal penetration testing, and quarterly Approved Scanning Vendor (ASV) scans in line with PCI-DSS requirements.



NBB has a robust security incident response plan, which we regularly review and update with evolving external conditions, outlining steps including containment, investigation, remediation and communication.



Performance

Since 2019, NBB has experienced zero data breaches, leaks, or losses of customer data. All in all, no account holders were affected by data breaches, reflecting the Bank's strong data security measures.

	2021	2022	2023
Total number of identified leaks, thefts, or losses of customer data	0	0	0
Total percentage of data breaches affected customers' personal information	0	0	0
Total number of unique account holders who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.	0	0	0

Training

Employee awareness and training are crucial to NBB's security practices. A state-of-the-art platform is employed to assign training, covering best practices for password hygiene, social engineering, and safe browsing habits. Regular online webinars enhance interactivity, fostering a culture of security awareness and reducing the risk of human error or insider threats. NBB is proud to report that in 2023, 100% Employees completed privacy and security awareness training.

	Employees that have completed training in relation to data security		
	Type of training provided	Number of employees that completed the training	Number of total equivalent training hours
2021	Training, Webinar & Internal Comms.	230	349
2022	Webinar, Physical classroom, VLS	815	1267
2023	Webinar, Physical classroom, VLS	846	2042

	2021	2022	2023
Percentage of Employees that completed Cybersecurity Training	100%	100%	100%

OUR FINANCIAL CAPITAL



Throughout 2023, NBB has remained steadfast in its dedication to prudential financial management, aligning with regulatory requirements and international best practices. The strength of the capital foundation not only ensures the Bank's ability to absorb unforeseen risks but also supports its mission to be a responsible and trusted financial partner.



Our Resources

Our Financial Capital

Our Commitment	Sustainability Pillars <ul style="list-style-type: none"> Responsible Banking Economic Growth 	Material Topics <ul style="list-style-type: none"> Governance, Transparency and Accountability Financial and Economic Relationships Sustainable Finance 	Policies <ul style="list-style-type: none"> Global Credit Policy Code of Conduct AML Policy
Our Alignment	Bahrain Vision 2030   Upholding the values of the state & society  Financial sustainability & Economic Development	GRI Standards GRI 201: Economic Performance	SDGs 



Overview

The Group's attributable net profit was the highest on record and was achieved whilst also creating a very liquid and safe balance sheet to prepare the Group for 2024. The balance sheet at the end of 2023 also marks the highest levels registered in NBB's history, a reflection of growth in both business and treasury-related activities.

NBB recorded a 15% year-on-year increase in consolidated net profit to BHD 81.4 million for the year ending 31 December 2023 compared to BHD 70.7 million in 2022. This translates into a growth of 16% in profit attributable to shareholders of the Bank to BHD 79.1 million from BHD 68.1 million. The increase in net profit is mainly due to strong business fundamentals reflected through higher net interest income from loans, placements, and investment securities. Lower provision requirements in 2023 also contributed to the increase in profitability.

As a result of the rise in profitability, the Group reported an earnings per share of 35 fils for the year compared to 30 fils in 2022.

At the end of 2023, total assets increased by 12% to reach BHD 5,372.5 million compared to BHD 4,785.3 million recorded on 31 December 2022, reflecting the Group's effective balance sheet management and business growth. Customer deposits stood at BHD 3,504.8 million at the end of 2023, representing 65% of total liabilities and equity, while shareholders' funds represent 11% of total liabilities and equity.

Key performance indicators continue to remain strong in relation to our regional, with a return on average equity at 14.2% compared to 12.6% in 2022 and a return on average assets of 1.7% compared to 1.5% a year earlier.

Total comprehensive income attributable to NBB's equity shareholders for the year decreased by 4% to BHD 74.8 million in 2023 compared to BHD 78.1 million in 2022. Other comprehensive income includes higher profitability reported in 2023 compared to 2022, partly offset by the mark-to-market movements during the year on the investment portfolio.

The Group presented a strong capital adequacy ratio of 23.3% on 31 December 2023, in line with the 23.6% reported on 31 December 2022. Liquidity continues to be comfortable with the Group being a net contributor of funds into the interbank markets throughout the year.

The consolidated net stable funding ratio (NSFR) as at 31 December 2023 was 137%, demonstrating strength in the long-term funding profile of the Group. The average liquidity coverage ratio (LCR) for the fourth quarter of the year stood at 288%, highlighting the exceptionally robust short-term liquidity of the Group. The Group continuously exceeded the minimum regulatory required funding and liquidity ratios of 100% throughout the year.



The Group's attributable net profit was the highest on record and was achieved whilst also creating a very liquid and safe balance sheet to prepare the Group for 2024.

Net Interest Income

At the end of 2023, the net interest income of the Group increased by 7% to BHD 141.4 million compared to BHD 131.8 million for 2022, attributable to higher rates on loans, placements, and investment securities. Consequently, the net interest income as a percentage of earning assets (NIM) increased to 3.3% in 2023 compared to 3.2% in 2022.

Net Fee and Commission and Other Income

The net fee and commission income for 2023 at BHD 12.9 million was in line with the BHD 13.0 million recorded in the previous year, while other income at BHD 29.7 million was up by 5% compared to BHD 28.2 million in 2022. The increase was recorded under both core and non-core activities as presented in note 25 of the consolidated financial statements. Core activities predominantly relate to Treasury-related activities which saw an increase of 4% to BHD 21.3 million in 2023 from BHD 20.5 million in 2022.

The continued increase is in line with the Group's business diversification strategy to enhance the contribution from non-interest related activities.

Operating Expenses

Operating expenses increased by 12% to BHD 96.0 million in 2023 from BHD 85.5 million recorded in 2022, resulting mainly from our investment in infrastructure and people, in line with the Group's transformation. Consequently, staff expenses and depreciation, amortisation and equipment expenses increased by 10% and 34%, respectively.

Details of staff and other operating expenses, with comparative figures for the previous year, are set out in notes 26 and 27 of the consolidated financial statements.



Provisions

Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. However, impairment charges on the wider portfolio of financial assets, which are not individually identified as impaired, is a forward-looking calculation and is established based on various factors. These factors include internal risk ratings, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given in event of default, and rating migrations. Based on the ongoing assessment of the provision requirement on loans and advances, an amount of BHD 6.6 million was provided towards impairment during the year compared to BHD 16.3 million in 2022. The higher charge in 2022 was attributable precautionary buffers being built, which have been maintained in 2023 to cover any potential future impairment issues that have not yet been identified.

Loans and advances are classified as part of the non-performing portfolio upon an impairment event. Loans that have been classified as non-performing should remain classified as such until the completion of a cooling off period in accordance with the Central Bank of Bahrain (CBB) guidelines. The Group's ratio of gross non-performing loans to total gross loans (NPL ratio) exclusive and inclusive of purchased or originated credit impaired (POCI) financial assets remains comfortable at 4.7% and 5.4% respectively at the end of 2023, compared to 3.8% and 4.0% in 2022.

Details of the Group's non-performing loans, collateral details, provision coverage and movements therein during the year are detailed in note 7 of the consolidated financial statements.

Assets

At the end of 2023, the Group's total assets were BHD 5,372.5 million compared to BHD 4,785.3 million at 31 December 2022, an increase of 12%, predominantly due to growth in liquid assets following effective balance sheet management, as well as growth in the loan book.

The Group has a well-diversified asset profile with loans and advances representing 47% of total assets, whilst maintaining significant liquid reserves, made up of treasury bills, placements with banks and cash balances representing 26% of total assets. Investment securities of various maturities, and including a portfolio of high-quality liquid assets, represent 21% of total assets.

The loan portfolio is diversified with widespread participation in the domestic market and includes a constant broadening of business relationships in Bahrain and the wider region. At the year-end, the Group's investment portfolio consisted mainly of debt securities, with a major part relating to Government of Bahrain bonds and Islamic Sukuk. Notes 31 and 32 of the consolidated financial statements provide details of the distribution of total assets by geographical region and industry.

Liabilities

The Group continues to successfully increase core customer deposits, with an increase of 5% recorded in 2023 to BHD 3,504.8 million from BHD 3,330.2 million in 2022. The rise reflects the Group's standing as the country's national bank, and one that continues to be closer to its customers.

Borrowings from banks and financial institutions stood at BHD 671.0 million at the end of 2023 compared to BHD 472.3 million as at 31 December 2022. Such interbank funding is considered supplementary funding, and the Group places a greater amount back into the interbank and treasury bill markets than it receives. Customer deposits continue to be the major source of funding with the ratio of customer deposits to total liabilities standing at 73% at the end of 2023 and representing the funding source for 95% of the combined loan and investment portfolios.

Capital Strength

The Group's total equity attributable to shareholders increased as at 31 December 2023 at BHD 565.0 million remained at similar levels compared to BHD 565.9 million reported at 31 December 2022. The attributable profits earned during 2023 were offset by the cash dividend payout and the mark-to-market movements on the investment securities classified as fair value through other comprehensive income.

The Group's capital adequacy ratio as at 31 December 2023 was 23.3%, and the common equity tier 1 (CET 1) ratio was 22.2% before the proposed appropriations. The ratios have been calculated in accordance with the Basel III regulations and the CBB guidelines, incorporating credit, operational and market risks.

The Group's capital adequacy ratio is significantly above both the Basel Committee's requirement for internationally active banks and above the minimum level of 12.5% set by the CBB. Additionally, according to the CBB rulebook, banks designated as domestic systemically important banks (DSIBs) must hold designated HLA (high loss absorbency) expressed as common equity tier 1 capital at 1.5% of the total risk weighted assets, as calculated for the purposes of capital adequacy.

The main factors that contribute to the Group's strong capital adequacy ratio are the high capital base, prudent risk management practices and a low risk profile of on-balance sheet and off-balance sheet exposures. The Group's profile includes significant exposures to low-risk asset classes such as sovereigns, public sector undertakings and prime banks and financial institutions. Note 45 of the consolidated financial statements and the risk and capital management disclosures provide further details on the Group's capital strengths.

This section provides a comprehensive overview of the Bank's financial capital structure, its adequacy, and the strategies employed to maintain a robust financial position. Throughout 2023, NBB has remained steadfast in its dedication to Prudential Financial management, aligning with regulatory requirements and international best practices. The strength of the capital foundation not only ensures the Bank's ability to absorb unforeseen risks but also supports its mission to be a responsible and trusted financial partner.

Governance

NBB has strategically incorporated environmental, social, and governance factors into its credit policies and analysis processes, including regarding commercial and industrial lending and project finance.

The Global Credit Policy integrates ESG factors throughout the credit process in various ways. Controlled credits are applied, requiring additional approvals for borrowers in violation of outlined responsible corporate behaviours. Credit application templates also require disclosure of ESG-related risks, and exclusion criteria is applied to borrowers engaged in certain harmful activities in regard to ESG best practices without proven proactive mitigating actions.

Strategy

Showcasing the Bank's strong commitment to ESG success as a core part of operational excellence and to maintaining a robust and accountable ESG framework, performance appraisals and compensation of the Executive Management team continued to include ESG considerations in 2023.

Sustainable Finance Framework

In developing the Bank's Sustainability Strategy and Framework, we have incorporated key principles, objectives, and blueprints for action, including the Bahrain Vision 2030 and the United Nations Sustainable Development Goals (UN SDGs), which continue to represent a call for action to embed sustainability in operations as well as the need for a global partnership.

As such, the Bank has been developing its own Sustainable Finance Framework. In alignment with the International Capital Market Association Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. Additionally, the framework is also aligned with the Loan Market Association Green Loan Principles and Social Loan Principles.

As a pioneer within the industry in Bahrain, NBB provides innovative financing solutions on a project basis aimed at supporting business customers to improve their environmental footprint.

Examples of key environmental initiatives include:

- We financed an SME specialised in providing renewable energy, energy efficiency, building solutions and industrial services.
- The Bank financed construction and installation of solar panels at the first eco-friendly hospital in Bahrain, the new King Hamad American Mission Hospital. The aim of this specific transaction is to allow the hospital to cover up to 50% of its electricity requirements from photovoltaic solar energy.
- NBB financed a hydroponic food farm project by the Ministry of Works, Municipalities Affairs & Urban Planning, which aims to reduce water consumption and carbon emissions.
- We developed and are implementing an ESG risk identification and assessment policy and a toolkit that contains climate-related elements. This helps us understand where our clients stand with their readiness and / or progress with integrating environmental considerations in their operations, and how NBB can help advise them on appropriate action.

- NBB acted as a Jointed Sustainability Coordinator for the first Sustainability-linked financing exercise in Bahrain for one of the Strategic Government-related entities
- NBB signed an MoU with the Ministry of Commerce and Industry as the sole financing partner on the Cop28 announced Green Factory Label programme, one that rewards factories with price concessions should they apply pre-defined environmentally friendly initiatives that grant them a special label
- NBB acted as the hedge coordinator on Bapco Energies Sustainability-linked Interest-rate Swap, the first of its kind in Bahrain.

Examples of social initiatives include:

- NBB was the first conventional bank to introduce the Mazaya 2.0 and 'Tas'heel Loan Programme following the signing of agreements with the Ministry of Housing and its subsidiary, ESKAN Bank. The adoption of these Programmes demonstrates NBB's commitment to supporting Affordable Housing Schemes in the region.
- NBB also participated in the design of the Liquidity Support Fund (LSF), in collaboration with the Ministry of Finance, which helps

support companies in the private sector, as well as enhance entrepreneurship and promote cross-sector growth. The LSF was particularly distributed during COVID-19 to support institutions facing financial difficulties.

- In 2021, NBB launched the Tamweel Al Watani lending scheme to provide additional support to SMEs to improve their cash flow following the pandemic and help them achieve their sustainability goals. The scope of the initiative was widened in August 2022 to allow a larger number of SMEs to benefit from the programme as well as provided additional benefits for female-owned SMEs.

Establishing a Sustainable Finance Framework will enable NBB to finance eligible projects and activities which qualify as green, social and/or sustainable in nature. The framework also governs financings catered for Pureplay corporations where at least 90% of the company's revenues are derived from the Eligible Projects and Activities. Additionally, NBB may issue Green, Social or Sustainability Bonds, Sukuk, Loans, and other debt instruments under this Framework, allowing the Bank to further delve into this space.



Establishing a Sustainable Finance Framework will enable NBB to finance eligible projects and activities which qualify as green, social and/or sustainable in nature.

To enhance the credibility of our Sustainable Finance Framework, NBB will be appointing an External reviewer and a Second Party Opinion Provider to review the Framework and assess its alignment with the market's best practices.

The establishment of this framework further showcases NBB's commitment to sustainable banking and leading by example.

Risk Management

The Board of Directors approved the inclusion of an ESG Risk Identification and Assessment chapter in NBB's Global Credit Policy in 2022, outlining the implementation of a Risk Assessment Toolkit. The toolkit uses assessment questions to gauge the client's ESG risk mitigation factors, resulting in an Environmental Score, a Social Score, and a Governance Score. Using the toolkit allows the Bank to quantify ESG risk through a scoring system, identify risk exposure in its existing portfolio, and recognise potential opportunities tied to the identified gaps in clients' sustainability strategies.

Application of the toolkit is systematic across different business units. The Credit Risk Management Department (CRMD) reviews the assessment as part of the client's credit proposal and due diligence file.

The Credit Administration Department (CAD) then maintains a consolidated record of assessed clients to conduct thorough portfolio scoring. To ensure that the toolkit is being consistently and accurately applied, the internal audit team may also evaluate sample proposals as part of the internal audit exercise.

Metrics

NBB's financial performance for 2023 has been dynamic, showcasing positive trends across most measured indicators.

For a clearer breakdown of the Bank's financial highlights, please refer to the Financial highlights section of this report.



OUR RELATIONSHIP CAPITAL



NBB recognises that the strength of its relationships extends beyond transactions and reflect the Bank's commitment in understanding and meeting the unique needs of customers. For this reason, Customer Centricity is one of our Key Sustainability Pillars.



Our Resources

Our Relationship Capital

Our Commitment	Sustainability Pillars <ul style="list-style-type: none"> Customer Centricity Responsible Banking 	Material Topics <ul style="list-style-type: none"> Responsible Customer Relationships Digital Transformation Sustainable Finance Financial Inclusion Responsible Sourcing Training & Development 	Policies <ul style="list-style-type: none"> Consumer Data Protection Supplier Code of Conduct
Our Alignment	Bahrain Vision 2030   Upholding the values of the state & society  Financial sustainability & Economic Development	GRI Standards GRI 203: Economic Performance GRI 204: Economic Performance GRI 418: Economic Performance	SDGs 



This section explores the depth and significance of the relationships that NBB depends on to maintain a healthy business in a rapidly evolving financial landscape. NBB recognises that the strength of its relationships extends beyond mere transactions and reflects the Bank's commitment to understanding and meeting the unique needs of customers. For this reason, Customer Centricity is one of our Key Sustainability Pillars.

Governance

NBB is committed to delivering the highest standards of customer services, positioning the bank amongst the industry's regional leaders, in line with our brand promise of being 'Closer to You'. This means constantly innovating in an effort to offer a comprehensive portfolio of products and services that meet the needs of all customers in a fast, efficient and cost-effective way.

Responsible Banking

Responsible Banking is one of the seven pillars of NBB's sustainability strategy. It is a key commitment to all our stakeholders and part of our alignment with the ambitions of Bahrain's Vision 2030. We firmly believe that by adopting responsible banking practices and promoting ethical and sustainable financial solutions, we can improve not only our own business performance but also help to address social and environmental as well as economic challenges.

NBB does this primarily through the following practices:

- Integrating ESG criteria into our lending activities
- Offering sustainability-oriented products and services, including sustainable finance
- Fostering financial inclusion through improved financial literacy and accessibility

NBB has developed a **Sustainability Strategy and Framework**, drawing from principles such as the Bahrain Vision 2030 and the UN Sustainable Development Goals. In 2023, we initiated the process of establishing our Sustainable Finance Framework, aligning with international standards like the Green Bond Principles and Social Bond Principles. NBB aims to provide innovative financing solutions to business customers to enhance their environmental impact, positioning itself as a pioneer in Bahrain's financial industry. Currently, these products fall into the following categories:

- Environmental
- Transition
- Social Housing
- Education
- Health
- SMEs
- Sustainability-linked financing which is designed to incentivise corporate borrowers to enhance their ESG performance by committing to achieve specific ESG KPIs

Further details of these products are covered under the relevant business unit section below. NBB continuously reviews its product offering to ensure it meets the current needs of the market and is aligned with Bahrain's environmental and societal goals.



NBB is committed to delivering the highest standards of customer services, positioning the bank amongst the industry's regional leaders, in line with our brand promise of being 'Closer to You'.

Our **Financial Literacy Programme** plays a key role in our mission to make banking more accessible. It is designed to spread financial awareness throughout the community, especially to underrepresented groups such as youth, migrants, people on lower incomes, and small business owners.

The programme uses a blend of webinars and social media to connect with existing as well as potential new NBB customers. We share basic financial advice as well as knowledge of the range of banking solutions available and how to make best use of them.

The Financial Literacy Programme is divided into four categories:

- Corporates and SMEs
- Retail Customers
- Individuals
- Other educational organisations

Since the launch of the programme in August 2021, NBB has held financial literacy sessions on a wide range of topics, frequently partnering with other organizations to extend our reach.

NBB held the following sessions in 2023:

- The CSME department held two financial literacy sessions covering Supply Chain Finance; and Introduction to Treasury Products. The sessions were specifically tailored for SMEs and open to NBB clients as well as Bahrain's wider SME ecosystem. A total of 231 participants from multiple sectors including services, construction, F&B, & FMCG, attended the sessions.
- CIIB department's staff participated in a range of Financial Literacy sessions to Ministry of Education, and AlMabarrah AlKhalifa Foundation, Ministry of Finance & National Economy, Injaz, Bahrain Bourse TradeQuest Programme, webinars and others.
- Thought Leadership sessions conducted to share knowledge by participating as panel speaker at events / conference hosted by Bahrain Chambers, Mastercard International, Visa International, etc.

Risk Management

NBB assesses the risks associated with each customer relationship, taking factors such as creditworthiness, transaction history, and industry trends into consideration. We leverage credit scoring models, financial analysis, and other risk assessment tools to evaluate the potential impact of a customer's financial health on the Bank's overall risk profile.

NBB also manages the diversification of its customer portfolio to spread risk across different industries and sectors. We closely monitor market trends and economic indicators to anticipate potential risks associated with specific industries or regions. And we adapt our risk management strategies in response to evolving market conditions and emerging risks to maintain a resilient Relationship Capital.

In addition, NBB has robust processes in place to ensure compliance with local and international regulations so that all customer relationships adhere strictly with legal requirements. We regularly review and update our risk management processes to align with changing regulatory landscapes to mitigate the risk of legal and regulatory repercussions.

Lastly, we recognise the importance of harnessing technology to manage cybersecurity risks and protect our customer data and privacy.

Metrics

RETAIL BANKING

NBB provides a comprehensive suite of retail banking products and services for customers at our many branches, NBB Digital Banking, as well as our network of Automated Teller Machines (ATMs), Interactive Teller Machines (ITMs), and Bulk Cash Deposit Machines (CDM). We offer interactive banking services such as accounts, prepaid and credit cards, and a wide range of lending and financing solutions.

Retail Banking offers the following products and services:

Assets:

- Personal Finance
- Home Finance including Mazaya Finance, Tas'heel Finance, Joint Housing Finance and Home Equity Finance
- Auto Finance
- Education Finance
- Solar Finance

Liabilities:

- Current Accounts
- Savings Accounts
- Al Mumayaz Accounts
- Savewave Youth Accounts
- Time Deposits

Cards:

- Credit Cards
- Prepaid Cards
- Debit Cards

Retail Banking has recently launched a new line of premium Mastercard products that cater to a wider range of customer segments. The new products include:

- Mastercard Platinum
- Mastercard World
- Mastercard World Elite

These products are designed to provide customers with a superior experience and a range of benefits that meet their unique needs.

Al Watani Savings Scheme:

- We have recently included Al Mumayaz Accounts to the Al Watani Savings Scheme

Digitalisation

NBB strives to enhance the customer experience by applying best-in-class digital solutions, developing frictionless customer journeys and diversifying our product offering to meet our customer's needs. Major digitalisation initiatives at the retail banking level currently focus on the following:

- Offering best-in-class NBB digital applications in Bahrain and additionally partner with FinTechs for unique value propositions
- Apply industry-standard security controls and adaptive authentication measures within digital platforms and Payment Card Industry Data Security Standards (PCI DSS) for cards.
- Launch new digital services such as secured card issuance to generate new revenue streams
- Digital optimisation of in-branch experience and back-office processes
- Develop defensive and offensive strategy for launch of open banking in Bahrain

- NBB also offers prepaid virtual cards issuance through its digital banking.
- NBB also supports the Digital Wallets provisioning and usage such as Apple Pay and BenefitPay for cards.
- Points by NBB have attracted 15% of NBB Digital Banking users and 38% of all prepaid and credit cards. Furthermore, the enhanced value proposition through partnering with more than 170 business partners and offering more than 300 offers varying between discounts or subsidized extra points for every transaction.
- The launch of the unique gamification module in May 2023 where customers earn extra points when completing challenges have resulted in further engaging customers in using the banks cards for local and international transactions and using NBB's Digital App in money transfer by an average of 30%.

Points By NBB

- Earning points for financial and non-financial customer activities/transactions
- Varies redemption points
- Special campaign for extra points for specific mega merchants/retailors
- Introduction of challenges where customers can earn extra points if they complete a monthly challenge (e.g. send money, use NBB cards, and withdrawal from NBB ATMs)

Responsible Banking

In 2023, we launched an innovative programme aimed at promoting sustainable practices in auto financing. Through this initiative, customers can access discounted auto finance rates based on the fuel efficiency of their vehicles. By doing so, we not only encourage environmentally responsible choices but also contribute to the achievement of the UN SDGs, particularly those related to climate action (Goal 13) and responsible consumption and production (Goal 12). Our commitment to ESG principles drives us to create positive impact while addressing global challenges. This initiative was an addition to our existing electric vehicle programme, further emphasising our dedication to a greener future. Our automotive initiatives synergise with our current solar panel financing solutions, fostering efficient electrical consumption. By integrating sustainable practices into our offerings, we contribute to the achievement of the UN SDGs, particularly those related to affordable and clean energy (Goal 7) and industry, innovation, and infrastructure (Goal 9). Our commitment to ESG principles drives us to create positive impact while addressing global challenges.

Home Finance: NBB offers low minimum requirements to enable Bahraini citizens and residents, including financially disadvantaged groups, to access affordable housing loans. We also participate in government schemes designed to support families to become homeowners. These include:

NBB supports the government's **Mazaya Mortgage Financing Scheme** which enables Bahraini citizens to obtain financing from the bank while benefiting from the Mazaya subsidy scheme.

Tas'heel is a government scheme to expand home ownership to a larger number of citizens. Under this programme, Eskan Bank provides financing for Tas'heel, while NBB supplements the amount by offering Joint Housing Finance to customers.

Other Responsible Banking initiatives

- New AlGhalya Credit Card meets the needs of female customers with an array of benefits
- Introduced a new card feature for visually impaired customers
- NBB Credit Cards are made from 100% recycled plastic
- Customers can make charitable donations using rewards accumulated through the 'Points by NBB' loyalty programme
- Implementing solar powered ATMs
- Participated in the training of high school and university students as part of NBB's Evolve internship programme
- Participated in a session to discuss partnerships between the banking sector and FinTech companies with StartUp Bahrain
- Participated in Injaz workshops and sessions



Annual Percentage growth	2022	2023
Digitally registered customers	27%	23%
New to Bank customers onboarded digitally	146%	44%
Registered on Digital Payment Wallets	-	122%
Retail end-to-end products and services offered digitally	24	32
Number of retail transactions made through mobile app	106%	85%

Percentage of loan portfolio of products and services designed to deliver a specific social benefit

	2021	2022	2023
Mazaya programme (%)	25%	50%	60%
Personal loans catered for retirees (%)	25%	25%	20%
Joint housing (BHD m)	0.9	1.4	1.7

Financial Inclusion

	2021	2022	2023
Number of branches in low populated and financially deprived areas	1	N/A	1
Number of ATM's in low populated and financially deprived areas	5	6	5

COMMERCIAL AND SMES (CSME) BANKING

NBB recognises the vital role that commercial, micro and small and medium-sized enterprises (SMEs), including start-ups, play in the economic and social development of the Kingdom of Bahrain. For this reason, we provide specialised banking solutions tailored to their needs and support them to grow their businesses.

CSME offers the following products and services:

- Working Capital Facilities
- Funding requirements to cover capex and other requirements
- Trade finance products
- Depository products
- Corporate Credit Cards
- Foreign Exchange
- Payment Solutions
- Merchant Acquiring, Payment Gateway
- Digital Banking

Sectorial composition of loans in BHD m

in BHD m	2021	2022	2023
Materials	-	-	-
Mining (sub-sector) EP	-	-	-
Construction	61.0	59.8	47.5
Manufacturing/Trading	40.2	41.1	31.4
Oil and gas (sub-sector) EP	-	-	-
Utilities	0.1	-	-
Power (sub-sector) EP	-	-	-
Water	-	-	-
Personal	7	7.2	2.1
Healthcare	1.4	17.8	25.2
Financials	-	-	-
Technology, media and telecommunication	-	-	-
Transport	2.3	0.1	0.8

Responsible Banking

Support for SMEs is a key consideration in NBB's approach to Responsible Banking, which is one of the seven pillars of the Banks sustainability strategy.

Tamweel Al Watani is NBB's dedicated lending scheme that supports SMEs to maintain a healthy cash flow. Initially launched in 2021 to support SMEs struggling in the aftermath of the pandemic, it was widened in 2022 to provide further impetus for the Kingdom's economic recovery. Participants benefit from a streamlined application process, with shorter turnaround times and less stringent prerequisites, further relaxed terms and lower costs.

The current economic environment continues to be challenging for SMEs, with a squeeze on liquidity, higher interest rates, and access to funding. NBB works closely with clients in this segment to understand the internal and external factors affecting businesses, providing support by way of deferments and restructuring where appropriate. In addition, we are in the process of closing partnership with strategic entities which provide support for companies, especially SMEs.

In addition, NBB has been approved as the sole Banking Partner for the Ministry of Industry and Commerce's "**Green Factory Label**" Programme which is designed to encourage factories to go green through the implementation of certain environmental measures that align with the Kingdom's Industrial Sector Strategy 2022-2026. Factories that apply one of the pre-defined environmental measures would receive the Green Factory Label confirming their alignment with the Kingdom's strategy. NBB is the Sole Financing Partner and Has Agreed to Offer Label-holding companies preferential rates according to the Bank's internal pricing guidelines and access to funding and other services. This partnership reflects NBB's recognition by the Country's leadership, as the National Partner of choice to promote positive environmental practices.

The Bank has signed a Memorandum of Understanding (MoU) with the Bahrain Ministry of Industry and Commerce (MOIC) to collaborate on the Green Factory Label Programme. The partnership signifies the shared commitment of NBB and MOIC to promote sustainable practices within the Kingdom's industrial sector.

Launched by the MOIC, the Green Factory Label Programme incentivises factories towards environmental responsibility by offering the label to those fulfilling at least one of the following criteria: reducing waste by reusing 10% of it in production, utilising 10% of their total energy consumption from green sources, implementing and reporting on ESG policies, operating a dedicated carbon capturing unit, employing a system to monitor air and environmental pollutant emissions, or possessing a system to calculate greenhouse gases (GHG).

The department has initiated the **Business Online Banking** (BOB) platform upgrade project. At the start of the Fourth quarter of 2023, the department successfully completed the upgrade for view-only customers, ensuring their seamless transition to the new platform.

Likewise, the digital improvements implemented in this department closely resemble those undertaken in the CIIB department given that the two departments share the same customer platforms.

Sectorial Composition of Loans in BHDm

	2021	2022	2023
Construction	44.4	43.8	35.4
Manufacturing/Trading	233.1	230.2	182.5
Oil and gas (sub-sector) EP	97.9	91.7	79.6
Utilities	39.1	30.4	18.8
Power (sub-sector) EP	39.1	30.4	18.8
Healthcare	7.5	16.6	25.1
Financials	71.2	68.6	31.8
Transport	23.9	18.9	-

CORPORATE AND INSTITUTIONAL INVESTMENT BANKING (CIIB) DEPARTMENT

NBB's Corporate and Institutional Investment Banking (CIIB) team serves corporates, financial institutions, government and government-related entities in Bahrain and Overseas. The department leads and coordinates large scale funding exercises and provides clients with financial advice and a range of banking services, from short-term working capital to longer term financing.

In 2023, the business unit launched an enhanced Corporate Online Banking platform along with a mobile app to improve the overall customer experience and a Merchant Acquiring Unified Payment Solution, customised for government entities.

In addition, NBB signed an agreement with JCB International Co., Ltd., the international operations subsidiary of Japan's only international payment brand, which enables JCB payment acceptance at the Bank's points of sale and e-commerce merchants in the Kingdom of Bahrain. This partnership is aligned with NBB's commitment to simplify the customer journey through personalisation and convenience.

Responsible Banking

In line with NBB’s approach to responsible banking, the CIIB department is increasingly integrating ESG criteria into its lending practices. For example, we offer sustainability-linked loans where the pricing is linked to performance against predefined ESG-related targets. The product allows the customer to benefit from pricing concessions if it achieves the set targets, providing an incentive to deliver economic, environmental, and social impact.

In addition, we provide strategic clients with financing for major projects that have a positive environmental impact, including solar power plants. This year NBB financed such a project on behalf of a strategic multi-national client.

The department also supports SMEs with an invoice prepayment service, which facilitates liquidity within the SME supply chain.

Other Responsible Banking initiatives

Syndicated Murabaha Facilities with International Trade Finance Corporation (ITFC) for financing essential commodities for the Government of Egypt through Egyptian General Petroleum Corporation (EGPC) and General Authority for Supply Commodities (GASC).

NBB continues to significantly enhance its digital channels in order to provide clients with additional products and services as well as a better overall experience. As part of this, the Business Online Banking "BOB" digital channel has undergone a significant upgrade and is being rolled out in phases. Once fully implemented by Q1, 2024, clients will be able to enjoy new functionalities with a completely revamped user interface and user experience.

The revamped BOB platform reduces the number of steps to execute transactions by 50%, offering a significant enhancement in customer experience. Additionally, the user interface has been re-designed to provide all required information in a clear and concise manner. The department implemented a digital archiving process for paper requests received from customers. We also launched a new Financial Settlement Service to facilitate settlement of client funds and support companies (PSP – Payment Service Provider licensed by CBB) that provide card-based services.

The number of transactions executed on BOB increased by 9.91% and the compared with 2022.

Business Online Banking:

Digitally processed transactions	2020-21	2021-22	2022 – 23
Percentage increase in digitally processed transactions (%)	64%	11.4%	9.91%

	2020-21	2021-22	2022 – 23
% increase in corporate clients on-boarded	21.7%	16.7%	18.3%

TREASURY, CAPITAL MARKETS AND WEALTH MANAGEMENT DEPARTMENT

The Treasury and Capital Markets and wealth management department holds the responsibility of overseeing NBB's liquidity, interest rate, foreign exchange, market risk, and investments. This department is structured into:

- **The Trading desk** acts as a major market maker in regional currencies providing comitative rates, ensuring best execution and value addition. Trading covers a wide range of capital market products including FX, Rates, Credit and derivatives.
- **Capital Markets Sales** is responsible for meeting clients’ capital market requirements by providing a tailored solution to hedge and manage their capital market risks including FX, Rates, Commodities, etc.

Responsible Banking

The department is supporting NBB’s ESG drive to provide clients with Sustainability-linked Derivatives. We collaborated with Bapco Energies as hedge coordinators to carry out the first ESG-linked interest rate swap in Bahrain. The swap hedges part of Bapco Energies’ interest rate exposure and links the hedged rate to certain sustainability-based KPIs. This will support Bapco Energies in strengthening its sustainability efforts while managing risks arising from shifts in interest rates.

The department participated in NBB’s Evolve Internship Programme in delivering a webinar for university and school students detailing the department’s scope of work.

The team members volunteer with Bahrain Bourse’s TradeQuest programme as advisors and judges.

In 2023, the department continued to invest in building worldclass digital infrastructure to facilitate the completion of Treasury transactions while maintaining high performance and risk preservation and management. They developed its existing electronic trading platform to improve the customer experience, reduce costs, and enable more products.

STRATEGIC ACCOUNTS MANAGEMENT (SA) DEPARTMENT

The Strategic Accounts management (SA) Department is tasked with ensuring that strategic clients who are our ultra-net worth, high-net-worth and the public sector, are offered a world-class, exclusive banking experience. These clients are among the highest decision-makers in Bahrain, as well as business leaders and entities that are strategically key for the bank as well as the country. Their deposits significantly strengthen NBB’s liquidity position.

Additionally, as NBB introduces innovative products and service lines, like the upgraded Business Online Banking, Cash Management services (CDMs/ATMs) and Digital Banking platform, the department serves as an effective channel to bring these services to key clients.

The Ultra High Networth (UHNW) and High Networth (HNW) units within the Department provide personalised service to the bank’s prime ultra-high net worth customers. In 2023, the department continued to offer bespoke, round the clock service to these customers, along with a range of value additions and benefits, with a view to enhancing loyalty.

Responsible Banking

Strategic Accounts is aligned with NBB’s digital transformation strategy and supports improving digital capabilities and ensuring that our operations continue to modernise and advance.

The department offers high quality services not only through physical means but also by introducing digital solutions to a number of government and UHNW clients – market channels which we will continue to promote in future. Over 39% of the department’s customer base are already registered for digital channels (BOB/NBB Digital banking). Strategic Accounts will continue to take new digital offerings to clients as and when they are introduced by the product teams.



Customer Relations

NBB is committed to consistently providing outstanding levels of customer service across all business units. The Bank has all necessary processes and procedures in place to ensure it delivers on that promise and that our staff are trained to provide first-class service through all our channels.

Protecting Customer Privacy

Protecting customer privacy by securing their personal data is essential for maintaining customer confidence and preserving NBB's good standing. As detailed in the governance section, NBB has all necessary measures in place to ensure that we safeguard their assets as well as their confidentiality.

	2021	2022	2023
Total number of ATMs	90	96	91
Total number of Retail CDMs	22	37	26
Total Number of Corporate CDMs	46	26	38
POS Terminals	2,131	2,453	2,609
Branches	23	21	21
Interactive Teller Machines	2	3	3

Measuring Customer Satisfaction

NBB periodically hires third party firms to carry out independent customer research. In 2023, the Bank conducted a survey of retail customers to gauge their satisfaction with our products and services. Our customer satisfaction index for 2023 is 78.8%, which is within the industry benchmark, and compares to 74.3% in 2022.

Additionally, we carried out a Mystery Shopping exercise across all branches in Bahrain, evaluating the customer journey in terms of the branch environment, customer service, and teller performance. The overall score for this exercise in 2023 was 92% across all branches.

	2021	2022	2023
Customer Satisfaction Index	-	74%	79%

Responding to Customer Complaints

NBB acknowledges the right of customers to submit complaints and indeed regards complaints as valuable feedback and an opportunity to improve our customer service.

This process is systematised through our Policy and Procedures on Customer Complaints Management, which are designed to enable us to promptly and consistently address concerns, in accordance with CBB guidelines. Customers can freely access complaints procedures via our branches and website.

As per our Policy, in 2023 all complaints were acknowledged in writing within five working days from the date of receipt and a complaint reference number was provided to complainants.

The Bank issued final written responses to all complaints within 30 calendar days from the date of receipt, fully explaining the bank's position on the matter in question. Our average response time to complaints was 3 to 6 working days.

Customer Complaints Management

NBB is dedicated towards ensuring customer satisfaction, and we recognize the value of addressing our customers feedback in the most efficient manner possible. To fulfill these objectives, we established a customer complaints management framework in accordance with the CBB guidelines. Below is a table that illustrates the number of complaints received and closed in our customer complaints management framework:

Customer Complaints	2021	2022	2023
Number of complaints received	8*	8*	16*
Number of complaints closed	8	8	16
Response rate to customer complaints(%)	100	100	100

*The number of customer complaints data for the three-year period has been reinstated to align with the data published by the Central Bank of Bahrain (CBB).

In 2023, we acknowledged all written customer complaints received in writing within 5 working days from the date of receipt by providing complainants with a reference number which it is in line with the CBB's regulatory requirement.

Additionally, we responded in writing to all customer written complaints within 4 weeks from the date of receipt which it is in line with the CBB's regulatory requirement, explaining the Bank's position on the redress process and/or how NBB proposes to deal with each complaint case. We maintain a 100% response rate when acknowledging and responding to complaints in accordance with CBB guidelines. Our average response time was 1 day for acknowledgement and 22 days for final response/redress.

Sustainable Supplier Relations

NBB incorporates environmental and health and safety considerations into our procurement processes. We communicate specific requirements to potential vendors, including compliance obligations, competence expectations, and control measures and conduct due diligence to assess their ability to meet these requirements effectively. Regular performance monitoring and re-evaluation are integral to ensuring ongoing compliance with ESG criteria.

The benefits of this approach include enhanced environmental and health and safety performance, reduced environmental impact, and better alignment with our sustainability objectives. Additionally, it helps foster stronger relationships with vendors who share our ESG values and strengthens our brand reputation.

There are associated risks, such as potential disruptions in the supply chain, increased procurement costs for meeting ESG

standards, and challenges in measuring and verifying ESG impact. To mitigate these risks, we conduct regular performance monitoring and reviews, enabling proactive risk management and continuous improvement in our procurement practices.

As per our Human Rights Policy, NBB only engages with contractors or service providers that respect human rights as well as applicable labour laws.

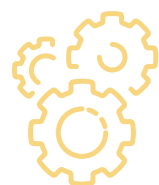
Local Procurement

We source products and services locally wherever possible, which supports the local economy while strengthening our supply chains and reducing operational costs. In 2023, 83.59% of our total procurement was spent with local suppliers.

Our procurement process is fully digitalised, which results in time and costs efficiencies for NBB and also encourages local suppliers to digitalise their operations.

Proportion of spending on local suppliers

Bahrain Operations	2021	2022	2023
Total number of suppliers engaged	411	416	318
Total number of local suppliers engaged	334	321	235
Percentage of local suppliers hired	81%	77%	74%
Total number of SME suppliers engaged	40	128	155
Total number of women-owned suppliers engaged	8	35	51
Total procurement spending (BHDm)	38	40	43
Procurement spending on local suppliers (BHDm)	30	32	36
Percentage of spending on local suppliers (%)	79%	80%	83%
Number of suppliers assessed against sourcing code of conduct	189	272	308



NBB is committed to consistently providing outstanding levels of customer service across all business units

OUR HUMAN CAPITAL



NBB is proud to be an employer of choice for the Kingdom of Bahrain's best and brightest talents. We celebrate diversity and strive to be an inclusive and equal opportunities employer and create a culture where everyone can thrive professionally.

INVESTORS IN PEOPLE®
We invest in people Gold



Our Resources

Our Human Capital

Our Commitment	Sustainability Pillars	Material Topics	Policies
	<ul style="list-style-type: none"> Nurturing our Workforce 	<ul style="list-style-type: none"> Workforce Wellbeing Equal and Fair Opportunity Talent Attraction, Engagement and Retention Training and Development 	<ul style="list-style-type: none"> Anti-Discrimination Policy Youth Employment Support Policy Statement Human Rights Policy Equal Opportunity Policy Diversity and Inclusion Policy Group Health and Safety Policy Employee Training and Development Policy Policy Career Development Code of Conduct Human Resources and Talent Management Policy Nationalisation Policy
Our Alignment	Bahrain Vision 2030	GRI Standards	SDGs
	<p>Upholding the values of the state & society</p> <p>Financial sustainability & Economic Development</p> <p>Supporting an Enabling Environment for Sustainable Development</p>	<p>GRI 202: Market Presence</p> <p>GRI 401: Employment</p> <p>GRI 403: Occupational Health & Safety</p> <p>GRI 404: Training and Education</p> <p>GRI 405: Diversity and Equal Opportunity</p> <p>GRI 406: Non-Discrimination</p>	



Our Workplace Culture and Values

NBB is proud to be an employer of choice for the Kingdom of Bahrain's best and brightest talents. We celebrate diversity and strive to be an inclusive and equal opportunities employer and create a culture where everyone can thrive professionally.

Governance

NBB equips our people with the skills and tools they need to execute their responsibilities to the highest possible standards so that we can deliver on our customer promise of being 'Closer to You'.

Nurturing and empowering the finest talent have proven to be highly effective for driving business success, creating sustainable value for all key stakeholders, while also being central to the succession planning that is so vital for safeguarding the bank's long-term stability and continuity.

Benefits and allowances include:

- Life Insurance
- Health Care
- Disability and Invalidity coverage
- Parental leave
- Retirement Provision
- Stock Ownership
- Flexible Working Hours
- Children Education Allowance

Strategy

Demonstrating the importance that NBB places on sustainability, we have embedded mandatory sustainability KPIs for managers and these have been integrated into our annual reward management system.

Talent Management, Engagement and Retention

NBB's rigorous recruitment process ensures we hire the best available candidates to fill positions at every level of the business. We attract candidates with flexible work schedules and remuneration and benefits packages that are among the most competitive in the market.



At NBB, we equip our people with the skills and tools they need to execute their responsibilities to the highest possible standards

Nationalisation

NBB is proud to be one of the Kingdom of Bahrain’s largest employers of Bahraini nationals and support the Bahrain 2030 Vision to reduce unemployment and build local capabilities.

We place a strong emphasis on hiring fresh graduates as well as offering valuable work experience through our internship schemes, which often lead to offers of full-time employment for the best candidates.

With a total of 751 Bahrainis being employed in NBB Bahrain as of end of Dec 2023, our Bahrainisation rate remained at 95%.

Performance Management

NBB offers employees a challenging, stimulating, and rewarding work environment. As part of our succession and continuity planning, we prioritise the retention and promotion of those employees that show great promise, meet expectations, and achieve set KPIs.

Performance management is therefore central to our people management strategy. We continuously monitor and assess performance throughout the year, culminating in an annual performance review for every employee.

These appraisals help to identify candidates for promotion as well as for our structured management training programmes (as detailed in the section on Professional Development & Empowerment).

Employee Engagement

In addition, NBB undertakes a wide variety of initiatives to engage employees, including town hall meetings and social and sporting activities, among others.

In 2023, NBB launched the ‘Group CEO Awards’ to recognise exceptional contributions by individual staff members that support NBB’s culture of excellence, creativity, commitment, quality, and leadership. Each quarter, an award is handed out for each of the following two categories, resulting in eight awards per year:

- Group CEO Award for Living our Values
- Group CEO Award for Excellence



We are proud to have been recognised by the Ministry of Labour (MOL) due to our efforts in employing young local talent and our impactful contribution to the MOLs job seekers programme.

NBB routinely conducts surveys to measure employee engagement and satisfaction levels. In both cases, ratings have progressed towards the 81% mark in recent years. Feedback gathered through these surveys is used to further enhance various employee engagement processes.

Workforce Equity & Protection

NBB is fully committed to building an inclusive workforce where all members of society are represented and afforded opportunities to advance their careers and achieve their ambitions.

As a means to ensure inclusivity, in 2023 the Bank revised its existing education benefit and enhanced its scope in order to

cater to a larger segment of its employees. This not only aligns to our commitment towards advancing the careers of our own employees but also to advance the educational journey of their children.

We value diversity in our workforce and believe that it enriches not only the culture of the Bank but ultimately benefits our decision-making processes and results in better outcomes for our business.

Our Code of Conduct enshrines these principles and forbids any discrimination based on gender, nationality, religion, physical capabilities, or other characteristics. NBB’s Equal Opportunity Committee oversees the development and enforcement of these policies.

Female Empowerment

Empowering women is one of the pillars of NBB’s sustainability strategy. We have achieved significant progress in this area, thanks to our efforts to attract and retain female talent.

These include incentives for working mothers such as paid maternity leave, flexible working hours, and remote working opportunities. New mothers can choose from a range of flexible options including remote working, on either a full-time or a part-time basis, for up to six months from the end of their maternity leave. The Bank has onsite nursing rooms for mothers that have returned to work.

Women currently represent 326 out of a total of 866 employees at NBB, or 37.6%, a similar proportion to last year. Women also made up close to half (46.64%) of non-management staff in 2023, similar to the previous year.

However, significant progress has been made to improve the gender balance among middle management where women now make up just over 27% compared to 23% in 2022 and 20% in 2021, showing a clear upwards trend in this category.

People of Determination

NBB is committed to supporting people of determination to enter the workforce. In 2023, we increased the presence of this underrepresented group to eight members of staff compared to six the previous year. Several of these members of staff have been hired in previous years thanks to our close collaboration with the Bahraini Society of Down Syndrome.

Workforce wellbeing

NBB provides all employees with a safe and healthy working environment and is committed to preventing work-related injuries and illnesses and lowering employee absentee and turnover rates.

The Group has a Health & Safety Policy developed in accordance with best practices. In 2022 NBB became the first bank in the GCC to become ISO 45001 (OH&S management system) certified, a standard that guides businesses to mitigate risks and reduce work-related injuries and illnesses.

In addition, the bank has a dedicated health and safety team, comprised of members drawn from various NBB departments, which oversees the health & safety management system.

A cross-section of NBB employees are trained in first aid by the Paramedics Academy in association with the American Safety & Health Institute, ensuring the presence of at least one trained member of staff at every NBB branch and operational location.

NBB also promotes health, safety and mental wellbeing awareness across the organisation through a variety of methods, including webinars.

In 2023, we delivered 16 sessions including the following:

- HSE Awareness Webinar – The session highlighted key health and safety procedures that employees should be aware of.
- NBB Group Medical & Life Awareness – The session explored the benefits of medical and life insurance and covered topics such as claims and pre-authorization procedures, cash reimbursements, and more.
- Investment in Emotional Health – The session focused on a variety of techniques to improve the inner health of employees and create a more emotionally intelligent workforce, especially during the Holy Month of Ramadan.
- Boosting your Immune System Through a Healthy Lifestyle – The session explored various lifestyle changes that employees can adopt to improve their overall well-being.
- Body Posture & Office Ergonomics – The session highlighted the importance of maintaining good body posture whilst working at a desk.
- Immunity, Healthy & Wellness Explained through a Physician’s Point of View – In this session, a physician provided employees with insights into the latest health trends.



- Eating Healthy with a Busy Schedule – Insights on how employees can balance the demands of a busy schedule without compromising on good nutrition.
- Benefits of Hijama – The session provided awareness on the various benefits of performing Hijama, also known as cupping therapy.
- Genome Project Awareness Session - The session highlighted key elements in preventing genetic diseases, developing effective medical modalities, & enhancing the overall quality of health services in Bahrain
- Health & Safety Awareness Session - The session highlighted the importance of increasing Health and Safety awareness among staff by providing a secure working environment in order to prevent accidents and protect the bank's staff and assets
- Manage Stress Before It Manages You - The session provided the employees with various techniques in managing stress
- World Heart Day Awareness - The session provided the employees with in-depth knowledge on Coronary Artery Disease, and the preventive aspects including risk factors
- Breast Cancer Awareness - The session highlighted the importance of increasing the awareness of breast cancer screening and the various symptoms to identify any abnormality
- Gentlemen Awareness Session - The session shed light on the definition and prevalence of prostate cancer and the various symptoms to identify any abnormality
- Wellness at Work – The session highlighted the importance of having a healthy lifestyle at work

Professional Development & Empowerment

NBB offers a challenging and rewarding working environment with plentiful opportunities for learning and development as well as career progression. We consider investment in training and development to be an essential ingredient in our success. We identify the skills and knowledge that employees need to support the bank's strategic goals and develop training programmes that address these needs.

Training and development programmes cover all employee categories, from fresh graduates to executive management. In addition to structured programmes, we provide employees with individually tailored development plans that align with their career goals and the bank's business needs.

NBB Financial Literacy training is an in-house programme designed to provide an overview of Bahrain's financial services industry and financial advisory process. The programme is conducted virtually by subject matter experts and mainly targets interns and entry level employees.

Furthermore, employees are encouraged to engage in continuous learning and development, both on and off the job. Trainings are delivered using a variety of methods, including instructor-led training, e-learning, and on-the-job training. NBB's learning management system provides employees with access to online training modules, resources, and assessments.

Initiative	Description
The Rise	The Rise Programme, developed in partnership with international training consultants, seeks to enhance the participants' ability to become potential leaders by offering opportunities outside the scope of their regular job. Employees are given the opportunity to participate and add value to the Bank by taking part in projects that were identified as having a potentially significant impact at work
Strategic Management Programme	NBB's strategic management programme aims to enhance leadership and management development within Middle Management. The programme is practical and experiential, with an emphasis on applying learnings as quickly as possible.
Leadership & Management Training	Enhancing the Leadership and Management training by targeting employees across all divisions within the Bank to improve the culture and productivity through the utilization of BIBF levy offerings

During 2023, we partnered with LinkedIn Learning to offer a variety of e-learning topics that employees can take at their own pace.

Training and development programmes cover a variety of skills, including:

- Technical skills such as training on new software systems and products
- Soft skills, such as leadership, communication, and customer centric training
- Management development training
- Career development training

From time to time, the Bank organises specialised in-house or external training programmes, such as Credit Risk Management or Leadership and Development through our Rise and Strategic Management Training Programs.

In addition to essential regulatory training programmes such as anti-money laundering, fraud risk management, and cyber-security, NBB employees may also register for any Bahrain Institute of Banking and Finance (BIBF) course that meets their needs.

Similarly, employees may also request to join external training programmes, locally or overseas, if it supports their professional development or the Group's succession planning and management objectives.

Metrics

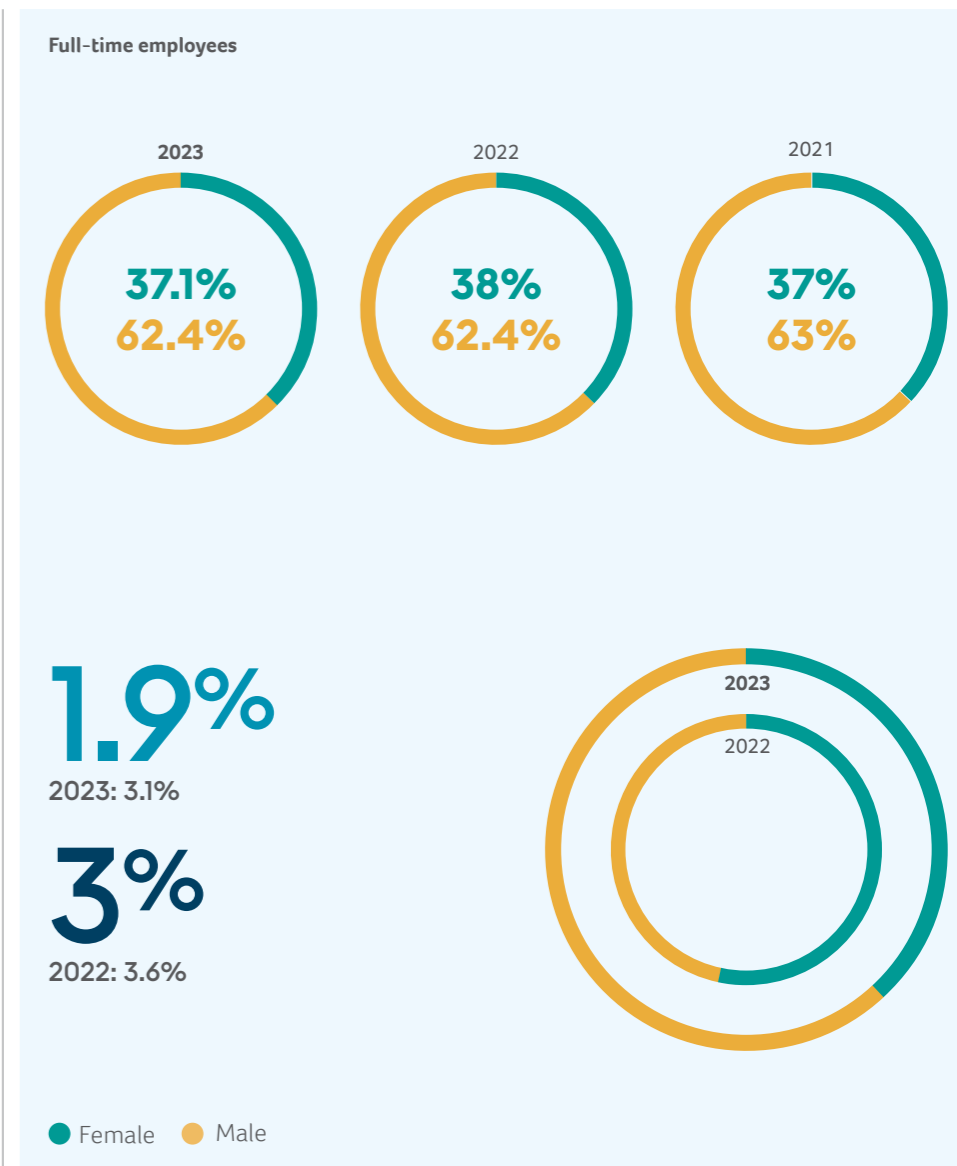
Employee Breakdown:

	Total Employees (Gender)		
	Female	Male	Total
2021	288	491	779
2022	318	519	837
2023	326	540	866

	Total Employees (Age group)					
	Below 30 years old	Between 30-50 years old	Over 50 years old	Below 30 years old %	Between 30-50 years old %	Over 50 years old %
2021	280	435	64	35.9%	55.8%	8.2%
2022	206	548	83	24.6%	65.5%	9.9%
2023	186	606	74	21.5%	70%	8.6%

	Total Employees (Employment Category)					
	Non-Management (Staff)	Middle Management	Senior Management	Non-Management (Staff) %	Middle Management %	Senior Management %
2021	533	214	32	68.4%	27.5%	4.1%
2022	537	266	34	64.2%	31.8%	4.1%
2023	506	322	38	58.4%	37.2%	4.4%

	Full-time employees			
	Female	Male	Female %	Male %
2021	288	491	37%	63%
2022	318	519	38%	62.4%
2023	326	540	37.1%	62.4%



Total New Hires:

	Total New Hires (Gender)			
	Female	Male	Female%	Male%
2021	28	49	9.7%	10%
2022	54	76	17%	15%
2023	40	75	18%	18%

	Total New Hires (Age Group)					
	Below 30 years old	Between 30-50 years old	Over 50 years old	Below 30 years old%	Between 30-50 years old%	Over 50 years old%
2021	47	28	2	16.8%	6.4%	3.1%
2022	67	55	8	32.5%	10%	9.6%
2023	60	48	7	35.5%	13.5%	12.2%

Total Turnover:

	Total Employees that left (Gender)			
	Female	Male	Female%	Male%
2021	15	44	5.2%	9%
2022	24	48	7.6%	9.2%
2023	30	56	9.2%	10.4%

	Total New Hires (Age Group)					
	Below 30 years old	Between 30-50 years old	Over 50 years old	Below 30 years old%	Between 30-50 years old%	Over 50 years old%
2021	23	26	10	8.2%	6%	15.6%
2022	34	31	7	16.5%	5.7%	8.4%
2023	60	48	7	10.8%	8.3%	21.6%

	Employee Turnover %
2021	7.6%
2022	6.2%
2023	9.9%

Employee Engagement:

	Employee Engagement Score (%)
2021	83%
2022	83%
2023	81%

Breakdown of Employees Receiving Regular Performance Reviews:

	Total Number of Employees	
	Female	Male
2021	288	491
2022	318	519
2023	305	508

	Total Percentage of Employees	
	Female %	Male %
2021	100%	100%
2022	100%	100%
2023	100%	100%

Note: Those who have joined the Bank in Quarter 4 2023 are not included in the performance cycle

Diversity & Inclusion Breakdown:

	Total Number of Nationalities
2022	16
2023	14

	Total number of incidents of discrimination
2021	0
2022	0
2023	0

	Number of Employees with Disabilities		
	Female	Male	Total
2022	3	3	6
2023	4	4	8

	Employees with Disabilities %
2022	0.7%
2023	0.9%

Bahrainisation:

	Number of Bahraini employees			Percentage of Bahraini employees		
	Female	Male	Total	Female%	Male%	Total
2022	293	439	732	92.1%	84.6%	87.1%
2023*	297	454	751	91.4%	84.6%	95%

* The following data on Bahraini nationals pertains to NBB Bahrain only (excluding overseas branches)

	Number of Bahraini employees			Percentage of Bahraini employees		
	Non-Management (Staff)	Middle Management	Senior Management	Non-Management (Staff) %	Middle Management %	Senior Management %
2022	499	207	26	92.9%	77.8%	76.5%
2023	473	282	36	93.5%	87.6%	94.7%

Bahraini Student Internships		Bahrainisation Rate	
2021	60	95%	
2022	162	95%	
2023	186	95%	

Total Employees breakdown by category:

	Total employees by job category and by gender					
	Non-Management (Staff)		Middle Management		Senior Management	
	Male	Female	Male	Female	Male	Female
2021	54.4%	45.6%	79.9%	20.1%	93.8%	6%
2022	53.9%	46.2%	77.2%	22.8%	94.1%	5.9%
2023	53.4%	46.6%	73%	27%	92.1%	7.9%

	Total employees by job category and by age group								
	Non-Management (Staff)			Middle Management			Senior Management		
	Below 30 years old	Between 30-50 years old	Over 50 years old	Below 30 years old	Between 30-50 years old	Over 50 years old	Below 30 years old	Between 30-50 years old	Over 50 years old
2022	51%	43.3%	5.6%	7.5%	80.7%	11.8%	0%	70.6%	29.4%
2023	34%	62.1%	4%	4.6%	82%	13.7%	0%	73.7%	26.3%

	Total Employees (By Location)			Number of Fatalities as a Result of Work-Related Ill Health	
	Bahrain	KSA (Riyadh)	UAE	2021	2022
2023	791	31	14	0	0

Training Breakdown:

	Total Training Hours			Average Training Hours per Employee		
	Female	Male	Total	Female	Male	Total
2021	13,830	24,790	38,620	48	50.5	49.6
2022	21,437	33,495	33,495	70.1	64.5	40
2023	17,380	26,502	43,882	53.6	49.08	50.8

	2021	2022	2023
Percentage of total security personnel that completed training in human rights policies or procedures	86%	69%	100%

	Total Training Hours			Average Training Hours per Employee by Job Category			Average Training and Development Cost per Employee (BHD)
	Non-Management (Staff)	Middle Management	Senior Management	Non-Management (Staff)	Middle Management	Senior Management	
2021	25,825	12,421	374	48.5	58	11.7	340.4
2022	38,472	15,681	776	71.6	59	22.8	372.7
2023	25,293	16,701	1,888	49.4	54.6	41	361.9

Sustainability Awareness Sessions breakdown:

	Number of Employees
2021	489
2022	830
2023	814

OUR SOCIAL CAPITAL







As a responsible financial institution, the Bank believes that its success is intricately tied to the well-being and prosperity of the communities in which it operates. NBB outlines the principles that govern its community support initiatives, demonstrating its dedication to making impactful contributions.



Our Resources

Our Social Capital

Our Commitment	Sustainability Pillars <ul style="list-style-type: none"> Community Investment 	Material Topics <ul style="list-style-type: none"> Financial Inclusion Community Investment 	Policies <ul style="list-style-type: none"> Youth Employment Support Policy Statement Human Rights Policy Community Initiatives and Promotion of Social and Economic Development Code of Conduct
Our Alignment	Bahrain Vision 2030   Upholding the values of the state & society  Supporting an Enabling Environment for Sustainable Development	GRI Standards GRI 203: Indirect Economic Impacts GRI 413: Local Community	SDGs 
Our Achievements	Awards & Achievements <ul style="list-style-type: none"> Euromoney Middle East Awards for Excellence 2023 “Best Bank for CSR in Bahrain” 		



(GRI 203-2, GRI 413-1, S12)

Community Support

As a responsible financial institution, the Bank believes that its success is intricately tied to the well-being and prosperity of the communities in which it operates. NBB outlines the principles that govern its community support initiatives, demonstrating its dedication to making impactful contributions.

Governance

NBB participates in a variety of initiatives designed to support the local community. These are delivered through a blend of partnerships & sponsorships, charitable donations & contributions, volunteer work, and internal initiatives such as our Evolve Internship Programme.

Strategy

In the short-term, NBB will focus its community development strategy on initiatives that promote the following key areas:

- Social Welfare
- Healthcare
- Education & Youth
- National Sports
- National Initiatives:
 - Equal Opportunities
 - Environment
 - Tourism & Culture
 - Governance

In the longer-term, the Bank plans to foster collaboration with various entities and organisations to generate new ideas and implement sustainable projects. NBB firmly

believes that leveraging collaboration and innovation is the most effective way to enhance our efforts to address environmental, social, and economic challenges.

Risk Management

By partnering with prestigious, well-established organisations, NBB ensures that its community-focused initiatives are effective in their reach and impact. NBB partners with 40 local non-profit organisations, including INJAZ Bahrain, AlMabarrah AlKhalifa Foundation (MKF), and the Royal Humanitarian Foundation, among many others.

Evolve Internship Programme

NBB’s Evolve Internship Programme demonstrates NBB’s commitment towards community development and in particular to the education and development of Bahrain’s youth. We launched the second edition of Evolve in 2023, partnering with schools, universities, institutions, and social and educational organisations across the Kingdom.

The programme is designed to provide high school and university students with opportunities to gain firsthand experience and explore potential careers in the banking and finance sector. Students receive valuable industry knowledge and insight into the bank’s functional operations through role-specific vocational training which is led by NBB’s Talent Development Team with the support of volunteering NBB professionals and a number of local training institutes. Eighty students took part in Evolve in 2023.



NBB firmly believes that leveraging collaboration and innovation is the most effective way to enhance our efforts to address environmental, social, and economic challenges.

Metrics

NBB's CSR activities in 2023 focused on supporting a wide variety of organisations and initiatives that deliver benefits to the community.

Some of these include the following:

Alia Rehabilitation Centre for Autism

NBB supports students of families on low incomes to cover admission costs for the Centre which provides essential programmes including:

Sheltered Workshop Programme: To create a safe work environment for young adults to be able to learn vocational skills and practice under the supervision of trainers that will guide them on the work process and teach them the required skills and make sure that the highest level of safety is maintained.

On-the-job Training Programme: To enable young adults to work in different entities in Bahrain (including NBB), develop vocational skills and open opportunities for them to become independent in future.

Ayadi Relief – Friendship Society for the Blind

NBB provided financial support for the renovation of a nursery and playground run by Friendship Society for the Blind. The project, which was undertaken by Ayadi Relief, aims to support children with visual impairments and empower them with tools to manage the challenges they face.

National Initiative for Agricultural Development (NIAD)

NBB provided financial support for the 'Forever Green' campaign, an initiative by the National Initiative for Agricultural Development (NIAD) to expand green spaces in the Kingdom. In October, NBB participated in a tree planting ceremony with NIAD to announce the collaboration and NBB employees volunteered along with their families to plant over 230 trees in the Al-Estiqal Jogging Park in Riffa.



Bahrain Deaf Sports Club

NBB extended its support to the Bahrain Deaf Sports Club which provides the Kingdom's hearing-impaired youth with opportunities to excel in sports and culture. Through this support, club members will also be able to integrate into the Deaflympics and the Asia Deaf Sports Federations.

Bahrain Paralympics Committee

NBB supported the Bahrain Paralympic Team participating at the Hangzhou 2022 Asian Para Games in China. The event was initially scheduled to take place in 2022 but was postponed until October 2023. The para athletes competed alongside 3,000 other participants in a range of sports.

Bahrain International Schools Eco-Summit 2023

NBB extended its support to the Bahrain International Schools Eco-Summit 2023, held in May at Bahrain Polytechnic under the theme 'Bahrain – Hear our Voice'. The event, which was founded and hosted by St Christopher's School Bahrain, brought together nearly 300 students aged 10 to 16 from 16 different schools in the Kingdom to attend a series of sustainability workshops and presentations and showcase their individual eco-projects.

Crown Prince International Scholarship Program (CPISP)

Witnessing a milestone year for the Crown Prince International Scholarship Program (CPISP), NBB, a dedicated platinum sponsor, actively participated in the program's 25th anniversary celebration. The event, graced by His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, brought together over 200 CPISP students, alumni, and professionals.

NBB, accredited as a Gold-organization by Investors in People organization and a local Employer of Choice, utilized this platform to showcase its diverse career pathways, aiming to attract the Kingdom of Bahrain's most promising talent from the esteemed CPISP network.

Fintech Forward

NBB was the Platinum Sponsor of the inaugural Fintech Forward, a three-day event held in Bahrain that explored fintech opportunities, challenges, and emerging technologies. The event was held in October under the patronage of the Central Bank of Bahrain (CBB) and with strategic support from the Bahrain Economic Development Board (Bahrain EDB) and Bahrain Fintech Bay (BFB).





Global Water, Energy and Climate Change Congress (GWECCC)

NBB sponsored the first ever Global Water, Energy and Climate Change Congress (GWECCC) which was held in Bahrain in September 2023. The event predominately addressed water sustainability as part of Bahrain’s National Water Strategy 2030 and the energy industry transformation as part of the country’s net-zero efforts.

Innov8 Hackathon 2023

NBB partnered in the Innov8 Hackathon 2023 to empower talented youth to develop inventive solutions involving cloud-based technologies, with a focus on Sustainable Development Goal (SDG) 8 – Decent Work and Economic Growth. As a strategic partner to the event, NBB contributed to the awards bestowed on the winning participants in recognition of their outstanding efforts.

Isa bin Salman Education Charitable Trust

NBB renewed its partnership with the Trust which provides quality opportunities for Bahraini nationals in higher Education to refine their skills, meet the needs of the local labour market, and empower them to contribute to the Kingdom’s development. NBB previously supported the scholarship programme with a three-year commitment (2019-2021).

Ministry of Interior – ‘Fael Khair’

NBB maintained its ongoing support for the Kingdom of Bahrain’s Ministry of Interior ‘Fael Khair’ (Person of Goodwill) campaign, which allows individuals to assist Bahrainis that have been issued sentences in financial civil cases, under set criteria. The financial assistance not only relieves the burden on individuals that face difficulties in meeting their financial obligations but also maintains the financial stability of their families.

Royal Humanitarian Foundation

NBB made a financial donation to the Royal Humanitarian Foundation to support Turkey & Syria in the aftermath of the devastating earthquake in February.



Northern Governorate Summer Camp

NBB sponsored the 16th annual summer camp organised by the administration of the Northern Governorate in cooperation with the Bahraini Autistic Association. The programme, which took place in July, gathered 250 students aged between 12 and 18 to participate in a series of sporting, civic and educational activities.

Rotary Club of Manama

NBB sponsored the Rotary Club of Manama’s Annual Charity Raising 6-a-Side Football Tournament in May 2023 at the Bahrain Rugby Football Club. Proceeds from the event go towards providing food and shelter upgrades, vocational training for Bahraini youth and organising events for children with special needs.

Royal Fund for Fallen Servicemen

NBB committed to continue supporting the Royal Fund for Fallen Servicemen for a further five years until 2027. The Fund provides financial support for the families of men who died in service to the Kingdom, ensuring they have a decent life and promising future.

Super Talent Bahrain Charitable Championship

NBB was the official Gold sponsor of The Super Talent Bahrain 2023 Charitable Championship in September, a first of its kind soccer skills event in the Arab region that includes the participation of orphaned children, the children of servicemen who died in duty, and young cancer patients from the Smile Initiative.

AlMabarrah AlKhalifa Foundation (MKF)

NBB hosted a financial literacy workshop at its headquarters for students aged 14 to 16 in collaboration with the AlMabarrah AlKhalifa Foundation (MKF). The session provided students with an overview of Bahrain’s financial services industry and various other financial topics. The initiative forms a key part of the NBB HR and Talent Development team’s ‘investment in learning’ programme which is accessible to students across the Kingdom.



Bahrain participation at GITEX Global 2023

NBB sponsored the participation of information and communication technology (ICT) students from various universities across Bahrain in the 2023 GITEX Global tech conference in Dubai in October. The students exhibited their innovative projects as part of the Bahrain Pavilion, and demonstrated their skills, concepts and software solutions to a broad international audience of leading entrepreneurs, tech industry professionals, investors, and media.

Bahrain Red Crescent Society

NBB lent its support to the Bahrain Red Crescent Society – a voluntary relief society recognised by the International Committee of the Red Cross in Geneva – in line with the Bank’s annual Donations and Contributions Programme. The contribution supports the alleviation of human suffering, providing social services and humanitarian aid, as well as training volunteers.

Smile Initiative

NBB continued to support the Smile Initiative – an initiative of Bahrain Future Society for Youth that provides support to children with cancer and their parents in the Kingdom – as part of the Bank’s Donations and Contributions Programme. The donation will enable the children to benefit from extensive social programmes and engagement, as well as leisure activities to uplift their spirits.

Bahraini Catalysts Disabilities Association

NBB sponsored the graduation ceremony of the Bahraini Catalysts Disabilities Association, which provides opportunities for people with special needs to excel in their local communities. The event honoured 200 outstanding students who have all demonstrated incredible resilience and drive to complete their academic journeys.



Down Syndrome Care Centre and Sport to Door Academy

NBB sponsored both the Down Syndrome Care Centre and the Sport to Door Academy for Taekwondo for their joint participation at the 1st Taekwondo Arab Clubs Championships in Cairo, Egypt, in October. Teams from around the Middle East and North Africa converged on the Egyptian capital for the competition which included special categories for juniors and those with disabilities.

Support for Charity Funds in Ramadan

In celebration of the Holy Month of Ramadan, the National Bank of Bahrain (NBB) announced its support for 60 Charity Funds and Societies registered under the Ministry of Labour and Social Development. The Bank has cooperated with the charitable organisations to distribute coupons to support more than 7600 families across the local community. NBB is committed to engaging with various members of the community with the aim of offering them the necessary resources throughout the Holy Month. The Bank’s ongoing partnership with a range of Charity Funds and Societies in the Kingdom enables NBB to reach out to an increased number of families every year.

Collaboration with the Ministry of Education

In collaboration with the Ministry of Education, NBB supported 20,000 students in need, enabling them to obtain their winter garments. As winter approaches, ensuring that students have adequate clothing is essential for their comfort and well-being. Through this program, NBB alleviated the financial burden on families and ensure that every student has access to warm clothing during the colder months. By working together with the Ministry of Education, NBB are committed to promoting inclusivity and supporting the educational journey of all students, regardless of their socio-economic backgrounds.

Community Investment Allocation (in BHD m)

	Value of Allocation to the Donations & Contributions Fund (in BHD m)
2021	2.7
2022	3.4
2023	4

* In 2023, NBB has donated BHD 3 million



Employee Volunteering Hours

	Total Number of Employee Volunteering Hours
2021	162
2022	481
2023	1,237

Employee Volunteering Hours in Financial Literacy Initiatives for unbanked, underbanked, or underserved customers

	Total Number of Employee Volunteering Hours
2021	-
2022	2,831
2023	558

OUR NATURAL CAPITAL






NBB strives to embed a culture of climate awareness throughout the workforce to ensure that everyone is engaged and understands the Bank's mission and role as an enabler of climate action.



Our Resources

Our Natural Capital

Our Commitment	Sustainability Pillars <ul style="list-style-type: none"> Preserving Natural Resources Governance and Ethical Behaviour 	Material Topics <ul style="list-style-type: none"> Climate Change Direct Environmental Footprint 	Policies <ul style="list-style-type: none"> Energy Efficiency Policy Environmental Policy Waste Reduction Policy Water Policy Climate Change Policy Supply Chain Policy Materials Sourcing Policy
	Our Alignment   <p>Upholding the values of the state & society</p>  <p>Supporting an Enabling Environment for Sustainable Development</p>	GRI Standards <ul style="list-style-type: none"> GRI 302: Energy GRI 303: Water and Effluents GRI 305: Emissions GRI 306: Waste 	SDGs    

(GRI 302-1, GRI 302-2, GRI 302-4, GRI 303-5, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 306-4, E1, E2, E3, E4, E5, E6)



Introduction

As part of our 2024-2026 sustainability roadmap, NBB is aligned with global initiatives as well as the Kingdom of Bahrain's target of reducing GHG emissions by 30% by 2035 and reaching net zero by 2060. This section discloses how NBB manages climate-related risks and opportunities, in alignment with IFRS S2 Climate-related Disclosures.

Governance

NBB expanded the scope of its Nomination, Remuneration, and Governance Committee's responsibility to include sustainability integration within NBB's business model and operations. As a result, the Committee was renamed the Nomination, Remuneration, Governance, and Sustainability Committee (NRGSC).

This ensures that sustainability is embedded within the Bank's governance structure and that ESG risks (including climate-specific risks) and opportunities are considered and managed at Board level and aligned with the group's overall business strategy and operations. It also ensures that the needs of all stakeholders are considered at the highest level of the organisation and that there is transparency and accountability.

The Committee oversees NBB's sustainability roadmap and functions as the highest governing authority to ensure implementation and periodic reporting of performance against targets and KPIs. It holds quarterly meetings with the Sustainability Committee chaired by the Group Chief Operating Officer and Acting Chief Sustainability Officer. Attendees discuss and assess the progress of the sustainability roadmap and key material topics, including climate change. The Board of Directors approves the Environmental Policy and reviews it every two years.

The NRGSC continues to explore ways to better understand NBB's climate impact while evaluating initiatives to address the same on the operational front as well as business. In 2022, the Board of Directors under the recommendation of the NRGSC approved an ESG Risk Identification and Assessment toolkit to better understand the loan portfolio's ESG risk profile.

NBB appointed a Chief Sustainability Officer (CSO) in 2021 to chair the Sustainability Committee and lead ESG integration efforts across the Bank. Post the CSO's departure, the Bank appointed the Group Chief Operating Officer as the Acting CSO and to chair the Sustainability Committee. Moreover, the Group Head of Property, Procurement and Administration (PPA) department is responsible for NBB's direct environmental footprint goals.

The Bank has grown its dedicated Sustainability Committee to coordinate efforts across departments and at all levels of the Bank to ensure it achieves its goals. We have added expertise to build our understanding of climate-change and climate-related risk management in areas such as credit risk, scenario analysis, and regulatory engagement.

The ESG team is comprised of 12 members and covers the following functions:

1. Debt Capital Markets and Syndications
2. Commercial and SMEs
3. Corporate Coverage
4. Information Security
5. Property, Procurement and Administration
6. Marketing
7. Human Resources
8. Strategy
9. Appointed BisB's Corporate Governance and Sustainability Officer to the committee to ensure alignment between NBB and BisB



NBB and Bapco Energies Announce First ESG-Linked Interest Rate Swap in Bahrain



NBB is aligned with the Kingdom of Bahrain's target of net zero by 2060

Strategy

The 2024-2026 sustainability roadmap has Climate Commitment as a strategic objective and includes a number of initiatives to align with Bahrain's target of reducing GHG emissions by 30% by 2035 and reaching net zero by 2060.

Five key initiatives are designed to attain these goals:

1. Assignment of Responsibilities
2. Capacity and knowledge building from the Board level to the dedicated teams to address climate-related financial risks
3. GHG Accounting that extends to cover Scope 3 Emissions
4. Create a Scope 1 and 2 decarbonisation pathway
5. Identify climate-related financial risks and assess severity of potential impact

In terms of mitigation:

1. ESG Risk Identification and Assessment Toolkit will help the bank understand the clients' Environmental footprint and risk mitigation measures
2. Once launched, NBB's Sustainable Finance Framework will assess risk, reward, and positive impact

As the national bank of a country that is heavily reliant on hydrocarbons, our plans take into consideration the following three elements relating to the environment:

1. Energy Security
2. Energy Affordability
3. Energy Transition

NBB aims to support decarbonisation across our operations as well as at the client level while ensuring an orderly transition. An example of this is NBB's collaboration with the Ministry of Industry and Commerce (MOIC) on the Green Factory Label Programme, which provides financing at subsidised rates if factories in Bahrain achieve one of six green initiatives. This initiative not only supports clients with their decarbonisation efforts, it also reflects positively on NBB's financed emissions.

Capacity Building

In addition, NBB strives to embed a culture of climate awareness throughout the workforce to ensure that everyone is engaged and understands the Bank's mission and role as an enabler of climate action.

In 2023 NBB rolled out "HR Hub", a digital platform used to manage all employee affairs including their KPIs, appraisals, personal information and training programmes. The platform offers 9,957 training programmes with various topics ranging from technical courses to leadership courses. These are available and accessible to all employees within the organisation.

Additionally, all employees are mandated to complete trainings on the following topics:

- Fundamentals of Sustainability
- Anti-Money Laundering
- Financial Crime
- Health and Safety
- Cyber Security

Examples of climate related training courses include:

- Climate Risk
- Green Bonds
- Sustainability in Trade Finance
- Impact of Sustainability on Financial Accounting & Reporting
- Equator Principles
- Application of NBB's ESG Risk Identification and Assessment Toolkit
- Green Finance
- Sustainable Investment
- ESG Risks and Opportunities
- Greenwashing
- Climate Policies, TCFD and Taxonomy

Moreover, to promote sustainability and active participation from all employees, we have incorporated ESG factors into employee performance evaluations and set specific targets for each department. This started with embedding Sustainability KPIs within each Executive Management Member's business KPIs with a total weight of 10%. Each member would then

decide to cascade down the overall KPI to their employees in order to align the incentives of employees and executives with our sustainability goals.

In addition to building the necessary knowledge in this space, three members of the Sustainability Committee hold the CFA Certificate in ESG Investing. This demonstrates the Sustainability Committee Members' commitment to building capacity wherever possible to ensure its workforce is not only equipped with the necessary skillset to perform their duties, but also to enable employees to progress in their career path.

Climate-change as a Key Strategic Pillar for the Bank

Under the 'Preserving Natural Resources' pillar of our sustainability framework, developed in 2020, we have included 'Direct Environmental Footprint' as a material topic that focuses on the emissions produced by our own facilities.

Since then, our approach to addressing climate change has evolved and in 2022 we expanded our list of material topics to include 'Climate Change' as a separate material topic. This was our way of aligning our sustainability strategy with the Paris Agreement as well as Bahrain's commitment to reduce GHG emissions by 30% by 2035 and achieve net zero by 2060.

Our approach to climate change therefore has two main strands. The first is to reduce our own operational footprint and to further strengthen environmental awareness within our organisation. The second involves assessing the impact of our client portfolio, thereby allowing us to identify and manage those risks accordingly

Direct Environmental Footprint

In 2021, NBB was the first bank in Bahrain to successfully attain the ISO 14001:2015 Environmental Management System (EMS) certification which helps organisations to reduce their environmental impact.

Currently, 72% of our sites are ISO14001 certified, assessed based on the square meter basis of our headquarters. We closely monitor a variety of factors that impact the environment, including our consumption of electricity and water, paper usage, disposal of hazardous and non-hazardous materials, and proper management and recycling of waste, including E-waste. In fact, as part of our ISO 14001 EMS goals, we have established specific targets for fuel, electricity, and water consumption, as well as

targets for our Scope 1 & 2 GHG emissions and waste recycling ratio. Please refer to the "Metrics and Targets" section of our TCFD report for an overview of our environmental-related data.

As a result of our diligent efforts, we have avoided any penalties or fines related to environmental violations in the past three years.

In order to ensure effective implementation of both the ISO14001 Environmental Management System and ISO45001 Occupational Health and Safety, the Bank has in place a dedicated environmental, health and safety management team consisting of representatives from the following departments:

- Property, Procurement & Administration (PPA)
- Legal
- Human Resources
- Internal Audit
- Corporate Communications

We are also exploring alternative energy sources. In 2022, NBB Group installed solar panels across four branches in the Kingdom to generate sustainable sources of energy. We monitor and track the amount of energy generated from these panels on a monthly basis to ensure the panels are well maintained and are operating efficiently.

NBB has extensively refurbished and retrofitted our headquarters to improve its environmental efficiency. This year, NBB launched a number of environmental initiatives to reduce our operational environmental footprint which include:

- Commissioned British Thermal Unit (BTU) meter on the chilled water pumps to measure liquid flow
- Utilising Variable Frequency Drive (VFD) for primary water chiller pumps to increase efficiency, this was a recommendation from the Honeywell Energy Audit which was conducted in 2022
- Variable Frequency Drive for the AC units to increase efficiency
- Fixed energy meters on every floor in order to accurately measure each floor's consumption and quickly spot any abnormalities in consumption

- Installing motion control lights and replacing old lights with LED
- Installation and commissioning of Capacitor Bank to reduce the lag in energy transfer and therefore increasing energy efficiency
- Optimising office space by 35% and aligning with international standards
- Centralising the building utility controls for all NBB premises using the Building Management System (BMS)

Furthermore, in 2023 NBB has invested approximately BHD 90,000 towards environmental initiatives. This included expenses such as the fees paid to the Supreme Council of Environment for E-waste recycling, the cost of conducting an ISO Surveillance Audit for ISO 14001 and 45001, and maintenance of solar panels. It is important to note that the cost associated with energy meters we have installed, the continuation of the Building Management System, and the Variable Frequency Drive for the AC units and chillers were not captured in this year's report.

NBB continues to monitor, track and report on factors that impact the environment including our consumption of fuel, diesel, electricity, water, paper, disposal of hazardous and non-hazardous materials, and proper management and recycling of waste, including E-waste. The abovementioned data is reported to executive management and the GCEO on a monthly basis as part of our Environmental Dashboard.

Our due diligence has resulted in zero penalties or fines associated with environmental violations in the past three years, as well as a continued downward trajectory in electricity and water consumption which subsequently caused a reduction in our scope 2 emissions.

Climate Change

As a bank, we understand that the bulk of NBB's environmental impact lies mainly within our value chain, i.e. the direct emissions of our clients, particularly financed emissions through our lending activities. The next step for NBB will therefore involve engaging with clients to understand their environmental impact and their plans for addressing climate risks. We understand that climate considerations will be new for a relatively large portion of our credit portfolio.

NBB's near-term strategy is to understand where our clients stand with their readiness and/or progress with integrating environmental considerations in their operations. To do that, we have developed an ESG risk identification and assessment policy and a toolkit that contains climate related elements.

The policy and toolkit has been recommended by the NRGSC and received the approval of the Board of Directors in 2022. In 2023, the project was rolled out.

With the aim of identifying our portfolio's ESG risk mitigation measures, the Bank has put in place a risk-based eligibility criteria in order to first start the assessment on clients that have material exposure with the Bank, have revenues above a certain threshold, and operate in sectors that qualify as medium or high risk from an ESG perspective. NBB has set its sectors risk classification in line with the European Development and Reconstruction Bank ("EBRD") by way of ensuring a reliable classification source.

NBB has used such eligibility criteria by way of adopting a phases approach, starting with phase 1 which focuses on a narrow scope to enable capacity building of our employees while at the same time addressing potential risks arising in the ESG space.

The toolkit covers a number of key environmental issues. These include:

These include:

1. Environmental Management and Eco Design
2. Atmospheric Emissions
3. Energy Use
4. Water Management
5. Waste Management
6. Pollution prevention and Biodiversity conservation

For each of these, NBB aims to identify whether the client has put in place a formal policy, set targets, or launched any initiatives to address the topic. NBB can then develop a better understanding of where its portfolio stands against each of these three climate related topics and can also engage with clients to raise awareness and advise them on appropriate action.

In addition, the toolkit also includes project finance risk identification and assessment, with ongoing monitoring requirements throughout the life of the project, and specifically during the infrastructure phase where probability of risks arising are the highest.

The Project Assessment Criteria follows the Equator Principles requirements, and applies a classification matrix that would identify projects' potential risks as one of three:

Category A: Projects with significant potential adverse impact and scale, and limited no reversibility

Category B: Projects with potential adverse impact of single site scale, and low to medium reversibility

Category C: Projects with mild potential adverse impact, and high potential for reversibility

Following that, the assessment takes place by applying the International Finance Corporation's ("IFC") Performance Standards on the project.

The Project assessment is applicable only on new projects which qualify for the Equators' Principles and have these principles applied.

The Sustainable Finance Opportunity

While climate change poses multiple challenges for the financial sector and the world at large, climate action can also create value and NBB has identified a number of opportunities to play an important role, including the following:

Debt Advisory

NBB's Capital Markets and Syndication team specialises in supporting clients in tapping debt capital markets and syndicated loan markets to raise funds. The advisory role of the team has been extended to cover ESG and climate related deals, enabling clients to access new sustainability-oriented financing products which could be in the form of green or sustainability-linked loans, bonds and sukuks.

Lending Activity

As a bank that understands the risks posed by climate change, NBB has an opportunity to support clients by financing their Green initiatives.

Diversification of the Bank's capital

Should the opportunity arise, NBB is prepared to issue a dedicated green instrument to address future environmentally friendly opportunities.

Sustainable Finance Framework

NBB is currently developing its Sustainable Finance Framework, which will put in place in order to categorize existing and new exposure as to whether it is sustainable in nature or not.

The Framework is being developed in conjunction with the following principles:

1. [ICMA Green Bonds Principles]
2. [ICMA Social Bonds Principles]
3. [ICMA Sustainable Bond Principles]
4. [ICMA Sustainability-linked Bonds Principles]
5. [LMA Green Loans Principles]
6. [LMA Social Loans Principles]
7. [LMA Sustainable Loans Principles]
8. [LMA Sustainability-linked Loans Principles]

The framework will put in place a total of 11 environmental and social Use of Proceeds Categories ("UoP") to guide the various business departments on what classifies as Sustainable Finance Exposure. It will also put in place what can be categorized as Sustainable Finance Revenue

Furthermore, this framework would allow NBB to access capital in the form of green and/or social formats, should it decide to do so in the future.

Collaboration with the Ministry of Industry and Commerce

NBB has signed a memorandum of understanding with the Ministry of Commerce and Industry to join the MOIC Industrial Sustainability Label Programme.

This unique programme was announced in COP28, and is put in place in order to encourage the industrial companies in Bahrain to adopt environmentally friendly practices by rewarding them through the facilitation of preferred pricing on products and services from a select group of partners.

NBB has become the partner of choice for the banking services which are offered at a unique discounted rate to the eligible clients. The programme is set to rollout in 2024.

Other Ways NBB's Climate-change Dynamism is Creating Value

Capacity building: A global shift towards ESG integration in general and climate action specifically is currently underway, though this is still at an early stage regionally and locally. Select NBB employees will have the opportunity to venture into this emerging space and help lead the bank's evolution. This will not only create value for our existing workforce but will also enable us to attract and retain talent.

Being at the forefront of sustainability in the local and regional banking sector also makes NBB the obvious partner of choice to co-lead various sustainability related initiatives.

Risk Management

Climate-related risks are divided into two primary categories: (i) transition risks, or those related to the challenges of transitioning to a low-carbon economy, and (ii) physical risks, or those related to the impacts of climate change, such as rising sea levels or extreme weather events. These risks overlap with existing risk categories but are amplified by the complexity of climate change concerns

Gathering and analysing climate-related data is essential for supporting informed risk management which in turn provides the basis for formulating a comprehensive and effective climate strategy. As mentioned, NBB now has an ESG Risk Assessment tool to analyse the climate related preparedness of its clients and allows us to better understand the climate risk profile of our portfolio and its sensitivity to climate related regulatory changes.

The next step would be for NBB to identify how climate change affects other risks included in the company's risk profile. Key focus areas would be:

- **Credit Risk:** Climate change could impact a borrower's sources of income and the value of their assets which in turn could affect their ability to honour their financial or contractual obligations to the bank.
- **Operational Risk:** Climate change could affect the bank's physical locations (e.g., damage, inaccessibility), employees (e.g., productivity, ability to commute) or third-party providers resulting in disruption to normal business operations and thus affecting the bank's performance.
- **Compliance Risk:** Climate change may result in increased regulatory requirements, increasing the potential for noncompliance which could lead to fines and penalties.
- **Reputation Risk:** Climate change may lead to negative public opinion from key stakeholders if NBB is perceived as a laggard in its climate-related commitments.

NBB is committed to improving our ability to identify climate risks and integrate them into our risk management and broader business strategies. We recognise that the pace of integration will likely need to accelerate to achieve our climate risk management and net zero goals.

The Bank hasn't faced any immediate, acute climate-related risks that have disrupted decision-making processes. However, NBB fully acknowledges the impact of its operational and business footprints on the environment and continues to explore opportunities to implement renewable energy to provide a material level of its power requirements. In 2022, the Bank began to install solar panels at some of its branches.

The key resilience elements that the Bank currently has in place against physical risks are certain insurance policy coverages against certain damages and the business continuity management plan put in place in order to ensure that the bank is able to continue its operations in the event of an unforeseen disruption.

Transition risks, mainly those related to market (demand shifts) and regulatory risks are being addressed proactively at NBB which is positioning itself to offer sustainable finance solutions

for its clients. NBB's sustainability strategy positions the Bank to anticipate and stay ahead of new regulations.

Furthermore, technological risks could materialise in various ways. One example is the rise of digital banks, especially if they offer new environmentally-friendly customer experiences and financial inclusion solutions. In addition, technological risks would have a direct impact on our corporate and institutional clients, especially those that operate in hard to abate sectors. NBB's ESG Risk Identification and Risk Assessment toolkit is designed to measure the ESG risk mitigation measures that our clients implement, while we aim to also start accounting for our financed emissions to understand where the highest level of GHG emissions come from.

Finally, in terms of reputational risk, NBB's commitment to integrating ESG considerations into our practices positions us favourably in the market and this is being acknowledged by our clients, regulators, as well as the country's leadership, as evidenced by their invitation to be part of the Kingdom of Bahrain's representation at COP28 in Dubai.

Climate Related Risks and Opportunities

Risks

Business prospects must be scrutinised through an environmental lens. For this reason, NBB's ESG Risk Identification and Assessment toolkit abides by the Equator Principles and the IFC Performance Standards in order to measure the adverse impact that the business may have on the environment as well as on society.

Opportunities

We are seeing a continuous shift by our clients towards demanding sustainable finance solutions which is why the Bank is currently developing a Sustainable Finance Framework. With the introduction of the Framework, NBB's proposition of risk vs. reward now also includes a third element, impact, when assessing the potential of any opportunity.

Banks will incur costs associated with preparing for new regulatory requirements. NBB aims to stay ahead of any regulatory requirements, as evidenced by the rollout of the Central Bank of Bahrain ESG Module, while NBB's 2024-2026 sustainability roadmap aims to maintain this position.

The Kingdom of Bahrain has several national strategies in place that are aimed, at least in part, at addressing climate change and as the national bank NBB is identifying opportunities to play an enabling role in these strategies, which include:

- The National Energy Efficiency Strategy
- The National Renewable Energy Strategy
- The Industrial Sector Strategy

Due to the market NBB operates in, we are more prone to one of two types of transition risks:

1. Directly on account of regulatory requirements, or
2. Indirectly through an impact on the Bank's client (borrowers)

The key climate-related financial risk for NBB comes through its financing activities in a region that still relies heavily on hydrocarbons as a source of energy as well as income.

Financial Position, Performance and Cash Flows

Given NBB's target market and timelines of rollout of regulatory requirements, there hasn't been any negative financial impacts from climate related risks.

However, we expect direct costs to be incurred in relation to:

1. Building capacity of teams responsible for addressing climate-related financial risks (training, awareness sessions, etc)
2. Use of third-party consultancies to advise on climate-related strategies and initiatives

Decarbonisation comes with associated costs and clients will need to secure financing for it. NBB is approaching this with a shared responsibility mindset that costs need to be absorbed by all parties involved. With this in mind, NBB has been forgoing opportunity costs in the form of subsidised financing rates.

Initiatives include the following:

1. Subsidised rates for retail Auto Loans for EV and Hybrid Cars
2. Subsidised rates for ICE cars with high fuel efficiency/low emissions vehicles
3. Partnership with MOIC on the Green Factory Label Programme entailing subsidised financing rates for factories implementing green initiatives
4. Arrangement of and participation in sustainability-linked transactions that involve GHG Emissions Reduction targets

Potential financial impacts

There is a clear change in regulatory pace in this region as governments ramp up sustainability strategies and initiatives. This could present risks as well as opportunities.

Risks

Short- to medium- term: Regulations may be introduced that require companies to go beyond mere disclosure of performance and deliver tangible improvements.

Longer term: We anticipate more scrutiny on nations and corporates that are not progressing with decarbonisation efforts. This translates into potential financial impacts on these clients, and by extension, a potential impact on banks that serve them.

Opportunities

Short- to medium- term: We expect opportunities to arise in the form of PPPs to support clients to reach their targets, though pricing may not reflect the risk profiles involved. Banks would need to remodel pricing mechanisms to incorporate impact as a third element in the traditional risk vs reward proposition.

Longer term: Opportunities could emerge as sustainability initiatives cascade down from key strategic clients to companies in their value chain which, in turn, would need to secure financing for their decarbonisation initiatives.

Climate Resilience

NBB currently measures impact on the Capital Adequacy Ratio (CAR) in case the risk-weighted assets and capital charge becomes a regulatory requirement. We note that this exercise is better suited to the Internal Capital Adequacy Assessment Process ("ICAAP") calculation, but in the absence of any regulatory guidelines the Bank decided to start with a CAR Impact assessment.

In the past two years, NBB has stress tested the following three scenarios on a quarterly basis:

1. All oil and gas exposures are risk-weighted at 100%
2. All non-Bahraini oil and gas exposures are risk-weighted at 100%
3. All non-Bahraini oil and gas exposures are risk-weighted at 200%

The results of the exercise showed minimal impact on CAR.

ESG Risk Identification and Assessment Toolkit

The ESG Risk Identification and Assessment toolkit measures our clients' ESG risk mitigation factors, including climate action. Information is gathered from client public disclosures in sustainability reports and websites. Where information is not available, a questionnaire is sent to the client.

We ask clients whether they have policies, targets, measures, or general acknowledgement of the topics. Depending on the responses, the client is allocated a score between 0 to 100 on each environmental, social and governance element looked at.

The environmental pillar is weighted at 33.3% of the total score. However, all the elements under the environmental pillar relate directly or indirectly to climate change.

Currently it is split into two parts:

1. On the client side it is embedded in credit risk management and is part of the Bank's Global Credit Policy
2. On our own operations it is embedded in our operational risk and is addressed through our wider business continuity plan

The same toolkit will enable us to understand where our client's gaps are.

Metrics & Targets

NBB sets targets for energy consumption, water consumption, waste-recycling ratio and by extension for Scope 1 and 2 emissions in line with ISO 14001 certification on environmental management system. In 2023, we surpassed most of our environmental targets, namely reducing electricity and water consumption by more than the set target of 3% compared to 2022. This has subsequently led to meeting our target of reducing Scope 1 and Scope 2 emissions by 3%. The Property team is responsible for compiling a monthly dashboard illustrating various environmental data, including energy

consumption, which is presented to the Executive Management team and Group CEO. At the quarterly NRGSC meetings, the Sustainability Committee presents the key achievements of the quarter alongside ongoing initiatives.

Remuneration is linked to ESG performance in general, and different departments have KPIs that are set at the beginning of every year. In 2023, all executive members had 10% of the total weight of their KPIs allocated to Sustainability performance against the agreed KPIs.

Energy Consumption

Energy Consumption: Fuel (Gj)	2021	2022	2023	Target
Petrol	500	593.2	622	3% Reduction compared to 2022
Diesel	28.6	63.9	114.4	
Total Consumption (Gj)	528.5	657.1	736.4	
Total Intensity (Gj/Employee)	0.7	0.8	0.9	

Note:

1. Petrol Consumption calculations were based on money spent, then converted to consumption using the Tariffs imposed on the type of Gasoline Consumed for each vehicle i.e. Gasoline 91 or 95. The Tariffs rates are 0.140 BHD for Gasoline 91, and 0.200 BHD for Gasoline 95.
2. Diesel Consumption at NBB refers only to backup generators
3. The conversion rates have been updated as per DEFRA's conversion rate of 44.627 GJ per cubic meter for petrol across all disclosed years
4. The conversion rates have been updated as per DEFRA's conversion rate of 43.038 GJ per cubic meter for diesel across all disclosed years

Energy Consumption: Electricity (Gj)	2021		2022		2023	
	NBB Towers	NBB Branches	NBB Towers	NBB Branches	NBB Towers	NBB Branches
Electricity Consumption	43,867.4	11,215	41,615	9,202.2	38,582.2	8,516.8
	N/A	N/A	0	120.3	0	318.4

Electricity consumption has been revised in 2022, accounting for the discrepancy observed from previous years' report. Also, the conversion factor to convert Electricity Consumption from Kwh to Gj is 0.0036

Energy Consumption Intensity: Electricity	2021		2022		2023	
	NBB Towers	NBB Branches	NBB Towers	NBB Branches	NBB Towers	NBB Branches
Electricity Consumption	1.6	1.3	2.9	1.7	2.7	1.5
	79.2	49.8	68.1	41.3	62	52.3

Energy Consumption	Units	2021		2022*		2023		Target
		NBB Towers	NBB Branches	NBB Towers	NBB Branches	NBB Towers	NBB Branches	
Electricity Consumption	kWh	12,185,400	3,115,289	11,560,020	2,556,228.4	10,717,280	2,365,829	Reduction of 3% at NBB Towers compared to 2022
	kWh	N/A	N/A	N/A	33,413.2	N/A	86,826	

* Note for 2022 NBB branches: Riffa Souq and Istiqlal Branches, only calculations were made from August onwards

Energy Consumption *continued*

			2021	2022	2023
Energy Consumption (Gj)	Fuel Consumption	Petrol	500	593.2	622
		Diesel	28.6	63.9	114.4
	Electricity Consumption	55,082.5	50,938.8	47,411.8	
Total Direct Energy Consumption			528.53	657.05	736.36
Total Indirect Energy Consumption			55,082.5	50,938.8	47,411.8
Total Energy Consumption			55,611	51,595.8	48,148.1

The conversion factor to convert Electricity Consumption from Kwh to Gj is 0.0036

Energy Intensity (Gj/Employee)	2021	2022	2023
Direct Energy Intensity	0.7	0.8	0.9
Indirect Energy Intensity	70.7	60.9	54.8
Total Energy Intensity	71.4	61.7	55.6

Water Consumption

Water Consumption	2021	2022	2023	Target
Total Water Consumption in m3	18,887	16,411	14,731	Reduction of 3% at NBB Towers compared to 2022
Total Water Consumption per Employee	24.3	19.6	18.6	

Water Consumption	2022*		2023		Target
	NBB Towers	NBB Branches	NBB Towers	NBB Branches	NBB Towers
Total Water Consumption	14,479	1,926.8	13,138	1,593	3% reduction from towers 2022

Waste Management

		2021	2022	2023
Non-Hazardous Waste MT	Paper Recycled	23.9	24.3	23.5
	Plastic Recycled	0.3	0.6	0.6
	Cans Recycled	0.1	0.2	0.1
	General Waste	27.7	81.8	89.9
Hazardous Waste MT	E-Waste (Personal Computers/ ATM Machines) Recycled	6.9	3.7	1.6
Total Waste in MT		58.9	110.5	115.7
Total Waste in MT per Employee		0.1	0.2	0.1

1. NBB began recording general waste from August 2021, which means that the full-year data for general waste in 2021 is not available. It is also important to note that the general waste from branches was not recorded until January 2022. Therefore, this figure does not include waste from branches. This explains the increase in our waste consumption in 2022.

2. The numbers provided for our Paper Recycled generation are approximate for 2021 and 2022.

3. According to the Ministerial Decree No. 4 issued by the Supreme Council for Environment. (SCE) in the Kingdom of Bahrain, we have classified our e-waste as hazardous waste

4. Waste Management and waste recycling ratio exclude papers purchased

		2021	2022	2023	Target
Waste Recycled MT	Non-Hazardous	24.3	25	24.2	Target for Waste Recycled is 25%
	Hazardous	6.9	3.7	1.6	
Total Waste Recycled in MT		31.2	28.7	25.7	
Waste Recycling Ratio		53%	26%	22.3%	

Papers Purchased

Papers Purchased	2021	2022	2023
Total number of Papers Purchased	3,693,000	3,718,000	3,752,500

Paper consumption disclosures have changed to Papers Purchased instead of papers printed

GHG Emissions Breakdown

Scope 1 and Scope 2	Item	Sub-Item	2021	2022	2023
	Total Scope 1 (MTCO2e)				
	Fuel consumption for Power Generators	Diesel	2.2	4.8	8.5
Scope 1 (MTCO2e)	Owned vehicles	Petrol	35.3	41.8	44
	Electricity Consumption		37.4	46.7	52.5
	Total Scope 2 (MTCO2e)		7,499.5	6,918.9	6,412.6
Scope 2 (MTCO2e)	Electricity		7,499.5	6,918.9	6,412.6
	Total Scope 3 (MTCO2e)		13.5	38.7	47.3
	Non-hazardous waste		0.2	0.1	0
	Hazardous waste: E-waste		16.9	17.1	17.1
Scope 3 (MTCO2e)	Paper Purchase		8	6.9	5.6
	Water and wastewater		N/A	1,066.3	1,107.2
	Employee Commute		7,575.4	8,094.6	7,642.2
	Total (MTCO2e)		7,575.4	8,094.6	7,642.2

Total Emissions (Mt Co2 E)	2021	2022	2023	Target
Scope 1	37.4	46.7	48.7	Reduction of Scope 1 and 2 emissions by 3% compared to 2022
Scope 2	7,499.5	6,918.9*	6,412.6	
Scope 3	38.5	62.8	70	
Total Emissions	7,575.4	7,028.4	6,531.2	-

Total Emissions Intensity (Mt Co2 E Per Employee)	2021	2022	2023
Scope 1 Intensity	0.1	0.1	0.1
Scope 2 Intensity	9.6	8.3	7.4
Scope 3 Intensity	0.1	0.1	0.1
Total Emissions Intensity	9.7	8.4	7.6

* 2022 Emissions have been revised as we have restated 2022 electricity figures

1. Our 2022 Scope 2 emissions also include the emissions from two of our branches that were converted to solar power (Riffa Souq and Istiqlal). Emissions from these branches are reported from August 2022 onwards.
2. The emission factor for e-waste provided by DEFRA and used for years 2021, 2022, and 2023 takes into account the hazardous nature of e-waste.
3. The Scope 3 emissions related to employee commuting for the disclosed years was extracted by averaging the employee commute by regular car's Petrol consumption for the year as per the DEFRA 2023 rate. This methodology excludes annual leaves, sick leaves and public holidays. 2021 Scope 3 emissions do not include employee commute.
4. The GHG Emissions were measured in accordance to the international GHG protocol that defines reporting scopes 1, 2 and 3.
5. An updated emission factor was used to calculate the emissions on waste management
6. DEFRA emission factors have been updated for previous years, which caused a discrepancy compared to the numbers disclosed in previous reports

Corporate Governance and Ethical Behaviour

Corporate Governance and Ethical Behaviour

Corporate Governance Report

The Board of Directors is responsible for the overall governance of the National Bank of Bahrain. The Board ensures that high ethical standards are established across the bank and regularly reviews the bank's compliance with CBB regulations and applicable legislation regarding corporate governance. As a result of the updates to the HC Module of the CBB rulebook, the Corporate Governance Policy and certain Board and Board sub-committee charters were subject to a general revision in the year 2023. The Board recognises that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

Maintaining the best standards of corporate governance has provided the bank's clients, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution. In maintaining these standards, the bank has achieved an appropriate balance between long-term growth and short-term objectives, created a sound portfolio of assets, a stable client base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

Board of Directors

The Board's composition is governed by the bank's Memorandum and Article of Association and comprises of eleven members. Four members of the Board are appointed by Bahrain Mumtalakat Holding Company, which holds 44.06% of the bank's share capital and one member is appointed by Social Insurance Organisation, which holds 10.85% of the bank's share capital. The remaining six members of the Board are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The members of the Board remain in office for a term not exceeding three years, which may be renewed. To be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board was elected at the Ordinary General Meeting in October 2021 and its term is scheduled to expire by the Ordinary General Meeting to be held in March 2024.

On joining the bank's Board, all Directors are provided with a "Directors Kit" which includes the Board's code of conduct, the bank's Memorandum and Articles of Association, key policies, charters of the Board and its committees, Corporate Governance guidelines and the bank's financial position and strategy. Induction sessions, attended by the Chief Executive Officer and the senior management of the bank are also held with the Directors which focuses on business profile, opportunities, challenges and risks faced by the bank.

In accordance with the definitions stipulated by the Central Bank of Bahrain, Directors are categorised as independent, executive, and non-executive. The Board currently comprises of four independent directors and seven non-executive directors. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

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

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

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

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

In its role as the primary governing body, the Board provides oversight for the bank's affairs and constantly strives to improve and build on the bank's strong corporate governance practices. The business performance of the bank is reported regularly to the Board. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board has unlimited authority within the overall regulatory framework. The Board has delegated specific approval authorities to its committees and the CEO; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget and operating limits for various activities of the bank.

Corporate Governance and Ethical Behaviour continued

Committees of the Board

The Board has set up several committees which provide effective support to the full Board in carrying out its responsibilities. These are the Executive Committee, the Audit Committee, the Risk and Compliance Committee, Nomination, Remuneration, Governance and Sustainability Committee, Digitalization Committee, Overseas Branches Committee and the Donations and Contributions Committee.

Executive Committee

The Executive Committee is comprised of five Board members selected and appointed by the Board, with one member being an independent director. The Executive Committee meets at least five times a year. The role of the Executive Committee is to assist the Board in fulfilling its responsibilities regarding lending and investments in debt securities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Executive Committee is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, in addition to monitoring the bank's performance against business plan objectives.

Audit Committee

The Audit Committee comprises of three Board members selected and appointed by the Board, two of whom are independent directors, including the Chairperson. The Audit Committee meets at least four times a year. The primary function of the committee is to review the bank's accounting and financial practices, reinforce the internal and external audit process and assist the Board in fulfilling its responsibility in ensuring an effective system of internal control and financial statements. The Audit Committee is responsible for recommending to the Board, the appointment and compensation of the external auditors, reviewing the integrity of the bank's financial reporting, reviewing the activities and performance of the internal audit function, and reviewing compliance with relevant laws and regulations. The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

Risk and Compliance Committee

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

Nomination, Remuneration, Governance and Sustainability Committee

The Nomination, Remuneration, Governance and Sustainability Committee (NRGSC) comprises of six Board members selected and appointed by the Board. Two Directors are independent and attend every meeting. The NRGSC meets at least three times a year. The role of the committee is to assist the Board in fulfilling its responsibilities with regard to the bank's nomination, remuneration policies, corporate governance guidelines and sustainability targets, based on regulatory requirements or industry best practices. The NRGSC has the mandate of identifying persons qualified to become members of the Board, CEO, CFO, Corporate Secretary, and any other officer positions considered appropriate by the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the Board and management.

Digitalization Committee

The Digitalization Committee, established in 2021, is responsible, amongst other things, for supervision and advising on matters relating to the digital strategy of the bank and its implementation, guiding its innovation, and related data frameworks. The Digitalization Committee will also discuss and monitor the associated risks, however, only to support the Risk and Compliance Committee to prevent overlap in mandates. The Digitalization Committee shall, in its oversight of digitalization report to the Board, including reporting its conclusions and recommendations on (i) the bank's digital transformation covering, including but not limited to, defining the adequate digital strategy, related technology adoption, digital operations, and reviewing and recommending the budget proposed by management for this purpose, and (ii) the bank's execution of its digitalization and related technology strategies to support its digital banking and IT functions. In this regard, the Digitalization Committee will take a forward-looking perspective, seeking to anticipate changes in business conditions.

Overseas Branches Committee

The Overseas branches Committee, established in 2021, is responsible, amongst other things, for oversight and advising on matters relating to the business plan of the overseas branches as well as the development and the monitoring of the risks associated therewith. It provides an essential role in supporting the strategic direction of the overseas branches. The Overseas branches committee in its oversight reports to the Board with its conclusions and recommendations.

Donations and Contributions Committee

The Donations and Contributions Committee is created to manage the distribution of funds allocated towards corporate donations and contributions ensuring that it adheres to the bank's strategic outlook and positioning reflected through its pillars. The committee is comprised of four Directors. The allocated annual contribution towards the fund is equivalent to 5% of the bank's net profit.

Corporate Governance and Ethical Behaviour continued

Board Meetings and Attendance

The Board and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Policy and the Central Bank of Bahrain Rulebook, the bank considers attendance of Directors at Board and sub-committee meetings. All meetings were held in the Kingdom of Bahrain except where indicated otherwise.

A summary of the Board meetings and sub-committee meetings held during the year 2023 and attendance are detailed below:

Board meetings: Total number of meetings held: 6

Name of the Director	Meeting dates						Total No of meetings	Total	
	28/2/2023	8/5/2023	8/8/2023	20/9/2023 (Ad-Hoc)	5/11/2023	12/12/2023		Meetings attended	% of Meetings attended
Farouk Yousuf Khalil Almoayyed Chairman	✓	✓	✓*	✓	✓	✓	6	6	100
Dr. Esam Abdulla Fakhro Deputy Chairman	✓	✓	✓*	✓	✓	✓	6	6	100
Fawzi Ahmed Kanoo Deputy Chairman	✓	✓	✓*	✓	✓	✓	6	6	100
Sh. Rashed Bin Salman Al-Khalifa Director	✓	✓*	✓*	✓	✓	✓	6	6	100
Hala Ali Hussain Yateem Director	✓	✓	✓*	✓	x	✓	6	5	83
Rishi Kapoor Director	✓	✓	✓*	✓*	✓*	✓*	6	6	100
Mohamed Tareq Mohamed Sadeq Mohamed Akbar** Director	✓	✓	✓*	Left the Board on 20 th August 2023			3	3	100
Yusuf Abdulla Yusuf Akbar Alireza Director	✓*	✓*	✓*	✓*	✓*	✓*	6	6	100
Amin Ahmed Alarrayed Director	✓	✓	✓*	✓	✓	✓	6	6	100
Vincent Van den Boogert Director	✓*	✓	✓*	✓*	✓	✓*	6	6	100
Zaid Khalid Abdulrahman Director	✓	✓	✓*	✓	✓	✓	6	6	100
Dr. Paul David Pester*** Director	Joined the Board on 20 th August 2023			✓*	✓	x	3	2	67

*Attended through video conference.

**Mohamed Tareq Mohamed Sadeq Akbar left the Board on 20th August 2023

***Dr. Paul David Pester joined the Board on 20th August 2023

Corporate Governance and Ethical Behaviour continued

Board Meetings and Attendance (continued)

Dates of meetings and attendance details

Executive Committee Meetings: Total number of meetings held: 5

Name	Meeting dates					Total No. of meetings	Meetings Attended
	25/1/2023	3/4/2023	21/6/2023	20/9/2023	23/11/2023		
Dr. Esam Abdulla Fakhro Chairman	✓	✓	✓	✓	✓	5	5
Fawzi Ahmed Kanoo Director	✓*	✓	✓	✓	✓	5	5
Sh. Rashed Bin Salman Al Khalifa Director	✓	✓	✓	✓	✓	5	5
Yusuf Abdulla Yusuf Akbar Alireza Director	✓	✓*	✓*	✓*	x	5	4
Amin Ahmed Alarrayed Director	✓	✓	✓	✓	✓	5	5

* Attended through video conference.

Audit Committee Meetings: Total number of meetings held: 6

Name	Meeting dates						Total No. of meetings	Meetings Attended
	1/2/2023	19/2/2023	4/5/2023	6/8/2023	2/11/2023	13/12/2023		
Hala Ali Hussain Yateem Chairwoman	✓	✓	✓	✓	✓*	✓	6	6
Mohamed Tareq Mohamed Sadeq Mohamed Akbar** Director	✓	✓	✓	✓	Left the Board on 20 August 2023		4	4
Zaid Khalid Abdulrahman Director	✓	✓	✓	✓*	✓*	✓	6	6
Dr. Paul David Pester*** Director	Joined the Board on 20 August 2023				✓*	x	2	1

*Attended through video conference.

**Mohamed Tareq Mohamed Sadeq Mohamed Akbar left the Board on 20 August 2023

***Dr. Paul David Pester joined the Board on 20 August 2023

Corporate Governance and Ethical Behaviour continued

Board Meetings and Attendance (continued)

Risk and Compliance Committee Meetings: Total number of meetings held: 5

Name	Meeting dates					Total No. of meetings	Meetings Attended
	26/2/2023	7/5/2023	6/8/2023	8/10/2023	10/12/2023		
Rishi Kapoor Chairman	✓	✓	✓*	✓*	✓*	5	5
Mohamed Tareq Mohamed Sadeq Mohamed Akbar** Director	✓	✓	✓	Left the Board on 20 August 2023		3	3
Vincent Van den Boogert Director	✓*	✓	✓*	✓*	✓*	5	5
Sabah Al Moayyed Non-Director Advisor to the Board	✓*	✓	✓	✓*	✓*	5	5
Matthew Deakin Non-Director Advisor to the Board	✓	✓*	✓	✓*	✓	5	5
Dr. Paul David Pester*** Director	Joined the Board on 20 August 2023			✓*	x	2	1

* Attended through video conference.

**Mohamed Tareq Mohamed Sadeq Mohamed Akbar left the Board on 20 August 2023

***Dr. Paul David Pester joined the Board on 20 August 2023

Corporate Governance and Ethical Behaviour continued

Board Meetings and Attendance (continued)

Nomination, Remuneration, Governance and Sustainability Committee Meetings:

Total number of meetings held: 4

Name	Meeting dates				Total No. of Meetings	Meetings Attended
	6/2/2023	22/2/2023	13/6/2023	21/11/2023		
Farouk Yousuf Khalil Almoayyed Chairman	✓	✓	✓	✓	4	4
Dr. Esam Abdulla Fakhro Director	✓	✓	✓	✓	4	4
Sh. Rashed Bin Salman Al Khalifa Director	✓	✓*	✓	✓	4	4
Yusuf Abdulla Yusuf Akbar Alireza Director	✓*	✓*	x	✓*	4	3
Amin Ahmed Alarrayed Director	✓	✓	✓	✓	4	4
Rishi Kapoor Director	✓	✓	✓*	✓*	4	4

* Attended through video conference.

Digitalization Committee Meetings: Total number of meetings held: 3

Name	Meeting dates			Total No. of Meetings	Meetings Attended
	27/2/2023	9/5/2023	14/11/2023		
Vincent Van den Boogert Chairman	✓*	✓	✓*	3	3
Yusuf Abdulla Yusuf Akbar Alireza Director	✓*	x	✓*	3	2
Hala Ali Hussain Yateem Director	✓*	✓	✓*	3	3

* Attended through video conference.

Donation and Contributions Committee Meeting: Total number of meetings held: 2

Name	Meeting dates		Total No. of Meetings	Meetings Attended
	30/1/2023	2/10/2023		
Farouk Yousuf Khalil Almoayyed Chairman	✓	✓	2	2
Dr. Esam Abdulla Fakhro Director	✓*	✓	2	2
Fawzi Ahmed Kanoo Director	✓	✓	2	2
Hala Ali Hussain Yateem Director	✓	✓	2	2

* Attended through video conference.

Overseas Branches Committee Meetings: Total number of meetings held: 2

Name	Meeting dates		Total No. of Meetings	Meetings Attended
	11/4/2023	3/10/2023		
Fawzi Ahmed Kanoo Chairman	✓	✓	2	2
Sh. Rashed Bin Salman Al Khalifa Director	✓	✓	2	2
Yusuf Abdulla Yusuf Akbar Alireza Director	✓*	✓*	2	2

* Attended through video conference.

Corporate Governance and Ethical Behaviour continued

Management Structure

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

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

Committee Name	Members (as of 31 December 2023)	Objective
Executive Management Team (EMT)	1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Abdulaziz Al Ahmed - Chief Executive, Strategic Accounts 3- Sara Abdulaziz Jamal - Group Chief Human Resources Officer 4- Nabeel Kazim - Group Chief Operating Officer 5- Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary 6- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 7- Isa Maseeh - Group Chief Risk Officer 8- Subah Al Zayani - Chief Executive, Retail Banking 9- Rana Qambar - Group Chief Compliance Officer 10- Hisham Abu Alfateh - Chief Corporate Communications Officer 11- Fatima Al Kooheji - Acting Group Chief Financial Officer 12- Fadhel Abbas Ahmed - Group Chief Internal Auditor 13- Mansour Al Saghayer - Chief Executive, Kingdom of Saudi Arabia 14- Yogesh Kale - Chief Executive, United Arab Emirates 15- Razi Abdullatif Amin - Chief Technology Officer	The Executive Management Team Meeting (EMT) meets on a weekly basis and was created by the bank to provide a regular forum for the discussion of strategic matters among executive/senior management. While the EMT does not have any decision-making powers, it serves as an advisory role and provides a sounding forum for the major decisions or actions that need to be taken by the Chief Executive Officer within his delegation.
Frequency: weekly		

Corporate Governance and Ethical Behaviour continued

Management Structure (continued)

Committee Name	Members (as of 31 December 2023)	Objective
Management Credit Committee	Permanent Members: 1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Isa Maseeh - Group Chief Risk Officer 3- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 4- Ali Ehsan - Chief Credit Officer	Overseeing the effective implementation of the bank's credit risk framework. Approving credit proposals and monitoring the credit portfolio in line with the bank's defined risk appetite and policies.
Frequency: weekly		
Operational Risk Management Committee (ORMC)	1- Usman Ahmed - Group Chief Executive Officer 2- Isa Maseeh - Group Chief Risk Officer (Chairman) 3- Rana Qambar - Group Chief Compliance Officer 4- Nabeel Kazim - Group Chief Operating Officer 5- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 6- Sara Abdulaziz Jamal - Group Chief Human Resources Officer 7- Subah Al Zayani - Chief Executive, Retail Banking 8- Jaffar Mohammed - Head of Operational Risk & Permanent Controls 9- Fadhel Abbas - Group Chief Internal Auditor (Observer)	Review and assess different aspects of risk arising from the bank's business processes (i.e. Operational Risks, Technology Risk, BCP, DR, Legal Risk, Compliance Risks and Compliance with internal controls) to ensure that material risks are captured, monitored and mitigated. Serve as a forum for senior management to discuss, evaluate and decide key Operational Risk issues concerning all divisions of the bank.
Frequency: monthly		
Group Asset Liability Committee (GALCO)	1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Yaser Al Sharifi - Chief Executive Officer, Bahrain Islamic Bank 3- Isa Maseeh - Group Chief Risk Officer 4- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 5- Ameer Shabaan - Chief Financial Officer, Bahrain Islamic Bank 6- Jaafar Husain - Head of Liquidity and Market Risk 7- Yogesh Kale - Chief Executive, United Arab Emirates 8- Mansour Alsagayer - Chief Executive, Kingdom of Saudi Arabia 9- Fatima Al Kooheji - Acting Group Chief Financial Officer 10- Abdulaziz Al Ahmed - Chief Executive, Strategic Accounts 11- Ali Abdulkarim - Group Head of Coverage 12- Subah Alzayani - Chief Executive, Retail 13- Zied Jalili - Head of Structured Finance and Transaction Banking 14- Arif Janahi - Head of Commercial and SMEs 15- Khalil A.Rahman AlShaikh - Liquidity and Market Risk Officer (Secretary)	Serve as a forum for senior management discussion and evaluation of key issues concerning the bank's balance sheet structure and performance, pricing of assets and liabilities, funding and capital planning, contingency planning, market risk, interest rate risk, and liquidity risk. Ensure that appropriate action consistent with market developments and the bank's policies are taken to address the above key issues.
Frequency: monthly		

Corporate Governance and Ethical Behaviour continued

Management Structure (continued)

Committee Name	Members (as of 31 December 2023)	Objective
Group Project Steering Committee	1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Yaser Al Sharifi - Chief Executive Officer, Bahrain Islamic Bank 3- Nabeel Kazim - Group Chief Operating Officer 4- Vacant - Group Chief Strategy & Sustainability Officer 5- Razi Amin - Group Chief Information Officer 6- Fatima Al Kooheji - Acting Group Chief Financial Officer 7- Konstantinos Monogios - Group Head of EPMO (Coordinator)	<p>Group PSC is established to ensure proper governance across Group and Group related Projects' Portfolios while providing direction in taking necessary decisions to achieve projects' goals within set schedules and budgets and ensure total alignment with Group strategic objectives and Group Strategy.</p> <p>Group PSC main Responsibilities are:</p> <ol style="list-style-type: none"> Governance Act as governance body to the Group projects' portfolio. Ensure activating related working groups and control Group spending and investments. Hold Sponsors accountable to the agreed-upon project constraints. Advisory Review and monitor projects' health and advise on overall portfolio and program risks, and provide recommendations on issues, scope, schedule, resources, cost, and governance concerns. Go/No-Go Decision Oversee Group Capex requests and provide Go/No-Go recommendations on new and running projects. Prioritization Act as a Prioritization Board and ensure project's portfolio and projects roadmap are aligned with Group and Group Strategy. Approval & Authorization Approve projects' Capex allocations and authorize the utilization of budget for new requests/ projects, provide decisions on additional capex requests, and authorize corrective and preventive actions required to achieve planned project objectives.
Frequency: two meetings per quarter		

Corporate Governance and Ethical Behaviour continued

Management Structure (continued)

Committee Name	Members (as of 31 December 2023)	Objective
Group Compliance Management Committee	1- Usman Ahmed - Group Chief Executive Officer 2- Rana Qambar - Group Chief Compliance Officer (Chairwoman) 3- Abdulaziz Al Ahmed - Chief Executive, Strategic Accounts 4- Isa Maseeh - Group Chief Risk Officer 5- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 6- Subah Al Zayani - Chief Executive, Retail Banking 7- Razi Amin - Group Chief Information Officer 8- Nabeel Kazim - Group Chief Operating Officer 9- Naeema Taheri - Chief Compliance Officer, Bahrain Islamic Bank 10- Arif Janahi - Head of Commercial and SMEs 11- Mansour Al Saghayer - CEO KSA 12- Yogesh Kale - CEO UAE 13- Fadhel Abbas - Group Chief Internal Auditor (Observer)	<p>Provide governance and assessment of the firm-wide compliance risk.</p> <p>Review and approve group-wide processes, policies and procedures related to the bank's financial crime and regulatory compliance framework.</p> <p>Approve and periodically review the Compliance Maturity Model and the annual Compliance Plan.</p> <p>The objective of the committee is to develop, identify, measure, document and assess Compliance Risks across the group, and;</p> <p>Monitor the adherence of NBBs' Group to the Central Bank of Bahrain ("CBB"), Central Bank of UAE (CBUAE) as well as the Central Bank of Saudi Arabia (SAMA) requirements with the relevant rules and regulations.</p> <p>In addition, Promote the values of honesty, transparency, and integrity throughout the Group in line with the Banks' values.</p>
Frequency: bi-monthly		
Digital Strategy Group (DSG)	1-Yaser Alsharifi - Chief Executive Officer, Bahrain Islamic Bank (Chairman) 2-Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 3-Subah Al Zayani - Chief Executive, Retail Banking 4-Razi Amin - Group Chief Information Officer	<p>The mandate of the Group is to define the digital direction of the bank, oversee the digital initiatives and advise on products and projects through supporting business transformation via:</p> <ul style="list-style-type: none"> Defining and aligning different stakeholders on the digital priorities of the Group Review of the Group's progress in digitization initiatives against strategy and market Evaluating solution alternatives and technology choices Aligning IT to the Group's direction and priorities in a planned manner to ensure effective and efficient utilization of technology Advise on the digital products and services roadmap for the Group
Frequency: every two weeks		

Corporate Governance and Ethical Behaviour continued

Management Structure (continued)

Committee Name	Members (as of 31 December 2023)	Objective
Information Security Committee (ISC)	1- Isa Maseeh - Group Chief Risk Officer (Chairman) 2- Rana Qambar - Group Chief Compliance Officer 3- Razi Amin - Group Chief Information Officer 4- Hisham Al Kurdi - Group Chief Executive, Corporate and Institutional Investment Banking 5- Ali Al Majed - Group Chief Information Security Officer 6- Fadhel Abbas - Group Chief Internal Auditor (Observer) 7- Salman Radhi - Information Security Technical Support Manager and Sustainability (Secretary) 8- Subah Al Zayani - Chief Executive, Retail Banking. 9- Ali AlSaegh - Head of Cyber Security and Access Management	Set the direction in establishing an Information Security Management System (ISMS). Review and recommend security policies to the Board for approval. Review the periodical information security reports. Ensure that processes are created to measure the effectiveness of the security controls specified in this policy. Approve the bank's information security plan and monitor its implementation.
Frequency: monthly		
Business Continuity Management Committee	1- Nabeel Kazim - Group Chief Operating Officer (Chairman) 2- Isa Maseeh - Group Chief Risk Officer (Vice Chair) 3- Razi Amin - Group Chief Information Officer 4- Haitham Seyadi - Group Head of Property, Procurement and Administration 5- Mohammed Hammad - Group Head of BCM, Chief Information Security Officer 6- Abdulla Nasir Rafique - Head of In-Business Risk, Control, and Governance 7- Abdulla Naqi - Business Continuity Manager (Secretary)	This Committee was established to provide the top management governance and oversight for the Business Continuity Plan (BCP) of National Bank of Bahrain (NBB) in line with the industry best practices and relevant standards. The scope of this committee encompasses all the business units and locations for both NBB and BisB business units in Bahrain, its overseas branches in KSA and UAE, and all subsidiary entities associated with the bank. This Committee's functions and responsibilities are to: <ul style="list-style-type: none"> Provide strategic direction and communicate essential messages to the relevant stakeholders. Ensure effective continuance of the Bank's operations in the event of a moderate, major or potentially catastrophic incident. Establish, review and test Bank-wide Business Continuity and Disaster Recovery Plans Coordinate the planning and delivery of the training on Crisis & Emergency Management and Disaster Recovery Function as a point of liaison with the local authority and Crisis Management Team at the Bank at times of crisis. Oversee the creation of appropriate task force groups, working groups and teams to develop and execute the BCP, whenever is required.
Frequency: quarterly		

Corporate Governance and Ethical Behaviour continued

Management Structure (continued)

Committee Name	Members (as of 31 December 2023)	Objective
UAE Senior Management Committee	1- Yogesh Kale - Chief Executive Officer of the UAE branch (Chairman) 2- Fatima AlKooheji - Acting Group Chief Financial Officer 3- Yusuf Alnajmi - UAE Head of Branches and Administration 4- Ahmed Moussa - UAE Chief Operating Officer 5- Jassim AlAbbasi - Group Head of Financial Crime 6- Zaid Khonji - Head of Legal and Corporate Governance 7- Isa Budaraj - Head of Regulatory & Overseas Branches Audit 8- Ashraf Calcuttawala - UAE Head of Credit Risk 9- Abdul Naseer - Head of in-Business Risk, Control and Governance 10- Vineet Munot - Head of Transaction Banking 11- Ali Almoulani - Head of Treasury and Asset Liability Management 12- Sara Anwahi - UAE Head of Human Resources	The Senior Management Committee, established in 2023, is responsible for establishing a robust control function and helping the Branch meet the corporate governance responsibilities in line with the Corporate Governance Policy and Regulation. The committee is comprised of twelve members, with a hybrid structure having representation of senior managers from the UAE and the Head Office in Bahrain. The SMC members are appointed by Group CEO and are subject annual evaluation in order to remain SMC member. SMC Members report to their respective line managers while performing their routine duties and will report to Chair of SMC while performing duties in capacity of the SMC. The Duties of the SMC include. <ul style="list-style-type: none"> To establish robust control functions in order to meet corporate governance guidelines. Implementing the strategy approved by the GCEO, as well as implementation of business plans, policies, procedures, and budgets. To oversee the compliance of the applicable laws and legislations of the UAE, and the implementation of the UAE Central Bank regulations. Implementation and monitoring of various risk functions and sound risk management culture. Formalizing the risk appetite statement for UAE branch. Monitoring and reviewing the operating and financial performance of the UAE branches. Monitoring and reporting of unresolved audit compliance, risk and legal issues. Presentation and discussion of business budget and productivity reports. To manage resources and develop talent strategy, staff communications and engagement. Developing and recommending changes to the corporate governance policy framework. Annual assessment and evaluation of the SMC. The SMC monitors its compliance through periodical disclosure and disclosure in the annual report. One SMC member is responsible for review and finalization of financial statement and The SMC Chair signs on the financial statements, and all related party transactions are subject to approval from the Board.
Frequency: minimum of 6 times per year		

Corporate Governance and Ethical Behaviour continued

Committee Name	Members (as of 31 December 2023)	Objective
Product and Service Approval Committee Frequency: as and when a new product and/or service is considered for launch	1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Isa Maseeh - Group Chief Risk Officer 3- Fatima Al Kooheji - Acting Group Chief Financial Officer 4- Nabeel Kazim - Group Chief Operating Officer 5- Rana Qambar - Group Chief Compliance Officer 6- Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary 7- Jaffar Mohamed - Head of Enterprise Risk Management	Approve new products and services. Approve material changes to existing products and services. Ensure that the key risks associated with the introduction of products and services are identified, thoroughly considered, and addressed in a controlled manner before the launch/ reactivation of the product or services.
Tendering and Asset Disposal Committee Frequency: meetings convened as deemed necessary by the meeting administrator or their nominated alternate	1- Fatima Al Kooheji - Acting Group Chief Financial Officer (Chairwoman) 2- Konstantinos Monogios - Group Head of Enterprise Project Management Office 3- Rana AbdulAziz Qambar - Group Chief Compliance Officer 4- Zaid Khonji - Head of Legal and Corporate Governance	Reinforce corporate governance, integrity, and transparency in the procurement process, contract management and asset disposal. The responsibilities are: <ul style="list-style-type: none"> Ensure adherence to the bank Code of Conduct, Procurement Management Framework and Tendering Policy and procedure at all time. Reinforce the principles of probity and accountability to ensure transparency of processes, fairness, confidentiality, and effective management of conflicts of interest. Review evaluation criteria and raise any concerns related to the proposals submitted against such criteria. Approve the tender awarding of all NBB Group tenders. Approve disposal of assets with NBV up to BHD 10,000. All asset disposals with NBV of BHD 10,000 and above should be referred to CEO for approval. Raise recommendations for any proposed award of project procurement contract that is not within the committee authority to the appropriate authority for the approval.
Provisioning Committee Frequency: quarterly	1- Usman Ahmed - Group Chief Executive Officer (Chairman) 2- Isa Maseeh - Group Chief Risk Officer 3- Ali Ehsan - Chief Credit Officer 4- Fatima Al Kooheji - Acting Group Chief Financial Officer 5- Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary	The Provisioning Committee is responsible for reviewing and recommending the remedial course of action for clients that are designated as non-performing loans (NPLs) and governing expected credit loss (ECL).

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

Corporate Governance and Ethical Behaviour continued

Performance evaluation of Board of Directors and committees

NBB continues to strive to apply well-developed and balanced governance practices, ethical standards and fair dealings. As part of this continuing initiative, the bank has revamped its Board performance evaluation process and enhanced its format to identify improvement opportunities to enhance the overall performance of the Board, the Board Committees and each Board member.

The Board performance evaluation for the year 2023 was conducted electronically through a structured performance evaluation questionnaire against pre-defined criteria, as per the mandate of the Board and each of its Committees. The evaluation covers effectiveness and contribution of the overall performance of the Board, its committees and the performance of each Board member. The evaluation process also covers the Board external advisors serving on the Board Risk and Compliance committee. The Group Chief Legal Officer and Corporate Secretary and the Board Secretary collated the responses, analysed them and submitted a summary report to the NRGSC. The NRGSC is responsible for overseeing the Board performance evaluation process and has presented its findings to the Board of Directors in the first quarter of 2023. The evaluation confirms that the Board, its Committees and Board members continue to operate with a high level of effectiveness. The Board considers this a beneficial exercise that can enhance governance and therefore deliver and unlock value to the bank and its shareholders.

Related party transactions and conflict of interest

All directors have a duty under the Commercial Companies Law, the Central Bank of Bahrain regulations and the bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the bank, unless they are specifically authorised by the Board. This includes potential conflicts that may arise when a director takes up a position with another company or has any material transactions with the bank. The bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions involving the bank in 2023 are disclosed in Note (29) of the consolidated financial statements.

The independent directors play a key role in protecting minority shareholders' interests throughout their participation at a Board level and at the level of the committees which they are members of. Independent members are regularly informed and reminded of their right to conduct separate meetings comprised of only the independent members and this is exercised as and when requested by the independent members. For the year 2023 this was requested once and was held pursuant to that request.

As per the bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. They are entered into following the satisfaction

of the bank's tender processes and procedures to ensure that the bank receives optimal services from its counterparties at the best pricing available. Decisions relating to the approval of related party transactions, whether with connected parties of Directors, Controllers or significant shareholders of the bank, or employees are approved after appropriate disclosures have been made and the related parties and their connected persons refrain from participating in the decision-making process. The bank's shareholders are referred to Note 29 of the consolidated financial statements setting out disclosures of related party transactions in compliance with Article 189(C) of the Commercial Companies Law. The Board is satisfied with the procedures in place for the approval of related party transactions and the outcomes of related party contracts entered into in 2023.

Disclosures of conflict of interest:

Members	Instances of abstaining from voting	Status
Dr. Esam Fakhro	10	Unanimously Approved by the Board of Directors
Mr. Amin Al Arrayed	10	Unanimously Approved by the Board of Directors
Mr. Farouk Al Moayyed	8	Unanimously Approved by the Board of Directors
Sh. Rashed Al Khalifa	8	Unanimously Approved by the Board of Directors
Mr. Vincent Van Den Boogert	8	Unanimously Approved by the Board of Directors
Mr. Fawzi Kanoo	6	Unanimously Approved by the Board of Directors
Mr. Yusuf Alireza	5	Unanimously Approved by the Board of Directors
Dr. Paul Pester	5	Unanimously Approved by the Board of Directors
Mr. Zaid Abdulrahman	4	Unanimously Approved by the Board of Directors
Mr. Mohamed Tareq Mohamed Sadeq	3	Unanimously Approved by the Board of Directors
Mr. Rishi Kapoor	2	Unanimously Approved by the Board of Directors

Employment of Relatives

The bank has a Board approved policy in place on employment of relatives to prevent the potential favouritism and conflict of interest in decision-making due to factors of blood relations amongst employees and Board including Approved Persons. The Human Resources & Talent Development must be informed of any familial relationship to review reporting lines and responsibilities and mitigate any associated risks.

Code of Conduct

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision-making integral to their work. All officers and employees subscribe to this Code of Conduct and are expected to observe high standards of integrity and fairness in their dealings with clients, regulators and other stakeholders.

Corporate Governance and Ethical Behaviour continued

Shareholder's rights

The bank has a public disclosure on its website on shareholder's rights. It includes, amongst other things, the right to deal in the bank's shares, to attend the general assembly and the right to receive dividends as decided by the general assembly.

Whistle Blower policy

In line with CBB requirements and leading practices, we have implemented a whistleblowing policy to protect our employees from any form of violation. If employees or other parties providing the bank with services (including agents, consultants, auditors, suppliers and other service providers under contract with the bank) observe any unethical or improper practice or behaviour, a wrongful conduct of a financial or legal nature, or any activity that violates the code of conduct, they have the opportunity to report these to the chairperson of the Audit Committee without fear of repercussion, through an automated whistleblowing system. The Chief Internal Auditor will be delegated by the chairperson to investigate in a timely and fair manner allegations raised by the whistle-blower. The Chief Internal Auditor will keep the Audit Committee advised of the outcome of the investigation

Directors and executive management interests

The number of shares held by directors and their related parties and trading during the year is as follows:

Name	Type of shares	31 December 2023	Sales during 2023	Purchases during 2023	Bonus Shares ²	Other ¹	31 December 2022	
Farouk Yousuf Khalil Almoayyed - Chairman	Ordinary	36,580,411	-	-	3,325,491	-	33,254,920 ³	
Dr. Esam Abdulla Fakhro - Deputy Chairman	Ordinary	15,997,118	-	-	1,456,101	(20,000)	14,561,017 ³	
Fawzi Ahmed Kanoo - Deputy Chairman	Ordinary	144,260	-	-	13,114	-	131,146	
Sh. Rashed Bin Salman Al Khalifa - Director	Ordinary	-	-	-	-	-	-	
Hala Ali Hussain Yateem - Director	Ordinary	11,058,428	-	-	641,674	4,000,000	6,416,754 ³	
Rishi Kapoor - Director	Ordinary	-	-	-	-	-	-	
Yusuf Abdulla Yusuf Akbar Alireza - Director	Ordinary	-	-	-	-	-	-	
Mohamed Tareq Mohamed Sadeq Mohamed Akbar - Director	Ordinary	Left the board during the year						
Amin Ahmed Alarrayed - Director	Ordinary	-	-	-	-	-	-	
Vincent Van Den Boogert - Director	Ordinary	-	-	-	-	-	-	
Zaid Khalid Abdulrahman - Director	Ordinary	801,380	-	220,000	52,852	-	528,528 ³	
Dr. Paul David Pester - Director	Ordinary	-	-	-	-	-	Not a member	
Total shares		64,581,597	-	220,000	5,489,232	3,980,000	54,892,365	
As a % of the total number of shares		2.8%					2.4%	

Notes

1. Represents shares transferred to or from other shareholders during the year.
2. Bonus shares issued during the year at the rate of one additional share for every ten shares held.
3. Opening balance was restated to account for related parties added or removed during the year.

and depending on the materiality of the investigation results, the Audit Committee members may meet with the executive management to discuss the results and explore the available disciplinary actions. The full whistleblowing policy is available in the bank's official website.

Communication Strategy

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

Corporate Governance and Ethical Behaviour continued

Directors and executive management interests (continued)

Name	Type of shares	31 December 2023	Sales during 2023	Purchases during 2023	Bonus Shares ²	Other ¹	31 December 2022	
Usman Ahmed - Group Chief Executive Officer	Ordinary	-	-	-	-	-	-	
Jean Christophe Durand - Chief Executive Officer	Ordinary	Left the bank during the year						1,737,283
Abdulaziz Al Ahmed - Chief Executive Strategic Accounts	Ordinary	1,790,855	-	-	146,905	174,896	1,469,054 ³	
Sara Abdulaziz Jamal - Group Chief Human Resources Officer	Ordinary	-	-	-	-	-	-	
Nabeel Kazim - Group Chief Operating Officer	Ordinary	-	24,067	-	-	24,067	-	
Hisham Alkurdi - Group Chief Executive - Corporate and Institutional Investment Banking	Ordinary	-	137,403	-	-	137,403	-	
Fadhel Abbas - Group Chief Internal Auditor	Ordinary	355,386	-	-	28,463	42,286	284,637	
Bruce Wade - Group Chief Executive of Financial Restructuring	Ordinary	Left the bank during the year						83,121
Dana Buheji - Group Chief Human Resources Officer	Ordinary	Left the bank during the year						221,113
Russell Bennett - Group Chief Financial Officer	Ordinary	Left the bank during the year						116,740
Fatima Al Kooheji - Acting Group Chief Financial Officer	Ordinary	33,433	-	-	1,394	18,096	13,943	
Gaby El Hakim - Group Chief Legal Officer and Corporate Secretary	Ordinary	433,775	-	-	30,672	96,378	306,725	
Isa Maseeh - Group Chief Risk Officer	Ordinary	-	81,361	-	-	81,361	-	
Rana Abdulaziz Qambar - Group Chief Compliance Officer	Ordinary	18,476	-	-	356	18,120	-	
Subah Al Zayani - Chief Executive, Retail Banking	Ordinary	67,159	-	-	4,119	21,850	41,190	
Razi Amin - Group Chief Information Officer	Ordinary	77,482	17,000	-	3,300	58,180	33,002	
Hisham Abu Alfateh - Chief Corporate Communications Officer	Ordinary	24,273	5,083	-	-	29,356	-	
Total shares		2,800,839	264,914	-	215,209	701,993	4,306,808	

Notes

1. Represents shares transferred as part of the Employee Share Incentive Scheme and shares transferred to or from other shareholders during the year.
2. Bonus shares issued during the year at the rate of one additional share for every ten shares held.
3. Opening balance was restated to account for related parties added or removed during the year.

Approved Persons interests

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

Name	Type of shares	31 December 2023	31 December 2022
Total number of shares held	Ordinary	66,257,807	57,701,251
As a % of the total number of shares		%2.9	%2.8

Corporate Governance and Ethical Behaviour continued

Remuneration

Board of Directors Remuneration

The Board is paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting in line with the provisions of Article 188 of Bahrain's Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10% of the bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. While the amount of remuneration is not directly linked to the performance of the bank, factors such as the bank's performance, industry comparison and the time and effort committed by the directors to the bank, are considered for determining the total remuneration. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Directors' remuneration is accounted as an expense as per International Financial Reporting Standards and Central Bank of Bahrain regulations, the payment of which is subject to approval by the shareholders at the Ordinary General Meeting. In addition, the directors are paid sitting fees for the various committees of the Board.

Employees Remuneration Policy

The employees of the bank are critical for the bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. To achieve this objective, the bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices. In addition to fixed monthly salary and allowances, employees are provided with several other benefits like variable remuneration in the form of bonus, medical, life insurance cover, retirement benefits and employee savings scheme. While doing so, the bank gives paramount importance to the interests of the shareholders and to this end, the bank has implemented the Sound Remuneration Practices mandated by the Central Bank of Bahrain. While aligning the compensation of the employees with the risk outcomes and performance levels of the bank, the revised policies for Variable Remuneration i.e. the Bonus and Share Incentive Scheme also endeavour to align senior management's interest with shareholders' interests. The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 7% to 9% of the net profit before the bonus and the variable remuneration of senior management is reviewed and approved by the Board Nomination, Remuneration, Governance and Sustainability Committee of the bank.

Remuneration of Board Members, executive management, UAE Senior Management Committee and fees paid to external auditors

The aggregate remuneration paid to board members and executive management personnel are disclosed in detail in the Board Report which includes all required regulatory disclosures in this regard. The aggregate remuneration paid to the UAE Senior Management Committee in 2023 is BHD 1,014,656.

KPMG Fakhro are the bank's external auditors for the financial year ended 31 December 2023. Fees related to KPMG during the year 2023 amount to BHD 256,547 out of which BHD 124,652 is for audit services, BHD 62,280 is for CBB mandatory review requirements under the Agreed Upon Procedures and BHD 69,615 is for non-audit services. The Board assessed that the incumbent external auditor had performed their duties and responsibilities diligently throughout the year and have therefore recommended their reappointment.

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

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

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

Guidance

- HC 2.2.3 states that no director of a bank should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Three of the bank's directors, Mr. Farouk Almoayyed, Dr. Esam Fakhro and Mr. Fawzi Kanoo hold more than three directorships in public companies in Bahrain. However, the Board is of the opinion that this does not impact the effectiveness and efficiency of the Board, as the directors provide adequate attention to their responsibilities and there is no conflict of interests between their other directorships and that of the bank.
- HC 3.2.2 states that the Chairman of the Board should be an independent director. The bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director taking into account the business transactions that the bank has with the Almoayyed Group which is controlled by Mr. Farouk Almoayyed. The Board is of the view that this does not compromise the high standards of corporate governance that the bank maintains as (i) the business transactions are entered into on 'arm's length' basis following transparent tendering and approval processes (ii) the bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the bank do not participate in decisions related to such proposals.

Corporate Governance and Ethical Behaviour continued

Guidance (continued)

- HC-3.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-3.3.3 allows combination of committees. The bank has combined the responsibility of the Corporate Governance Committee with that of the Nomination, Remuneration, Governance and Sustainability Committee, which has six members two of whom are independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Nomination, Remuneration, Governance and Sustainability Committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities. As a result of this combination, the Nomination, Remuneration, Governance and Sustainability Committee does not satisfy the requirements of HC-3.8.2, however, it is the Board's determination that the Nomination, Remuneration, Governance and Sustainability Committee is sufficiently independent to meet its requirements and responsibilities, and on this basis the CBB has confirmed that it has no objection to the combination of these committees in this manner.

Remuneration Report

Our philosophy

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

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

In its elements, our philosophy encompasses the following:

- Encourage competency building by better linking career development, performance management and rewards.
- Support a performance-driven work culture that generates organisational growth.
- Reward (in the form of fixed and variable compensation) performance, skills and competencies, development and growth, and effective visible commitment to the organisation.
- Generate opportunities for individuals' growth through career development, training, and succession planning and talent development.

- Support a work environment which is governed by our values, sound leadership, and a culture conducive to success through team-based oriented work relationships and a balanced work life mix.

This translation of this philosophy has been implemented through compliance with a strong corporate governance framework, one which is both in adherence with regulatory requirements and aligned with industry benchmarks and best practices. In terms of oversight, the NRGSC is responsible for ensuring adherence to policy and regulations.

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

To ensure alignment between what we pay the employees and the bank's business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also considers adherence to the bank's values, risk, compliance measures and, above all, the need to act with integrity. Altogether, performance is judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the bank believes the latter contributes to the long-term sustainability of the business.

NRGSC role and focus

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

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.

Corporate Governance and Ethical Behaviour continued

Remuneration Report (continued)

NRGSC role and focus (continued)

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

The Board has established the NRGSC to address the above-mentioned objectives. Details of the committee, including its meeting dates, are included within the Corporate Governance Report. The aggregate remuneration paid to the NRGSC members during the year in the form of sitting fees amounted to BHD 11,500.

Scope of application of the remuneration policy

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

Variable remuneration for staff

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

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

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

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

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

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

As mentioned above, the total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 7% to 9% of the net profit before the bonus.

Remuneration of control and support functions

The remuneration level of staff in the control and support functions allows the bank to employ qualified and experienced personnel in these functions. The bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.

The bank's performance management system plays a major role in deciding the performance of the support and control units based on the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance, and ethical considerations as well as the market and regulatory environment other than value adding tasks which are specific to each unit.

Corporate Governance and Ethical Behaviour continued

Variable compensation for business units

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

Risk assessment framework

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

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

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

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

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

The NRGSC, with Board's approval, can rationalize and make the following discretionary decisions:

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

Malus and Clawback framework

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

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

The bank's malus and clawback provisions allow the bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include (i) reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year, and (ii) the employee deliberately misleads the market and/or shareholders in relation to the financial performance of the bank during the concerned performance year.

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

Corporate Governance and Ethical Behaviour continued

Components of variable remuneration

Variable remuneration has the following main components

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

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

Deferred compensation

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

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

Note: * The deferral vests on a pro-rata basis over a three-year period.

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

Details of remuneration paid

Board of Directors

BHD 000's	2023	2022
Sitting fees*	54.5	80.5
Remuneration	520.0	520.0

Note: * Includes NRGSC sitting fees of BHD 11.5 thousand as of 31 December 2023 (31 December 2022: BHD 30.0 thousand).

Corporate Governance and Ethical Behaviour continued

Employees

1-Employee remuneration

BHD 000's	Number of Staff*	2023									
		Fixed Remuneration		Sign on Bonuses (Cash / shares)	Guaranteed Bonuses *** (Cash / shares)	Variable Remuneration					Total
		Cash	Others			Upfront		Deferred			
Approved Persons											
- Business Lines	7	1,422	232	489	-	449	5	107	551	-	3,255
- Control & Support	16	2,165	334	87	-	379	73	-	294	-	3,332
Other Material Risk Takers	1	80	15	-	-	14	3	-	11	-	123
Other Staff*	768	16,367	3,078	-	-	3,829	138	-	552	-	23,964
Overseas Staff**	74	3,182	363	-	-	472	22	5	111	-	4,155
TOTAL	866	23,216	4,022	576	-	5,143	241	112	1,519	-	34,829

* This represents staff as at 31 December 2023. 86 staff who left during the year are not included in the number of staff however their respective remuneration has been disclosed in the relevant captions.

** One overseas staff has been included as part of of the Approved Persons Business Lines category

*** During the year, guaranteed bonuses to certain individuals amounted to BHD 413.6 thousands and these are included within the variable remuneration disclosures above.

BHD 000's	Number of staff*	2022									
		Fixed remuneration		Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration					Total
		Cash	Others			Upfront		Deferred			
Approved Persons											
- Business Lines	7	1,433	268	-	-	376	13	78	441	-	2,608
- Control and Support	18	2,315	353	-	-	463	91	-	363	-	3,586
Other Material Risk Takers	1	78	15	-	-	11	2	-	9	-	115
Other Staff	746	14,232	2,770	-	-	2,963	103	9	456	-	20,533
Overseas Staff	65	2,491	270	-	-	295	11	4	60	-	3,130
Total	837	20,549	3,676	-	-	4,108	219	91	1,329	-	29,972

* This represents staff as at 31 December 2020. 45 staff who left during the year are not included in the number of staff however their respective remuneration has been disclosed in the relevant captions.

Note that the notes for the 2022 figure is incorrect as the figure represents staff as of 31 December 2022 and the leavers were 72.

Corporate Governance and Ethical Behaviour continued

2. Deferred Awards

	2023				
	Cash	Shares		Others	Total
	BHD 000's	Number	BHD 000's*	BHD 000's	BHD 000's
Opening Balance	293	4,080,471	2,524	-	2,817
Awarded during the year	91	2,628,297	1,548	-	1,639
Adjustment based on final awards for 2022	-	8,265	5	-	5
Cash/Stock dividend awarded during the year	213	670,680	394	-	607
Interest on deposits	7	-	-	-	7
Paid out/released during the year	(250)	(2,872,486)	(1,790)	-	(2,040)
Closing balance	354	4,515,227	2,681	-	3,035

* Based on the original award price for each award period.

	2022				
	Cash	Shares		Others	Total
	BHD 000's	Number	BHD 000's*	BHD 000's	BHD 000's
Opening balance	359	4,682,461	2,931	-	3,290
Awarded during the year	65	1,786,942	1,104	-	1,169
Cash/Stock dividend awarded during the year	129	646,724	403	-	532
Interest on deposits	14	-	-	-	14
Paid out/released during the year	(274)	(3,035,656)	(1,914)	-	(2,188)
Closing balance	293	4,080,471	2,524	-	2,817

* Based on the original award price for each award period.

Compliance

The Bank is committed to fostering a robust compliance culture that extend throughout every aspect of our operations. This commitment is endorsed by our Board of Directors and senior management, who set the tone for compliance from the top and plays a leading role in establishing the Groups' compliance culture and values, and adherence to all applicable regulatory requirements. By upholding the highest standards of ethical conduct, we are safeguarding our reputation, protecting our clients' interests, and conducting our business responsibly.

In 2023, we continued to refine our compliance framework, ensuring that it aligns with the evolving regulatory landscape in the kingdom of Bahrain and other jurisdictions where we operate.

Compliance Culture

We are dedicated to nurturing a compliance-oriented culture through a comprehensive training and awareness program. All employees, including the Board of Directors, participate in mandatory Anti-money laundry and combatting terrorism financing trainings sessions. Additionally, compliance various awareness sessions are conducted for all staff to reinforce the importance of compliance and its role in achieving our strategic objectives. These efforts foster a culture of ethical decision-making and ensure that we consistently deliver fair outcomes for our clients and stakeholders in accordance with the regulatory requirements.

Compliance Governance

The Group Compliance Management Committee ("GCMC"), established in 2019, oversees all compliance-related risks.

The objective of the committee is to develop, identify, measure, document and assess compliance risks across the group, and monitor the adherence of NBBs' Group to the Central Bank of Bahrain ("CBB"), Central Bank of UAE ("CBUAE") as well as the Central Bank of Saudi Arabia ("SAMA") requirements with the relevant rules and regulations.

Additionally, provides regular updates to senior management on progress towards resolving compliance related regulatory observations, compliance audit findings, and self-identified issues. The GCMC also serves as an escalation point for any compliance-related matters requiring immediate attention. The Group Chief Compliance Officer reports relevant management information from GCMC sessions to the Board Risk and Compliance Committee ("BRCC").

Both the GCMC and the BRCC operate under approved terms of reference, ensuring clear governance structures and accountability for compliance matters.

Corporate Governance and Ethical Behaviour continued

Compliance (continued)

Compliance Framework

To maintain a robust compliance framework that structures a set of guidelines and principles to aggregate, harmonize, and integrate all regulatory requirements that apply to the bank and ensure full adherence to all applicable regulatory requirements.

Financial Crime Compliance (FCC)

The Bank is committed in applying rules, principles, and the highest level of standards to manage Anti-Money Laundering ("AML"), Combating Financing of Terrorism ("CFT") and Proliferation risks in line with the financial crime laws and regulations as required by the CBB.

Additionally, the Bank adopts a risk based approach to ensure mitigation of compliance risks. Our comprehensive AML, CFT, and Sanctions Policy outlines the principles and direction to control and adhere to the relevant applicable laws and regulations.

Compliance Testing and Assurance

Compliance Testing and Assurance play a crucial role in ensuring that we effectively manage regulatory risks and prevent non-compliant activities. Compliance regularly assesses the Bank's adherence to regulatory requirements and the effectiveness of the Bank's first and second lines of defense activities. This risk-based approach compliance testing plan ensures that the business operates in compliance with all relevant regulations.

Customer Complaints

We are committed to providing exceptional customer service and promptly addressing customer complaints. Our Complaints Management Policy and Procedures align with guidelines provided by the Central Bank of Bahrain (CBB). We value customer feedback and utilize complaints as an opportunity to identify and rectify shortcomings, ultimately enhancing our services and products.

Regulatory Engagements

The Bank proactively engages with regulatory authorities to stay abreast of evolving regulatory requirements. A dedicated team monitors regulatory releases from relevant regulatory bodies, promptly identifying and assessing the potential impact of any new or updated regulations on our operations. We then implement the necessary changes to our policies, procedures, and controls to ensure ongoing compliance.

Internal Audit

The Internal Audit function is integral to the bank's risk management system and plays an important role in evaluating the independence of risk management functions as well as the adequacy and effectiveness of the bank's internal control system. A periodic review is conducted by the department to confirm that established policies, procedures, and approved terms are complied with, and areas of concern are highlighted so that corrective action can be taken in time. The department is subject to an independent external quality assurance review system.

The department adopts a risk-based approach, and part of each audit assignment involves verifying the availability of comprehensive, reliable and up-to-date policies and procedures. The department assesses the completeness and clarity of applicable policies, procedures and systems on a regular basis throughout the year, in line with the audit plan. The plan, which is formulated after an annual risk assessment exercise, includes the assessment of the effectiveness and adequacy of controls, validation of risk models and operational compliance. It forms part of a three-year strategic audit plan which ensures that all the functions and processes of the bank, including local and overseas branches, are properly covered.

The department operates in conformance with international standards for the professional practice of internal auditing. More than 70% of audit department staff are professionally qualified by well-known international associations (such as CIA, ISACA, CPA and ACCA).

Risk Management

The financial sector continues to grow in complexity and sophistication with ongoing changes in regulatory and operating environments globally. Technology advances are introducing new challenges and opportunities for banks. With this dynamic environment comes a growing need to continue to strengthen existing frameworks and bolster controls. NBB has, over the years, developed risk management into a core competence and remains well-positioned to meet these challenges. The bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the creditworthiness of its clients. Risk management at NBB has always been prudent and proactive, with the objective of achieving the optimum balance between risk and expected returns.

Corporate Governance and Ethical Behaviour continued

Risk Management (continued)

Overall authority for risk management in the bank is vested in the Board. A Board Risk and Compliance Committee has been established to provide oversight and advice to the Board. The Board authorises appropriate credit, operational, liquidity, market and information security risk policies based on the recommendations of management. Approval authorities are delegated in a hierarchy depending on the amount, type of risk and collateral security. The bank has also established an Operational Risk Management Committee (ORMC), Group Asset Liability Committee (GALCO), Management Credit Committee (MCC), Business Continuity Management Committee (BCMC), and Information Security Committee (ISC) to address different areas of risk.

The bank's risk management process encompasses the various dimensions of risk as outlined below.

Credit Risk

We actively strive to manage risk to protect and enable the business. NBB has maintained a conservative and consistent approach to risk since its inception, helping to ensure we protect client's funds, lend responsibly, and support the local economy. The team at credit risk works carefully to ensure the alignment between our credit risk appetite and the vision in our corporate strategy.

With regulatory and market pressures driving the industry to heightened risk controls and wise use of capital, the team continues to undertake more scrutiny in detailed reviews of our portfolios. It actively assesses clients and sectors likely to come under stress, taking corrective risk management action plans when necessary.

An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The bank's internal ratings are based on a 16-point scale that considers the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive assessment of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least annually. Regular monitoring of the portfolio enables the bank to address accounts that evidence deterioration in risk profile.

The bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have been implemented to govern the bank's investment activities. Not only are regular appraisals conducted to judge the creditworthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all such accounts. The bank applies rigorous standards for provisioning and monitoring of non-performing loans.

The bank's Global Credit Policy integrates ESG factors into the credit process, as follows:

- Controlled Credits: One up level approval required for borrowers violating prudential norms of responsible corporate behaviour including environmental, social and governance-related norms related to human rights, working conditions, child labour, environmental impact, anti-corruption, production of banned weapon, tobacco etc.
- Credit Application templates require specific mention of risks arising from environmental, social and governance factors.
- Business Units shall not consider requests from borrowers engaged in activities considered harmful or inappropriate (without proactive mitigating actions) from an environmental, social or governance point of view.

Aiming to make a positive contribution to both internal and external stakeholders, we have sought to embed sustainability in our Global Credit Policy and credit activity since 2020. Our ambition to be recognised as a regional leader in responsible lending and sustainable finance stems from our commitment to make positive impact on the clients and communities we serve. ESG risk factors are examined across our financing activity with clients. We are working with leaders in the field to cement ESG risk assessment so that our approach is more fully entrenched in the overall credit risk management framework.

Legal Risk

The Legal Department manages and mitigates legal risks through prompt review and advice on bank-wide matters and on transactions including all related documents. The main goal is to ensure the bank's interests are protected and the bank is in a position to make informed decisions in transactional and operational matters. The team keeps abreast of latest developments in domestic and relevant international legislation that would have an impact on the bank's operations and initiates corrective action when the bank's business is likely to be affected. In-house expertise independently ensures the above objectives are properly maintained. In addition, the Legal Department manages its panel of internationally renowned firms and conducts engagements with firms where specific advice on local and foreign legal matters is required, or when the bank requires transaction or contentious representation.

Corporate Governance and Ethical Behaviour continued

Risk Management (continued)

Privacy and Personal Data Protection Law (PDPL)

At NBB, we protect client privacy and secure personal information with the highest care to retain the trust and confidence of our clients. We have implemented numerous security and privacy measures to safeguard our clients and facilitate transactions across different platforms: online, mobile, and ATMs. We adopted a data privacy policy, which is available on our website.

We implemented an electronic solution to continuously inform our clients through social media about the collection and the use of their data. As part of our information security awareness training, we provide staff with privacy awareness training.

To comply with the Personal Data Protection Law (PDPL) of Bahrain, KSA and UAE the bank performed gap analysis against the laws. The Bank is now engaged in a journey to fully bridge the identified gaps. Further, during the year 2023, the bank has taken steps to comply with the ISO-27701 standard for the management, governance and implementation of the privacy related controls.

Liquidity and Market Risk

Liquidity risk is classified as the potential inability of the bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are always available to meet the funding requirements of the bank. The asset/liabilities management of the bank covers various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, and others.

The bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its client deposit base. The strategy of the bank has ensured a balanced mix of demand and time deposits.

The bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Head of Asset Liability Management is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if necessary. In addition, the Group Asset Liability Committee regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

Market risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity, and equity prices. The bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back-office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems. The limits are set annually and regularly reviewed.

The bank uses the standardized method to calculate capital charge for market risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirements on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk capital requirement of the bank.

The Bank supports the move to more robust and reliable benchmark rates. The Bank has completed a Group-wide initiative to identify, assess, and monitor risks associated with the discontinuation or unavailability of benchmarks, including LIBOR, and the transition to Alternative Reference Rates. We have also completed the evaluation of existing contracts across all products to determine the impact because of the discontinuation of LIBOR and other benchmarks and to address potential amendments to those contracts.

Operational Risk

Operational risk is the risk to achieving our strategy or objectives because of inadequate or failed internal processes, people and systems or from external events. Operational risk arises from day-to-day operations or external events and is relevant to every aspect of our business.

Operational risk is:

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

The objective of our operational risk management framework (ORMF) is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite. We have a dedicated Operational Risk Management Department (ORMD) that is responsible for leading the embedding of the ORMF and assuring adherence to associated policies and processes across the first and second lines of defence. It further supports the Group Chief Risk Officer and the Operational Risk Management Committee (ORMC), which meets on a periodic basis to discuss key risk issues and review the implementation of the ORMF.

Corporate Governance and Ethical Behaviour continued

Risk Management (continued)

Operational risk (continued)

Heads of departments and functions throughout the bank are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls, and monitoring the effectiveness of these controls. We continue our ongoing work to strengthen the controls that manage our most material risks. Among other measures, we are:

- Further developing controls to help ensure that we know our client, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter fraud risk.
- Improving controls and security to protect clients when using digital channels.
- Increasing monitoring and enhancing detective controls to manage those fraud risks which arise from new technologies and new ways of banking.

All UAE procedures are reviewed by relevant stakeholders in the UAE and in Bahrain. They are published on Bank's intranet site post approval, and the internal controls are documented in relevant procedures.

Information Security

Information security addresses the risk associated with the operation and use of information systems that support the mission and business functions of the bank. It is defined as a function of the likelihood of a given threat-source exercising (accidentally triggering or intentionally exploiting) a particular potential vulnerability, and the resulting impact of that adverse event on the organisation. The bank has aligned its security function to the ISO/IEC 27001 standard and attained the certification in 2020. This has been done by way of implementing an Information Security Management System (ISMS) framework consisting of policies and procedures to support information risk management processes. It is a systematic approach to managing sensitive Bank information so that it remains secure, by including people, processes, and technology. The strategic objective is to adopt a risk-based approach by integrating information security risk management processes into the life cycle of all information systems and infrastructures, thus mitigating and minimising the risk to an acceptable level.

The bank has continued to strengthen the ISMS system and enhance the maturity of the associated processes. The ISMS system consists of administrative controls (policies, standards, and processes/ procedures) and technical controls (the implementation of technical security measures). The programme is risk-based in which processes continuously evaluate the risk relevant to the use of technology in business and then addresses the identified risk. The programme is monitored by management through the bank's Information Security Committee (ISC). Periodic security reports are reviewed by the Board. During 2023, we had zero data security breaches.

Nevertheless, to strengthen our detection and response capabilities, we have modified procedures to include stricter controls and enhanced detection services by acquiring multiple advanced systems.

Further to having attained the ISO 27001 certification, the bank is also PCI-DSS (Payment Card Industry Data Security Standard) compliant and certified. In addition, the CBB mandates that all banks should comply with the Personal Data Privacy Law (PDPL) of Bahrain. NBB has taken early steps to comply with this law.

Internal audits on information security are conducted during the year, while an external audit is performed annually. In addition, we undertake external Penetration Testing (PT) twice a year, an internal PT exercise once a year and Approved Scanning Vendors (ASV scans - as required by PCI-DSS) on a quarterly basis. All PT exercises are performed by a third-party consultant. Further, an internal vulnerability test is carried out every month and an internal Wi-Fi detection scan is performed once a year.

NBB has acquired technical controls to strengthen its security posture. NBB is currently working to enhance its existing Security Operations Centre (SOC) service and its Cyber Incident Management Plan.

The bank has continued to engage external suppliers to check for cyber compromise, forensic investigation and cyber resilience. The bank has multiple suppliers for SOC management, cyber intelligence, extended detection and response, and receives security updates and recommendations from various CERT bodies in the region.

Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the bank's corporate culture and is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system incorporates as an ethos the maintenance of business practices of the highest quality for clients, shareholders, regulators, and general public and fiduciary / non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them.

Enterprise Risk Management manages all aspects of risk mentioned above and reports regularly to the Board Risk and Compliance Committee, based on a comprehensive risk report. This integrated approach to risk management also serves the bank in achieving its objective of protecting the interests of shareholders and clients.

Fraud Risk Management

Regulatory compliance and financial crime risks

The Enterprise Risk Management has created a fraud risk management department (FRMD). FRMD has successfully designed and rolled out the fraud risk management policy, fraud risk response plan, and anti-fraud systems. Collectively, the anti-fraud systems, policy and procedures, contributed to significant reduction in the financial losses incurred by our customers due to third-party schemes.

Financial Statements

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Independent Auditors' Report

To the Shareholders of

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

Opinion

We have audited the consolidated financial statements of National Bank of Bahrain B.S.C. (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances	
Refer to the use of estimate and management judgment in note 2(d), impairment policy in the note 2f(x), note 7 and disclosures of credit risk in note 3 of the consolidated financial statements	
The key audit matter	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> of the significance of loans and advances representing 47% of total assets; Impairment of loans and advances involves: <ul style="list-style-type: none"> complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses; 	<ul style="list-style-type: none"> Our audit procedures, amongst others, to address significant risks associated with impairment of loans and advances included Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. <p>Controls testing</p> <p>We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process. Key aspects of our control testing involved the following:</p> <ul style="list-style-type: none"> Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process; Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 ECL models; Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates; Testing controls over the modelling process, including governance over model monitoring, validation and approval; Testing key controls relating to selection and implementation of material economic variables; and Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them.

Independent Auditors' Report continued

The key audit matter	How the matter was addressed in our audit
<ul style="list-style-type: none"> The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weighting applied to them; and Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. 	<p>Test of details</p> <p>Key aspects of our testing involved:</p> <ul style="list-style-type: none"> Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. <p>Use of specialists</p> <p>For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include:</p> <ul style="list-style-type: none"> We involved our information technology specialists to test controls over the IT systems and recording of data in source systems; We involved our credit risk specialists in: <ul style="list-style-type: none"> evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); re-performing the calculations of certain components of the ECL model (including the staging criteria); evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighting applied to them; and evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends. <p>Disclosures</p> <p>Evaluating the adequacy of the Group's disclosure in relation to use of significant estimates and judgment and credit quality of loans and advances by reference to the requirements of relevant accounting standards.</p>

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of 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 Accounting Standards, 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 continued

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and (Volume 1) of the 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 board of directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1), applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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



KPMG Fakhro

Partner Registration Number 213

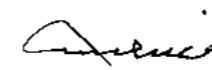
27 February 2024

Consolidated Statement of Financial Position

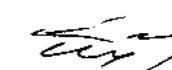
As at 31 December

	Note	2023		2022	
		BHD millions	USD millions	BHD millions	USD millions
Assets					
Cash and balances at central banks	4	181.3	480.9	177.7	471.4
Treasury bills	5	186.1	493.6	343.5	911.1
Placements with banks and other financial institutions	6	1,038.9	2,755.7	275.1	729.7
Loans and advances	7	2,535.1	6,724.4	2,494.9	6,617.8
Investment securities	8	1,155.0	3,063.7	1,241.4	3,292.8
Investment in associates	9	26.3	69.8	26.5	70.3
Interest receivable and other assets	10	127.6	338.4	103.3	274.0
Property and equipment	11	70.3	186.5	70.1	185.9
Goodwill and other intangible assets	12	51.9	137.7	52.8	140.1
Total assets		5,372.5	14,250.7	4,785.3	12,693.1
Liabilities					
Due to banks and other financial institutions	13	671.0	1,779.8	472.3	1,252.8
Borrowings under repurchase agreements	14	460.7	1,222.0	244.4	648.3
Customer deposits	15	3,504.8	9,296.6	3,330.2	8,833.4
Interest payable and other liabilities	16	158.8	421.2	162.5	431.0
Total liabilities		4,795.3	12,719.6	4,209.4	11,165.5
Equity					
Share capital	20	226.6	601.1	206.0	546.4
Shares unallocated under share incentive scheme	20	(0.9)	(2.4)	(1.1)	(2.9)
Share premium	21	13.6	36.1	12.3	32.6
Statutory reserve	21	113.3	300.5	103.0	273.2
General reserve	21	32.4	85.9	32.4	86.0
Other reserves and retained earnings	21	180.0	477.5	213.3	565.8
Equity attributable to the shareholders of the Bank		565.0	1,498.7	565.9	1,501.1
Non-controlling interest		12.2	32.4	10.0	26.5
Total equity		577.2	1,531.1	575.9	1,527.6
Total liabilities and equity		5,372.5	14,250.7	4,785.3	12,693.1

The consolidated financial statements were approved by the board of directors on 27 February 2024 and signed on its behalf by:



Farouk Yousuf Khalil Almoayyed
Chairman



Dr. Esam Abdulla Fakhro
Deputy Chairman



Usman Ahmed
Group Chief Executive Officer

The accompanying notes 1 to 48 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December

	Note	2023		2022	
		BHD millions	USD millions	BHD millions	USD millions
Interest income	23	267.7	710.1	188.6	500.3
Interest expense	23	(126.3)	(335.0)	(56.8)	(150.7)
Net interest income		141.4	375.1	131.8	349.6
Net fee and commission income	24	12.9	34.2	13.0	34.4
Other income	25	29.7	78.8	28.2	74.8
Total operating income		184.0	488.1	173.0	458.8
Staff expenses	26	49.3	130.8	45.0	119.4
Depreciation, amortisation and equipment expenses	27	20.5	54.4	15.3	40.6
Other operating expenses	27	26.2	69.5	25.2	66.8
Total operating expenses		96.0	254.7	85.5	226.8
Operating profit before results of associates, impairment, and other provisions		88.0	233.4	87.5	232.0
Share of profits from associates, net	9	1.1	2.9	0.6	1.6
Loans, placements and securities impairment, net	17	(6.5)	(17.2)	(16.3)	(43.2)
Other impairment and provisions, net	17	(1.2)	(3.2)	(1.1)	(2.9)
Profit for the year		81.4	215.9	70.7	187.5
Attributable to:					
Shareholders of the Bank		79.1	209.8	68.1	180.6
Non-controlling interest		2.3	6.1	2.6	6.9
Profit for the year		81.4	215.9	70.7	187.5
Basic and diluted earnings per share attributable to the shareholders of the Bank	41	35 fils	9 cents	30 fils	8 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Esam Abdulla Fakhro
Deputy Chairman

Usman Ahmed
Group Chief Executive Officer

The accompanying notes 1 to 48 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Profit for the year	81.4	215.9	70.7	187.5
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss:				
Fair value through other comprehensive income (debt investments)				
Net change in fair value	11.8	31.3	23.6	62.6
Net amount transferred to profit or loss	(10.5)	(27.8)	(9.5)	(25.2)
Items that will not be reclassified to profit or loss:				
Net change in fair value of equity FVOCI investments	(5.6)	(14.9)	(4.1)	(10.8)
Total other comprehensive (loss) / income for the year	(4.3)	(11.4)	10.0	26.6
Total comprehensive income for the year	77.1	204.5	80.7	214.1
Attributable to:				
Shareholders of the bank	74.8	198.4	78.1	207.2
Non-controlling interest	2.3	6.1	2.6	6.9
Total comprehensive income for the year	77.1	204.5	80.7	214.1

The accompanying notes 1 to 48 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Unallocated shares	Share premium	Statutory reserve	Other reserves and retained earnings				Total owners' equity	Non-controlling interest	Total equity	
					General reserve	Fair value reserve	Donation and charity reserve	Retained earnings			BHD millions	USD millions
For the year ended 31 December 2023												
Balance at 31 December 2022	206.0	(1.1)	12.3	103.0	32.4	28.2	13.0	172.1	565.9	10.0	575.9	1,527.6
2022 appropriations:												
Cash dividend at 25%	-	-	-	-	-	-	-	(51.3)	(51.3)	-	(51.3)	(136.1)
Bonus shares issued at 10%	20.6	(0.1)	-	-	-	-	-	(20.5)	-	-	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.4	(3.4)	-	-	-	-
Transfer to statutory reserve	-	-	-	10.3	-	-	-	(10.3)	-	-	-	-
2023 appropriations:												
Cash dividend at 10%	-	-	-	-	-	-	-	(22.7)	(22.7)	-	(22.7)	(60.2)
Balance after 2022 & 2023 appropriations	226.6	(1.2)	12.3	113.3	32.4	28.2	16.4	63.9	491.9	10.0	501.9	1,331.3
Employee shares allocated	-	0.3	1.3	-	-	-	-	-	1.6	-	1.6	4.2
Comprehensive income for the year:												
Profit for the year	-	-	-	-	-	-	-	79.1	79.1	2.3	81.4	215.9
Other comprehensive income	-	-	-	-	-	(4.3)	-	-	(4.3)	-	(4.3)	(11.4)
Total comprehensive income for the year						(4.3)		79.1	74.8	2.3	77.1	204.5
Utilisation of donation and charity reserve	-	-	-	-	-	-	(3.0)	-	(3.0)	-	(3.0)	(7.9)
Disposal of equity securities	-	-	-	-	-	4.6	-	(4.6)	-	-	-	-
Other movements	-	-	-	-	-	-	-	(0.3)	(0.3)	(0.1)	(0.4)	(1.0)
Balance at 31 December 2023 (notes 20-22)	226.6	(0.9)	13.6	113.3	32.4	28.5	13.4	138.1	565.0	12.2	577.2	1,531.1

The appropriations for the year 2023 will be submitted to the shareholders at the annual general meeting. These appropriations include BHD 68.0 million for cash dividend at 30% (2022: 25%) and BHD 4.0 million for donations and contributions.

	Share capital	Unallocated shares	Share premium	Statutory reserve	Other reserves and retained earnings				Total owners' equity	Non-controlling interest	Total equity	
					General reserve	Fair value reserve	Donation and charity reserve	Retained earnings			BHD millions	USD millions
For the year ended 31 December 2022												
Balance at 31 December 2021	187.3	(1.2)	11.4	93.6	32.4	18.2	13.8	172.3	527.8	7.5	535.3	1,419.9
2021 appropriations:												
Cash dividend at 20%	-	-	-	-	-	-	-	(37.3)	(37.3)	-	(37.3)	(98.9)
Bonus shares issued at 10%	18.7	(0.1)	-	-	-	-	-	(18.6)	-	-	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	2.7	(2.7)	-	-	-	-
Transfer to statutory reserve	-	-	-	9.4	-	-	-	(9.4)	-	-	-	-
Balance after 2021 appropriations	206.0	(1.3)	11.4	103.0	32.4	18.2	16.5	104.3	490.5	7.5	498.0	1,321.0
Employee shares allocated	-	0.2	0.9	-	-	-	-	-	1.1	-	1.1	2.9
Comprehensive income for the year:												
Profit for the year	-	-	-	-	-	-	-	68.1	68.1	2.6	70.7	187.5
Other comprehensive income	-	-	-	-	-	10.0	-	-	10.0	-	10.0	26.6
Total comprehensive income for the year						10.0		68.1	78.1	2.6	80.7	214.1
Utilisation of donation and charity reserve	-	-	-	-	-	-	(3.5)	-	(3.5)	-	(3.5)	(9.3)
Other movements	-	-	-	-	-	-	-	(0.3)	(0.3)	(0.1)	(0.4)	(1.1)
Balance at 31 December 2022 (notes 20-22)	206.0	(1.1)	12.3	103.0	32.4	28.2	13.0	172.1	565.9	10.0	575.9	1,527.6

Unallocated shares are shares that remain unallocated to employees under the employee share incentive scheme.

The accompanying notes 1 to 48 are an integral part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December

	Note	2023		2022	
		BHD millions	USD millions	BHD millions	USD millions
Cash flows from operating activities					
Profit for the year		81.4	215.9	70.7	187.5
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation and amortisation		9.7	25.7	7.9	21.0
Amortisation of right-of-use leased property		1.9	5.1	2.1	5.6
Loans, placements and securities impairment, net	17	6.5	17.2	16.3	43.2
Other impairment and provisions, net	17	1.2	3.2	1.1	2.9
Share of profits from associates, net		(1.1)	(2.9)	(0.6)	(1.6)
Profit for the year after adjustments		99.6	264.2	97.5	258.6
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		(3.1)	(8.2)	(43.8)	(116.2)
Treasury bills		(25.9)	(68.7)	62.8	166.6
Placements with banks and other financial institutions		(1.0)	(2.7)	20.2	53.6
Loans and advances		(46.8)	(124.1)	(115.7)	(306.9)
Investment securities		109.6	290.7	(32.3)	(85.7)
Interest receivable and other assets		(58.3)	(154.6)	44.1	117.0
Due to banks and other financial institutions		198.7	527.1	(45.7)	(121.2)
Borrowings under repurchase agreements		216.3	573.7	22.8	60.5
Customer deposits		174.6	463.1	146.0	387.2
Interest payable and other liabilities		4.7	12.4	93.0	246.7
Net cash from operating activities		668.4	1,772.9	248.9	660.2
Cash flows from investing activities					
Dividend received from associates		0.4	1.1	0.8	2.1
Purchase of property and equipment, net		(9.0)	(23.9)	(13.5)	(35.8)
Net cash used in investing activities		(8.6)	(22.8)	(12.7)	(33.7)
Cash flows from financing activities					
Dividends paid		(74.1)	(196.6)	(37.3)	(98.9)
Donations and charities paid		(3.4)	(9.0)	(3.9)	(10.3)
Payment of lease liabilities		(2.3)	(6.1)	(2.6)	(6.9)
Net cash used in financing activities		(79.8)	(211.7)	(43.8)	(116.1)
Net increase in cash and cash equivalents		580.0	1,538.4	192.4	510.4
Cash and cash equivalents at 1 January	4	512.9	1,360.5	320.5	850.1
Cash and cash equivalents at 31 December	4	1,092.9	2,898.9	512.9	1,360.5

The accompanying notes 1 to 48 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December

1. REPORTING ENTITY

The National Bank of Bahrain B.S.C., a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by the Central Bank of Bahrain (CBB) as a conventional retail bank.

The overseas branches in United Arab Emirates and Kingdom of Saudi Arabia operate under the laws of those respective countries.

The Bank's registered address is National Bank of Bahrain B.S.C., P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its subsidiary (together the Group). The Bank holds 78.8% of the share capital of Bahrain Islamic Bank B.S.C. (BISB) which operates under an Islamic retail banking license issued by the CBB. The Group is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

2. MATERIAL ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The consolidated financial statements of the Group are presented in Bahraini Dinar (BHD) being the functional currency of the Group. The US Dollar (USD) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US Dollar at the rate of BHD 0.377 to USD 1 (2021: BHD 0.377 to USD 1).

The consolidated financial statements have been prepared on the historical cost convention except for financial instruments classified as fair value through profit or loss, fair value through other comprehensive income investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

ij) Adoption of new accounting policies and amendmends to standards

A. IFRS 17 - Insurance Contracts

IFRS 17 - Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

As part of this determination, the Group assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts, and other similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

The Group has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants and are therefore exempt from IFRS 17.

The Group has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the consolidated financial statements for the year ended 31 December 2023.

B. Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The International Accounting Standards Board (IASB) also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material: "accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

C. Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendment did not have any impact on the Group's consolidated financial statements.

ii) New standards and amendments not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, these standards are not relevant to the Group and were not early adopted in preparing these consolidated financial statements.

c. Foreign currencies

i) Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in other income.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

c. Foreign currencies (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss, except for differences arising on the retranslation of fair value through other comprehensive income equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

ii) Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at the spot exchange rate at the reporting date. The income and expenses of these overseas branches for the year are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

d. Use of estimates and management judgement

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of the standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value of the financial instruments.

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss.

The Group has an internal credit rating model that uses qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Group also uses external credit ratings for certain exposures.

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

In determining whether credit risk has increased significantly since initial recognition the following criteria are considered:

I. Downgrade in risk rating according to the approved ECL policy.

II. Facilities restructured during the previous twelve months.

III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in applicable circumstances.

The Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

The Group reviews its goodwill and intangibles on an annual basis to determine whether an impairment loss should be recorded in the statement of profit or loss, where assumptions and judgements are made in computing the recoverable value. Further details on impairment of non-financial assets are included in note 2g.

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

e. Accounting for income and expenses (continued)

The Group has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability is unfunded and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Group has a voluntary employees saving scheme. The Group and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Group. The Group's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i. Recognition and initial measurement

The Group initially recognises financial assets and liabilities on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. There reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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

iii. Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

iv. Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest rate method.

v. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

vi. Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the underlying item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

The Group designated certain derivatives as hedging instruments to hedge variability in fair values associated with interest rates.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

vii. Repos and reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as borrowings under repurchase agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in placements with banks and other financial institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective interest rate method.

viii. Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Group in the management of its short term commitments.

ix. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities the fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments. For unlisted equity securities, the net asset value of the underlying entities is representative of the fair value given the nature of their balance sheet.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

f. Financial assets and liabilities (continued)

x. Identification and measurement of impairment

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

- Financial assets including loans and advances, debt instruments and placements;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

xi. Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of an existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

g. Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Group include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

i. Leases

At the inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

i. Leases (continued)

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Group's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

j. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and equipment	3 to 15 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

k. Goodwill and intangibles

The Group accounts for business combinations using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Transaction costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, and the amount recognised for non-controlling interests and any previous interest held over the net identifiable tangible and intangible assets acquired and liabilities assumed.

After initial recognition, goodwill and other intangibles are measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Further details on impairment of non-financial assets is included in note 2g.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained. Intangibles with indefinite useful lives are subject to impairment testing at least on an annual basis, while those with definite useful lives are amortised.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

2. MATERIAL ACCOUNTING POLICIES (continued)

l. Other provisions

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

m. Off-setting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set-off the recognised amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

n. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives and assets classified as fair value through profit or loss are recognised on the settlement date i.e. the date the Group receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative and assets classified as fair value through profit or loss transactions are recognised on trade date, representing the date the Group contracts to purchase or sell.

o. Proposed appropriations

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

p. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of the Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Group also has a discretionary bonus scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices regulation of the Central Bank of Bahrain.

q. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Group. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

r. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

s. Income tax liability

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

t. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of their carrying amount and their fair value less costs to sell and are reported within other assets.

u. Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially recorded at cost, being the fair value of the consideration given and acquisition charge. Subsequently, investment properties are measured at fair value and movements are recorded under other income in the statement of profit or loss.

v. Assets under management

The Group acts as a trustee / manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Group's financial statements as they are not assets of the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

3. FINANCIAL RISK MANAGEMENT

The Group is exposed to the following types of risks:

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

Risk management framework

The overall authority for risk management in the Group is vested with the Board of Directors. The Board authorises appropriate credit, liquidity, market, and operational risk policies based on the recommendation of the Board Risk Committee and Management of the Group. The Group has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk division of the Group provides the necessary support to Senior Management and the business units in all areas of risk management. The Risk division functions independent of the business units and reports directly to the Board Risk Committee and administratively to the Chief Executive Officer.

The Board Risk Committee is responsible for identifying and monitoring risks within the framework of the risk appetite established by the Board of Directors including reviewing and reporting its conclusions and recommendations to the Board on the Group's current and future risk appetite, the Group's risk management framework as well as the Group's risk culture.

The Group's risk management policies are established to identify and analyse the risk faced by the Group, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Group has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Credit appraisal is based on the financial position of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties.

The Credit Risk Department of the Group independently analyses risks and puts forth its recommendations prior to approval by the appropriate authorities for facilities above a specified threshold. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and annual review process supports the identification of any deterioration in credit risk and consequent implementation of corrective action.

The Group's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Group to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Group also uses the ratings by established rating agencies as part of the appraisal process while considering exposures to rated entities.

Liquidity risk

Liquidity risk Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Group.

The asset and liability management policies of the Group define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Group maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Group Asset Liability Committee (GALCO) chaired by the Chief Executive Officer reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity.

Market risk

Market risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Group. The Group's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Group uses the standardised method under Basel III for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

Operational risk

Operational risk is the risk of monetary loss on account of human error, fraud, system failures or the failure to record transactions. The Group has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks. Additionally, new products and services are reviewed and assessed for operational risks prior to their implementation.

Capital management

The Group's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on the return on shareholder's equity is also recognised, and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

4. CASH AND CASH EQUIVALENTS

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Cash and balances at central banks	181.3	480.9	177.7	471.4
Less: mandatory cash reserves	(125.5)	(332.9)	(122.4)	(324.7)
	55.8	148.0	55.3	146.7
Treasury bills (less than 3 months)	-	-	183.3	486.2
Placements with banks and other financial institutions (less than 3 months)	1,037.1	2,750.9	274.3	727.6
	1,092.9	2,898.9	512.9	1,360.5

5. TREASURY BILLS

Treasury bills are short-term in nature and include treasury bills, Islamic Sukuk and certificate of deposits issued by the Government of Bahrain, the Government of Saudi Arabia and the United States Treasury.

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
United States Treasury	176.1	467.1	234.1	620.9
Government of Saudi Arabia	9.9	26.2	10.0	26.5
Government of Bahrain	0.1	0.3	99.4	263.7
	186.1	493.6	343.5	911.1

6. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Group's money market activities and comprises short-term lending to banks and other financial institutions.

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Placements with banks	1,022.1	2,711.1	268.0	710.9
Placements with other financial institutions	16.8	44.6	7.1	18.8
	1,038.9	2,755.7	275.1	729.7

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Term placements	846.8	2,246.2	160.5	425.7
Current and call accounts	171.5	454.9	111.2	295.0
Reverse repos	20.6	54.6	3.4	9.0
	1,038.9	2,755.7	275.1	729.7

7. LOANS AND ADVANCES

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
a) As at 31 December				
Loans and advances to non-banks	2,608.6	6,919.4	2,558.3	6,785.9
Loans and advances to banks	24.4	64.7	31.8	84.4
Gross loans and advances	2,633.0	6,984.1	2,590.1	6,870.3
Less: provision for impairment	(97.9)	(259.7)	(95.2)	(252.5)
	2,535.1	6,724.4	2,494.9	6,617.8

b) As at 31 December 2023, the amount of floating rate loans for which interest was being reset by the Group on agreed dates and based on an agreed fixed margin over a benchmark interest rate amounted to BHD 802.7 million (USD 2,129.2 million) [31 December 2022: BHD 718.9 million (USD 1,906.9 million)].

c) In accordance with the Group's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are immediately defined as non-performing. Any interest accrued is reversed and future interest is only recognised on a cash basis. The ageing schedule of non-performing loans and advances based on the time period since the last repayment of principal or interest by the customer, is as follows:

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Up to 1 year	96.8	256.8	82.9	219.9
1 to 3 years	19.9	52.8	10.6	28.1
Over 3 years	6.8	18.0	6.1	16.2
Total	123.5	327.6	99.6	264.2
Fair market value of collateral	109.8	291.2	82.8	219.6
Stage 3 provisions	60.3	159.9	50.4	133.7

Loans that have been classified as non-performing should remain classified as such until the completion of a cooling off period in accordance with the Central Bank of Bahrain guidelines.

Loans that are past due below 90 days but not impaired are those for which contractual interest or principal payments are past due but the Group believes that specific impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Group. As at 31 December 2023, loans past due below 90 days but not impaired amounted to BHD 91.0 million (USD 241.4 million) [31 December 2022: BHD 83.5 million (USD 221.5 million)].

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

7. LOANS AND ADVANCES (continued)

The Group renegotiates loans to customers as a result of financial difficulties (referred to as 'forbearance activities') or changes in anticipated cash flows to maximise collection opportunities and minimise the risk of default. During 2023, credit facilities amounting to BHD 30.5 million (USD 80.9 million) were restructured [2022: BHD 87.6 million (USD 232.4 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Group's impairment charge or the future earnings. Loans that have been restructured are reported as stage 2 and should remain as such until the completion of a cooling off period in accordance with the Central Bank of Bahrain guidelines.

e) The Group holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and /or shares and sovereign / bank guarantees. Some of these collaterals are held through a special purpose vehicle. As at 31 December 2023, loans and advances amounting to BHD 684.5 million (USD 1,815.6 million) [31 December 2022: BHD 638.3 million (USD 1,693.1 million)] were fully collateralised and loans and advances amounting to BHD 285.1 million (USD 756.2 million) [31 December 2022: BHD 289.5 million (USD 767.9 million)] were partly collateralised with a collateral value of BHD 184.9 million (USD 490.5 million) [31 December 2022: BHD 194.6 million (USD 516.2 million)]. Therefore, fully or partially collateralised loans represented 36.9% of gross loans (31 December 2022: 35.8%).

f) Exposure to credit risk

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
1. Impaired (stage 3)				
Substandard	73.2	194.2	73.1	193.9
Doubtful	22.5	59.7	7.3	19.4
Loss	27.8	73.7	19.2	50.9
Gross amount	123.5	327.6	99.6	264.2
Stage 3 provisions	(60.3)	(159.9)	(50.4)	(133.7)
Impaired (stage 3) carrying amount	63.2	167.7	49.2	130.5

2. Past due below 90 days but not impaired

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Gross amount	88.1	233.7	81.0	214.9
Stage 1 or 2 provision	(7.6)	(20.2)	(7.2)	(19.1)
Past due but not impaired carrying amount	80.5	213.5	73.8	195.8

3. Neither past due nor impaired by internal rating

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Stage 1				
As at 31 December				
Rating grade 1	122.8	325.7	56.9	150.9
Rating grades 2 to 8	168.7	447.5	156.0	413.8
Rating grades 9 to 13	670.6	1,778.8	629.8	1,670.5
Rating grades 14 to 19	77.5	205.6	119.8	317.8
Unrated	1,285.4	3,409.5	1,263.4	3,351.2
Gross amount	2,325.0	6,167.1	2,225.9	5,904.2
Stage 1 provisions	(12.9)	(34.2)	(15.0)	(39.8)
Carrying amount of stage 1	2,312.1	6,132.9	2,210.9	5,864.4
Stage 2				
Rating grades 2 to 8	1.6	4.2	3.7	9.8
Rating grades 9 to 13	3.6	9.5	21.4	56.8
Rating grades 14 to 19	47.2	125.2	104.9	278.2
Unrated	6.4	17.0	13.6	36.1
Gross amount	58.8	155.9	143.6	380.9
Stage 2 provisions	(12.0)	(31.8)	(18.3)	(48.5)
Carrying amount of stage 2	46.8	124.1	125.3	332.4
Neither past due nor impaired carrying amount	2,358.9	6,257.0	2,336.2	6,196.8
Total carrying amount (excluding POCI)	2,502.6	6,638.2	2,459.2	6,523.1

Ratings 1 to 19 represent performing loans. Unrated includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

2022 comparative figures have been restated following the migration to a internal risk rating model during 2023.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

7. LOANS AND ADVANCES (continued)

f) Exposure to credit risk (continued)

By staging

As at 31 December 2023	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Loans and advances	2,363.1	108.8	123.5	37.6	2,633.0	6,984.1
Less: impairment provision	(14.2)	(18.3)	(60.3)	(5.1)	(97.9)	(259.7)
Net loans and advances	2,348.9	90.5	63.2	32.5	2,535.1	6,724.4

As at 31 December 2022	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Loans and advances	2,259.1	191.4	99.6	40.0	2,590.1	6,870.3
Less: impairment provision	(15.5)	(25.0)	(50.4)	(4.3)	(95.2)	(252.5)
Net loans and advances	2,243.6	166.4	49.2	35.7	2,494.9	6,617.8

As at 31 December 2023, stage 2 included BHD 2.1 million (USD 5.6 million) of loans designated as FVTPL [31 December 2022: BHD 2.5 million (USD 6.6 million)].

Purchased or originated credit impaired ("POCI") financial assets were acquired as part of the business combination at fair value and reflect the credit losses on which a lifetime ECL is already recognised. The POCI portfolio comprises performing and non-performing credit facilities and is 94.0% covered by provisions and / or high quality collateral as at 31 December 2023 (31 December 2022: 93.0%).

The non-performing loan ratio at 31 December 2023 exclusive and inclusive of non-performing POCI is 4.7% and 5.4% respectively (31 December 2022: 3.8% and 4.0%).

g) Impairment provisions on loans and advances

2023	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2023	15.5	25.0	50.4	4.3	95.2	252.5
Net transfer between stages	7.6	(7.1)	(0.5)	-	-	-
Write off during the year	-	-	(2.4)	(1.5)	(3.9)	(10.3)
Charge for the year (net)	(8.9)	0.4	12.8	2.3	6.6	17.5
Impairment at 31 December 2023	14.2	18.3	60.3	5.1	97.9	259.7

2022	Stage 1 BHD millions	Stage 2 BHD millions	Stage 3 BHD millions	POCI BHD millions	Total BHD millions	Total USD millions
Impairment at 1 January 2022	13.3	14.0	53.1	0.8	81.2	215.4
Net transfer between stages	1.8	5.9	(7.7)	-	-	-
Write off during the year	-	-	(2.2)	(0.1)	(2.3)	(6.1)
Charge for the year (net)	0.4	5.1	7.2	3.6	16.3	43.2
Impairment at 31 December 2022	15.5	25.0	50.4	4.3	95.2	252.5

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

8. INVESTMENT SECURITIES

i. Composition

Investment securities comprise the following:

As at 31 December 2023	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	0.2	264.5	227.3	492.0	1,305.0
Equity instruments	-	51.5	-	51.5	136.6
Total quoted investments	0.2	316.0	227.3	543.5	1,441.6

As at 31 December 2022	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Unquoted investments:					
Debt instruments	17.1	73.7	483.4	574.2	1,523.1
Equity instruments	3.6	33.7	-	37.3	99.0
Total unquoted investments	20.7	107.4	483.4	611.5	1,622.1
Total investment securities	20.9	423.4	710.7	1,155.0	3,063.7

As at 31 December 2022	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Quoted investments:					
Debt instruments	-	269.2	208.1	477.3	1,266.0
Equity instruments	-	55.8	-	55.8	148.0
Total quoted investments	-	325.0	208.1	533.1	1,414.0

As at 31 December 2022	FVTPL BHD millions	FVOCI BHD millions	Amortised cost BHD millions	Total BHD millions	Total USD millions
Unquoted investments:					
Debt instruments	13.3	60.6	593.9	667.8	1,771.4
Equity instruments	3.9	36.6	-	40.5	107.4
Total unquoted investments	17.2	97.2	593.9	708.3	1,878.8
Total investment securities	17.2	422.2	802.0	1,241.4	3,292.8

ii. Breakdown between repricing nature of debt instruments

As at 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Fixed rate debt instruments	368.6	977.7	538.5	1,428.4
Floating rate debt instruments	697.6	1,850.4	606.6	1,609.0
	1,066.2	2,828.1	1,145.1	3,037.4

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

As at 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
AA+	65.5	173.7	63.8	169.2
A	-	-	9.4	24.9
BB	7.2	19.1	24.3	64.5
B+	987.5	2,619.4	1,020.7	2,707.4
B	-	-	17.3	45.9
Unrated	6.0	15.9	9.6	25.5
	1,066.2	2,828.1	1,145.1	3,037.4

The debt instruments rated B+ in 2023 and 2022 primarily represent instruments issued by sovereigns.

As at 31 December 2023, all debt instruments were classified as stage 1.

iv. Investments designated as fair value through profit or loss

The Group holds investment in managed funds designated as fair value through profit or loss amounting to BHD 3.6 million (USD 9.5 million) [2022: BHD 3.9 million (USD 10.3 million)].

9. INVESTMENT IN ASSOCIATES

The Group has a 39.7% (2022: 39.7%) interest in The Benefit Company B.S.C. (c) which is incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain cheque truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 36.8% (2022: 36.8%) interest in LS Real Estate Company W.L.L. which was incorporated in the Kingdom of Bahrain in 2019. The company focuses on real estate activities including the development and overall management of owned or leased properties.

The Group has a 25.0% (2022: 25.0%) interest in Liquidity Management Centre B.S.C. (c) which was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.

The Group has a 23.5% (2022: 24.3%) interest in the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain rulebook volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investor confidence in the market's listed securities.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

9. INVESTMENT IN ASSOCIATES (continued)

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Opening balance	26.5	70.3	27.2	72.1
Share of profit	1.1	2.9	0.6	1.6
Dividends received	(0.4)	(1.1)	(0.8)	(2.1)
Other movements	(0.9)	(2.3)	(0.5)	(1.3)
At 31 December	26.3	69.8	26.5	70.3

10. INTEREST RECEIVABLE AND OTHER ASSETS

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Positive fair value of derivatives	50.5	134.0	22.0	58.4
Interest receivable	49.3	130.7	40.5	107.4
Accounts receivable and prepayments	7.4	19.6	8.3	22.0
Others	20.4	54.1	32.5	86.2
	127.6	338.4	103.3	274.0

Others included BHD 0.2 million (USD 0.4 million) [31 December 2022: BHD 6.9 million (USD 18.3 million)] relating to properties acquired from customers and now held for disposal, and BHD 18.5 million (USD 49.1 million) [31 December 2022: BHD 13.7 (USD 36.3 million)] of investment properties. The repossessed properties are stated at lower of their carrying value and fair value less costs to sell, while the investment properties are accounted for at fair value. BHD 4.9 million (USD 13.0 million) of investment properties reported at 31 December 2023 were previously categorised as repossessed assets.

11. PROPERTY AND EQUIPMENT

	Leased property right-of-use		Furniture and equipment		Total	
	BHD millions	BHD millions	BHD millions	BHD millions	BHD millions	USD millions
Cost	6.7	8.0	42.6	85.8	143.1	379.6
Accumulated depreciation / amortisation	(3.7)	-	(28.3)	(40.8)	(72.8)	(193.1)
Net book value at 31 December 2023	3.0	8.0	14.3	45.0	70.3	186.5
Net book value at 31 December 2022	2.9	8.0	13.6	45.6	70.1	185.9

The depreciation charge for 2023 amounted to BHD 8.9 million (USD 23.6 million) [2022: BHD 7.1 million (USD 18.8 million)]. The above includes capital work in progress at cost, amounting to BHD 16.5 million (USD 43.7 million) [2022: BHD 23.5 million (USD 62.3 million)].

The amortisation related to the right-of-use of leased property in 2023 amounted to BHD 1.9 million (USD 5.1 million) [2022: BHD 2.1 million (USD 5.6 million)].

12. GOODWILL AND OTHER INTANGIBLE ASSETS

On 22 January 2020, the Bank's stake in BISB increased from 29.1% as reported at 31 December 2019 to 78.8%, resulting in a transition from an investment in associate to an investment in a subsidiary, with the acquisition being accounted for using the acquisition method. The acquisition enabled the Group to position itself at the forefront of the regional Shariah-compliant banking sector in addition to its current leading conventional role. The two brands will continue to operate independently but asset, revenue, cost, technology and other operational synergies will provide customers and shareholders with enhanced services and returns.

Goodwill of BHD 41.8 million (USD 110.9 million) and intangibles of BHD 12.6 million (USD 33.4 million) arose from the acquisition of BISB. The intangibles comprises the value assigned to the expected benefits arising from the Islamic banking license and BISB brand being the oldest and predominant Islamic bank in the Kingdom of Bahrain. BHD 5.0 million (USD 13.3 million) of the intangibles were assigned a useful life of six years, with a remaining unamortised balance of BHD 2.5 million (USD 6.6 million) as of 31 December 2023 [31 December 2022: BHD 3.4 million (USD 9.0 million)].

Goodwill impairment analysis

The recoverable amount of goodwill is based on value-in-use, calculated by discounting cash flow projections from Board approved financial forecasts, projected for five years to arrive at the terminal value. A growth rate of 2% (2022: 2%) and discount rate of 15% (2022: 15%) have been applied to the estimated cash flows.

The Bank assesses on an annual basis whether there is an indication, based on either internal or external sources of information, that goodwill may be impaired. As at 31 December 2023, there were no indications of impairment of the cash generating unit (CGU) associated with the goodwill (2022: nil).

A sensitivity analysis was conducted by increasing the discount rate by 0.5% and reducing earnings by 10% to assess the impact on the recoverable amount as compared to the carrying value of the CGU. The carrying value of goodwill is lower than the reduced recoverable amount in the sensitivity analysis, further confirming no indications of impairment.

13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Term deposits	586.1	1,554.6	392.6	1,041.4
Current and call accounts	84.9	225.2	79.7	211.4
	671.0	1,779.8	472.3	1,252.8

As at 31 December 2023 and 31 December 2022, the Group was a net contributor into the treasury bill and interbank money markets.

14. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amount to BHD 460.7 million (USD 1,222.0 million) [31 December 2022: BHD 244.4 million (USD 648.3 million)] and the fair value of the investment securities pledged as collateral amounts to BHD 503.3 million (USD 1,335.0 million) [31 December 2022: BHD 278.1 million (USD 737.7 million)].

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15. CUSTOMER DEPOSITS

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Repayable on demand or at short notice	1,674.7	4,442.2	1,730.8	4,591.0
Term deposits and call accounts	1,830.1	4,854.4	1,599.4	4,242.4
	3,504.8	9,296.6	3,330.2	8,833.4

16. INTEREST PAYABLE AND OTHER LIABILITIES

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Interest payable	64.0	169.8	42.6	113.0
Negative fair value of derivatives	48.6	128.9	60.6	160.7
Creditors and account payables	23.6	62.6	30.3	80.4
Employee benefits	10.9	28.9	10.4	27.6
Deferred income	6.6	17.5	6.5	17.2
Lease liability	2.8	7.4	2.8	7.4
Others	2.3	6.1	9.3	24.7
	158.8	421.2	162.5	431.0

Others include provisions against contingent liabilities.

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

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Less than 1 year	1.8	4.8	1.4	3.7
1 to 3 years	1.5	4.0	1.6	4.2
3 to 5 years	0.1	0.2	0.1	0.3
Total undiscounted lease liabilities	3.4	9.0	3.1	8.2
Lease liabilities included in the statement of financial position	2.8	7.4	2.8	7.4

17. NET IMPAIRMENT AND OTHER PROVISIONS

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Loans and advances (note 7g)	6.6	17.5	16.3	43.2
Placements with banks and other financial institutions	-	-	-	-
Investment securities	(0.1)	(0.3)	-	-
	6.5	17.2	16.3	43.2
Contingent liabilities	0.2	0.5	1.9	5.0
Associates	0.9	2.4	0.5	1.3
Loan commitments and guarantees	0.1	0.3	(1.3)	(3.4)
	1.2	3.2	1.1	2.9
	7.7	20.4	17.4	46.1

18. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Group issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the potential future credit exposure or liquidity requirements of the Group.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counterparties since origination, the Group has determined that the fair value excess or shortage of contingent liabilities and undrawn loan commitments is not material.

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
As at 31 December				
Contingent liabilities				
Liabilities on confirmed documentary credits	66.2	175.6	103.4	274.3
Guarantees:				
Counter guaranteed by banks	46.3	122.8	50.1	132.9
Others	160.6	426.0	131.0	347.5
	273.1	724.4	284.5	754.7
Banking commitments				
Undrawn loan commitments	194.3	515.4	259.4	688.0
Forward commitments:				
Securities purchased	37.5	99.5	-	-
	231.8	614.9	259.4	688.0
	504.9	1,339.3	543.9	1,442.7

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19. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Group utilises various derivative and foreign exchange financial instruments for trading, asset / liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract / notional principal amounts do not represent balances subject to credit or market risk. Contract / notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Group had all these counterparties defaulted. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Group in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

In BHD millions	Notional principal amount		Replacement cost		Fair value	
	2023	2022	2023	2022	2023	2022
As at 31 December	2023	2022	2023	2022	2023	2022
Interest rate contracts						
Interest rate swaps	6,354.0	4,114.3	32.1	59.9	16.1	53.4
Foreign exchange contracts						
Outright spot and forward contracts	248.2	264.0	0.1	2.8	-	2.1
Swap agreements	1,371.7	1,236.9	1.3	2.6	1.1	-
	1,619.9	1,500.9	1.4	5.4	1.1	2.1
Total	7,973.9	5,615.2	33.5	65.3	17.2	55.5
Total in USD millions	21,150.9	14,894.4	88.9	173.2	45.6	147.2

Replacement costs by industry and geographical region are presented in note 33.

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract / notional principal amounts is as follows:

In BHD millions	2023			2022		
	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
As at 31 December						
Interest rate contracts						
Interest rate swaps	219.2	6,134.8	6,354.0	9.4	4,104.9	4,114.3
Foreign exchange contracts						
Outright spot and forward contracts	248.2	-	248.2	259.1	4.9	264.0
Swap agreements	1,312.7	59.0	1,371.7	1,232.3	4.6	1,236.9
	1,560.9	59.0	1,619.9	1,491.4	9.5	1,500.9
Total	1,780.1	6,193.8	7,973.9	1,500.8	4,114.4	5,615.2
Total in USD millions	4,721.7	16,429.2	21,150.9	3,980.9	10,913.5	14,894.4

20. SHARE CAPITAL

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Authorised share capital				
2,500,000,000 (2022: 2,500,000,000) ordinary shares of 100 fils each	250.0	663.1	250.0	663.1
Issued and fully paid share capital				
At 1 January 2023: 2,060,068,236 ordinary shares of 100 fils each (at 1 January 2022: 1,872,789,305 shares of 100 fils each)	206.0	546.4	187.3	496.8
Bonus issue (one for ten shares held)	20.6	54.7	18.7	49.6
At 31 December 2023 2,266,075,060 ordinary shares of 100 fils each (at 31 December 2022: 2,060,068,236 shares of 100 fils each)	226.6	601.1	206.0	546.4

The shareholders annual general ordinary and extra ordinary meetings for the year 2022 held on 22 March 2023 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held and amounted to BHD 20.6 million.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories, is shown below:

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20. SHARE CAPITAL (continued)

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories, is shown below:

	31 December 2023			31 December 2022		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	720,620,214	1,910	31.7%	653,742,126	1,808	31.7%
1% up to less than 5%	301,221,789	7	13.3%	275,205,147	7	13.3%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	245,870,464	1	10.9%	223,518,605	1	10.9%
20% up to less than 50%	998,362,593	1	44.1%	907,602,358	1	44.1%
	2,266,075,060	1,919	100.0%	2,060,068,236	1,817	100.0%

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

	31 December 2023			31 December 2022		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	2,128,625,407	1,734	93.9%	1,939,370,927	1,658	94.1%
Other GCC countries	133,480,314	134	5.9%	117,207,181	109	5.7%
Others	3,969,339	51	0.2%	3,490,128	50	0.2%
	2,266,075,060	1,919	100.0%	2,060,068,236	1,817	100.0%

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

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20. SHARE CAPITAL (continued)

Employee share incentive scheme

The employee share incentive scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices regulation. As a result, 19,104,000 ordinary shares amounting to BHD 1.9 million were issued in 2015 to an independent party to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the scheme are entitled to cash and stock dividend and subject to malus and clawback provisions of the scheme. As at 31 December 2023, there are 8,685,507 (2022: 10,532,535) shares unallocated. These unallocated shares under the scheme are deducted from equity.

21. RESERVES

a) Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital.

b) General reserve

The reserve has been created in accordance with the Group's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Group.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of instruments classified as FVOCI. The fair value reserve also includes the Group's share of other comprehensive income of associates.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval, an amount is transferred from the profit for the year to this donation and charity reserve. The reserve represents the amount of donations pending utilisation.

e) Share premium

Under the employee share incentive scheme, the Group allocated shares at market rates which resulted in increasing the share premium by BHD 1.3 million (USD 3.4 million) [2022: BHD 0.9 million (USD 2.4 million)]

22. APPROPRIATIONS

The appropriations relating to the year 2022 were approved at the annual general meeting held on 22 March 2023.

23. INTEREST INCOME / INTEREST EXPENSE

a) Interest income

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Loans and advances to non-banks	147.3	390.7	118.9	315.4
Loans and advances to banks	1.9	5.1	2.0	5.3
Treasury bills	8.3	22.0	6.2	16.5
Placements with banks and other financial institutions	30.7	81.4	5.7	15.1
Investment securities	79.5	210.9	55.8	148.0
	267.7	710.1	188.6	500.3

b) Interest expense

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Customer deposits	84.5	224.1	40.1	106.4
Due to banks and other financial institutions	27.1	71.9	12.6	33.4
Borrowings under repurchase agreements	14.7	39.0	4.1	10.9
	126.3	335.0	56.8	150.7

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24. NET FEE AND COMMISSION INCOME

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Net fees and commission on loans and advances	3.2	8.5	4.2	11.1
Net fees and commission on trade finance related activities	2.3	6.1	2.3	6.1
Net fees and commission on cards	2.4	6.4	2.6	6.9
Other fees and commission income	6.0	15.9	4.7	12.4
Less: other fees and commission expenses	(1.0)	(2.7)	(0.8)	(2.1)
	12.9	34.2	13.0	34.4

25. OTHER INCOME

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Profit on trading securities, foreign exchange and derivatives	9.8	26.0	9.6	25.5
Profit on sale of debt investment securities	11.1	29.4	10.3	27.3
Gain on fair value through profit or loss investments	0.4	1.1	0.6	1.6
Other income from core activities	21.3	56.5	20.5	54.4
Dividend income	4.3	11.4	4.0	10.6
Other income	4.1	10.9	3.7	9.8
Other income from non-core activities	8.4	22.3	7.7	20.4
	29.7	78.8	28.2	74.8

26. STAFF EXPENSES

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Salaries, allowances and bonuses	36.4	96.6	33.0	87.5
Social security and gratuity	3.9	10.3	3.4	9.0
Housing and other benefits	8.2	21.8	7.8	20.7
Others	0.8	2.1	0.8	2.2
	49.3	130.8	45.0	119.4

27. OTHER OPERATING EXPENSES

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Equipment expenses	10.8	28.7	7.4	19.6
Depreciation and amortisation	9.7	25.7	7.9	21.0
Depreciation, amortisation and equipment expenses	20.5	54.4	15.3	40.6
Communication expenses	6.0	15.9	4.9	13.0
Regulatory licenses, deposit protection and VAT expenses	5.6	14.9	4.0	10.6
Professional fees	4.0	10.6	4.1	10.9
Premises expenses	3.9	10.3	4.3	11.4
Audit, legal, insurance and board expenses	2.2	5.8	2.7	7.2
Advertising and public relations expenses	2.1	5.6	2.3	6.1
Other expenses	2.4	6.4	2.9	7.6
Other operating expenses	26.2	69.5	25.2	66.8
	46.7	123.9	40.5	107.4

Fees relating to KPMG, the Group's external auditor, during the year 2023 amounted to BHD 0.4 million (USD 1.1 million) [2022: BHD 0.5 million (USD 1.3 million)] out of which BHD 0.2 million (USD 0.5 million) [2022: BHD 0.2 million (USD 0.5 million)] was for audit services, BHD 0.1 million (USD 0.3 million) [2022: BHD 0.2 million (USD 0.5 million)] was for CBB mandatory review requirements and BHD 0.1 million (USD 0.3 million) [2022: BHD 0.1 million (USD 0.3 million)] was for non-audit services.

28. NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
US Dollar long position - unhedged	46.9	124.4	126.1	334.5
UAE Dirhams long position - unhedged	44.9	119.1	31.2	82.8
Saudi Riyal (short) / long position - unhedged	(18.4)	(48.8)	17.6	46.7

All of the above currencies have a fixed rate of exchange against the Bahraini Dinar. The Group did not have any significant net open positions as at 31 December 2023 or 31 December 2022.

29. RELATED PARTIES

Certain related parties (major shareholders, directors of the Group and families and companies of which they are principal owners, key management personnel and associates) were customers of the Group in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to this position. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties are as below.

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29. RELATED PARTIES (continued)

The Group qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholders are government owned. In addition to the government exposures reported below, in its normal course of business, the Group provides commercial lending, liquidity management and other banking services to, and also avails services from, various semi governmental organisations and government owned companies in the Kingdom of Bahrain.

In BHD millions	Major shareholder and related entities		Directors and key management personnel		Associates	
	2023	2022	2023	2022	2023	2022
As at 31 December						
Loans and advances	378.9	271.2	3.2	8.4	-	-
Treasury bills and investment securities	1,032.2	1,175.1	-	-	26.3	26.5
Customer deposits	157.1	168.3	52.6	63.9	0.8	2.9
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	43.6	71.0	26.7	20.4	-	-
For the year ended 31 December						
Loans advanced	484.1	412.1	1.5	3.7	-	-
Loans repaid	326.8	405.8	2.0	2.2	-	-
Net (decrease) / increase in overdrafts	(49.6)	28.6	(4.7)	2.6	-	-
Treasury bills, bonds and equities purchased	495.7	958.4	-	-	-	-
Treasury bills, bonds and equities matured / sold	638.6	1,153.7	-	-	-	-
Capital expenditures	-	-	1.5	0.8	-	-
Interest income	73.4	70.1	0.4	0.3	-	-
Interest expense	4.7	2.0	2.4	1.0	-	-
Share of profit of associates	-	-	-	-	1.1	0.6
Dividend income	3.0	2.7	-	-	-	-
Directors remuneration and sitting fees	0.2	0.2	0.7	0.5	-	-
Short term employee benefits	-	-	4.9	3.9	-	-
Post employment retirement benefits	-	-	0.4	0.5	-	-
Other operating expenses	3.5	2.5	3.2	3.5	0.5	0.7

During the year, no net provision charge [2022: BHD 4.7 million (USD 12.5 million)] had been recorded against outstanding balances with related parties.

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2023 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions.

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30. ASSETS UNDER MANAGEMENT

Assets administered on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2023, assets under administration amounted to BHD 205.2 million (USD 544.3 million) [31 December 2022: BHD 254.1 million (USD 674.0 million)].

31. GEOGRAPHICAL DISTRIBUTION

In BHD millions	Assets		Liabilities		Off balance sheet items	
	2023	2022	2023	2022	2023	2022
As at 31 December						
GCC	5,007.0	4,324.5	4,397.6	4,072.2	2,709.0	2,830.7
USA	324.2	393.0	10.5	35.3	10.1	42.1
Europe	40.6	27.8	337.1	84.2	5,732.3	3,276.5
Rest of the World	0.7	40.0	50.1	17.7	27.4	9.8
	5,372.5	4,785.3	4,795.3	4,209.4	8,478.8	6,159.1

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

32. DISTRIBUTION BY SECTOR

In BHD millions	Assets		Liabilities		Off balance sheet items	
	2023	2022	2023	2022	2023	2022
As at 31 December						
Government / sovereign	1,719.8	1,938.6	344.1	325.4	632.4	687.9
Manufacturing / trading	398.7	401.8	148.3	214.6	497.5	633.4
Banks / financial institutions	1,360.0	544.9	1,153.4	731.0	7,131.1	4,559.2
Construction	195.9	219.5	83.0	156.6	101.8	90.0
Personal	1,385.9	1,372.5	2,181.1	2,183.8	39.9	105.7
Others	312.2	308.0	885.4	598.0	76.1	82.9
	5,372.5	4,785.3	4,795.3	4,209.4	8,478.8	6,159.1

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

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33. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By industry

In BHD millions As at 31 December 2023	Government / sovereign		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
Assets								
Balances at central banks	-	-	-	132.4	-	-	-	132.4
Treasury bills	-	186.1	-	-	-	-	-	186.1
Placements with banks and other financial institutions	-	-	-	1,038.9	-	-	-	1,038.9
Loans and advances	396.5	59.0	378.3	57.6	174.3	1,331.6	137.8	2,535.1
Investment securities - debt instruments	993.5	72.7	-	-	-	-	-	1,066.2
Interest receivable and other assets	11.7	0.3	1.1	40.1	0.2	2.3	54.9	110.6
Total assets	1,401.7	318.1	379.4	1,269.0	174.5	1,333.9	192.7	5,069.3
Contingent liabilities and banking commitments	57.4	9.5	104.3	123.4	101.8	39.9	68.6	504.9
Derivatives (replacement cost)	-	-	0.1	33.4	-	-	-	33.5

In BHD millions As at 31 December 2022	Government / sovereign		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
Assets								
Balances at central banks	-	-	-	125.8	-	-	-	125.8
Treasury bills	99.4	244.1	-	-	-	-	-	343.5
Placements with banks and other financial institutions	-	71.8	-	203.3	-	-	-	275.1
Loans and advances	254.0	112.4	377.9	91.6	196.9	1,313.2	148.9	2,494.9
Investment securities - debt instruments	1,043.6	97.5	-	4.0	-	-	-	1,145.1
Interest receivable and other assets	14.1	1.7	2.5	20.0	0.4	8.1	41.6	88.4
Total assets	1,411.1	527.5	380.4	444.7	197.3	1,321.3	190.5	4,472.8
Contingent liabilities and banking commitments	84.6	-	168.8	85.6	90.0	41.7	73.2	543.9
Derivatives (replacement cost)	0.6	-	2.1	62.5	-	0.1	-	65.3

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counterparties which are in excess of 15% of the Group's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2023.

In BHD millions Counterparty	Counterparty type	Total exposure
Counterparty A	Sovereign	1,255.2
Counterparty B	Central Bank	872.1
Counterparty C	Government related entity	262.5
Counterparty D	Sovereign	241.7
Counterparty E	Government related entity	184.4

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

33. CONCENTRATION OF CREDIT RISK (continued)

(b) By geographical regions

In BHD millions As at 31 December 2023	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	132.4	-	-	-	132.4
Treasury bills	10.0	176.1	-	-	186.1
Placements with banks and other financial institutions	949.9	82.2	6.5	0.3	1,038.9
Loans and advances	2,533.2	-	1.6	0.3	2,535.1
Investment securities	1,000.7	65.5	-	-	1,066.2
Interest receivable and other assets	77.7	0.3	32.5	0.1	110.6
Total assets	4,703.9	324.1	40.6	0.7	5,069.3
Contingent liabilities and banking commitments	467.0	10.0	19.4	8.5	504.9
Derivatives (replacement cost)	1.2	-	32.3	-	33.5

In BHD millions As at 31 December 2022	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	125.8	-	-	-	125.8
Treasury bills	109.4	234.1	-	-	343.5
Placements with banks and other financial institutions	172.6	86.8	15.3	0.4	275.1
Loans and advances	2,454.7	-	1.3	38.9	2,494.9
Investment securities	1,081.3	63.8	-	-	1,145.1
Interest receivable and other assets	68.2	8.3	11.2	0.7	88.4
Total assets	4,012.0	393.0	27.8	40.0	4,472.8
Contingent liabilities and banking commitments	522.7	0.7	10.7	9.8	543.9
Derivatives (replacement cost)	2.8	-	62.5	-	65.3

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34. INTEREST RATE RISK

Interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Group's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Group's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, GALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Group's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Group uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Group uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivative positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customer deposits for which no specific contractual maturity or repricing date exists are placed in ladders based on the Group's judgement concerning their most likely repricing behaviour.

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

In BHD millions As at 31 December 2023	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	181.3	181.3
Treasury bills	4.5%	126.1	-	60.0	-	-	-	186.1
Placements with banks and other financial institutions	6.0%	941.6	-	-	-	-	97.3	1,038.9
Loans and advances	6.2%	522.2	272.0	130.1	930.0	680.8	-	2,535.1
Investment securities	6.4%	855.7	44.4	15.8	109.3	41.0	88.8	1,155.0
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	153.9	153.9
Property and equipment	-	-	-	-	-	-	70.3	70.3
Goodwill and other intangible assets	-	-	-	-	-	-	51.9	51.9
Total assets		2,445.6	316.4	205.9	1,039.3	721.8	643.5	5,372.5
Liabilities and equity								
Due to banks and other financial institutions	5.3%	512.3	20.0	52.0	9.0	-	77.7	671.0
Borrowings under repurchase agreements	5.2%	394.9	27.6	38.2	-	-	-	460.7
Customer deposits	3.0%	1,203.1	289.7	322.1	15.2	-	1,674.7	3,504.8
Interest payable and other liabilities	-	-	-	-	-	-	158.8	158.8
Equity	-	-	-	-	-	-	577.2	577.2
Total liabilities and equity		2,110.3	337.3	412.3	24.2	-	2,488.4	5,372.5
On-balance sheet interest rate sensitivity gap		335.3	(20.9)	(206.4)	1,015.1	721.8	(1,844.9)	-
Off-balance sheet interest rate gap		1,786.9	(45.2)	(32.6)	(446.2)	(1,262.9)	-	-
Cumulative interest rate sensitivity gap		2,122.2	2,056.1	1,817.1	2,386.0	1,844.9	-	-

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34. INTEREST RATE RISK (continued)

In BHD millions As at 31 December 2022	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	177.7	177.7
Treasury bills	2.7%	248.7	76.8	18.0	-	-	-	343.5
Placements with banks and other financial institutions	2.0%	174.4	-	-	-	-	100.7	275.1
Loans and advances	4.9%	658.0	174.8	162.2	909.2	590.7	-	2,494.9
Investment securities	4.7%	727.6	129.9	89.2	158.6	39.8	96.3	1,241.4
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	129.8	129.8
Property and equipment	-	-	-	-	-	-	70.1	70.1
Goodwill and other intangible assets	-	-	-	-	-	-	52.8	52.8
Total assets		1,808.7	381.5	269.4	1,067.8	630.5	627.4	4,785.3
Liabilities and equity								
Due to banks and other financial institutions	2.7%	191.2	53.8	137.6	31.5	-	58.2	472.3
Borrowings under repurchase agreements	1.6%	149.3	95.1	-	-	-	-	244.4
Customer deposits	1.5%	848.2	287.0	447.1	32.8	-	1,715.1	3,330.2
Interest payable and other liabilities	-	-	-	-	-	-	162.5	162.5
Equity	-	-	-	-	-	-	575.9	575.9
Total liabilities and equity		1,188.7	435.9	584.7	64.3	-	2,511.7	4,785.3
On-balance sheet interest rate sensitivity gap		620.0	(54.4)	(315.3)	1,003.5	630.5	(1,884.3)	-
Off-balance sheet interest rate gap		632.0	-	(7.5)	(429.5)	(195.0)	-	-
Cumulative interest rate sensitivity gap		1,252.0	1,197.6	874.8	1,448.8	1,884.3	-	-

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For the year ended 31 December

35. MARKET RISK

a) The Group uses the standardised method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk type	2023	2022
In BHD millions		
Interest rate risk	1.3	1.8
Foreign exchange risk	0.4	-
Total minimum capital required for market risk	1.7	1.8
Multiplier	12.5	12.5
Market risk weighted exposure under the standardised method	21.3	22.5

b) The principal risk to which the Group portfolio is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in the market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to an interest rate shock of 200bps increase / decrease. An analysis of the Group's sensitivity to an increase or decrease in market interest rates on the Group's balance sheet (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

In BHD millions	2023		2022	
	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	3.7	(3.7)	6.7	(6.7)
Average for the year	3.7	(3.7)	6.9	(6.9)
Minimum for the year	1.2	(1.2)	4.7	(4.7)
Maximum for the year	5.2	(5.2)	9.8	(9.8)

c) The Group holds investments in quoted equities as part of investment securities. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Group manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities. The use of derivatives to manage interest rate risk is described in note 19.

36. SEGMENT INFORMATION

For management purposes, the Group is organised into the following main strategic business units (SBUs) - Retail Commercial and SMEs, Corporate Institutional and Investment Banking, Overseas Branches and Treasury Capital Markets and Wealth Management. These SBUs are the basis on which the Group reports its operating segment information.

The consumer banking and business banking related SBUs in Bahrain provide various banking products and services to the Group's customers. The SBUs are differentiated based on their respective customer segments. Retail Commercial and SMEs caters to individuals and commercial enterprises, Corporate Institutional and Investment Banking caters to governments and corporates.

The Treasury, Capital Markets, Wealth Management and Investments SBU has the overall responsibility of managing the Group's liquidity, interest rate, foreign exchange, market risk and investments and the Overseas Branches SBU provide various banking products and services to the Group's customers outside Bahrain.

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36. SEGMENT INFORMATION (continued)

Financial information about the operating segments is presented in the following table:

In BHD millions	Retail, Commercial, and SMEs		Corporate, Institutional, and Investment Banking		Overseas Branches		Treasury, Capital Markets, Wealth Management and Investments		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
For the year ended 31 December	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Interest income	87.3	81.5	48.8	35.5	15.1	4.5	116.5	67.1	267.7	188.6
Interest expense	(61.9)	(32.5)	(25.3)	(11.4)	(3.8)	(1.3)	(35.3)	(11.6)	(126.3)	(56.8)
Inter-segment interest income / (expense)	60.8	32.7	0.6	(0.3)	-	-	(61.4)	(32.4)	-	-
Net interest income	86.2	81.7	24.1	23.8	11.3	3.2	19.8	23.1	141.4	131.8
Net fee and commission and other income	7.2	6.6	9.3	9.5	1.4	1.7	24.7	23.4	42.6	41.2
Operating income	93.4	88.3	33.4	33.3	12.7	4.9	44.5	46.5	184.0	173.0
Result	37.2	30.3	20.8	18.8	(2.5)	(4.0)	40.6	40.4	96.1	85.5
Unallocated corporate expenses									(14.7)	(14.8)
Profit for the year									81.4	70.7

Other information

As at 31 December

Segment assets	1,823.6	1,850.8	777.3	890.6	369.5	226.9	2,402.1	1,817.0	5,372.5	4,785.3
Segment liabilities and equity	3,113.7	3,097.9	745.5	853.8	224.7	88.9	1,288.6	744.7	5,372.5	4,785.3

For the year ended 31 December

Depreciation and amortisation for the year	(6.1)	(4.3)	(1.0)	(1.1)	(1.5)	(0.9)	(1.1)	(1.6)	(9.7)	(7.9)
Provision for impaired assets	(5.4)	13.8	(1.0)	2.9	(1.2)	0.9	(0.1)	(0.2)	(7.7)	17.4

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Group's capital has been distributed across the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are transferred by all the other business segments to Treasury, Capital Markets & Wealth Management.

Notes to the Consolidated Financial Statements continued

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37. MATURITY PROFILE AND LIQUIDITY RISK

a) Maturity profile

The table below shows the maturity profile of total assets and liabilities based on contractual terms.

In BHD millions As at 31 December 2023	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	181.3	-	-	-	-	-	-	-	181.3
Treasury bills	126.1	-	60.0	-	-	-	-	-	186.1
Placements with banks and other financial institutions	1,038.9	-	-	-	-	-	-	-	1,038.9
Loans and advances	379.2	134.6	140.1	573.2	473.8	533.2	242.1	58.9	2,535.1
Investment securities	87.4	89.7	69.1	388.9	182.4	147.4	73.1	117.0	1,155.0
Investment in associates and other assets	110.3	3.5	0.2	0.3	0.3	0.2	0.1	161.2	276.1
Total assets	1,923.2	227.8	269.4	962.4	656.5	680.8	315.3	337.1	5,372.5
Liabilities and equity									
Due to banks and other financial institutions	590.0	20.0	52.0	9.0	-	-	-	-	671.0
Borrowings under repurchase agreements	394.9	27.6	38.2	-	-	-	-	-	460.7
Customer deposits	2,877.8	289.7	322.1	15.2	-	-	-	-	3,504.8
Interest payable & other liabilities	158.8	-	-	-	-	-	-	-	158.8
Equity	-	-	-	-	-	-	-	577.2	577.2
Total liabilities and equity	4,021.5	337.3	412.3	24.2	-	-	-	577.2	5,372.5

In BHD millions As at 31 December 2022	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	177.7	-	-	-	-	-	-	-	177.7
Treasury bills	248.7	76.8	18.0	-	-	-	-	-	343.5
Placements with banks and other financial institutions	275.1	-	-	-	-	-	-	-	275.1
Loans and advances	566.9	152.5	163.7	499.6	443.7	392.3	224.5	51.7	2,494.9
Investment securities	22.6	129.9	98.6	391.9	272.0	143.6	59.3	123.5	1,241.4
Investment in associates and other assets	74.1	5.4	0.5	0.5	0.7	-	-	171.5	252.7
Total assets	1,365.1	364.6	280.8	892.0	716.4	535.9	283.8	346.7	4,785.3
Liabilities and equity									
Due to banks and other financial institutions	249.4	53.8	137.6	31.5	-	-	-	-	472.3
Borrowings under repurchase agreements	149.3	95.1	-	-	-	-	-	-	244.4
Customer deposits	2,563.3	287.0	447.1	32.8	-	-	-	-	3,330.2
Interest payable & other liabilities	162.5	-	-	-	-	-	-	-	162.5
Equity	-	-	-	-	-	-	-	575.9	575.9
Total liabilities and equity	3,124.5	435.9	584.7	64.3	-	-	-	575.9	4,785.3

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37. MATURITY PROFILE AND LIQUIDITY RISK (continued)

b) Liquidity risk

The table below shows the undiscounted cash flows of the Group's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Group's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

In BHD millions As 31 December 2023	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	671.0	677.1	593.6	20.2	54.3	9.0	-
Borrowings under repurchase agreements	460.7	469.9	401.7	27.6	40.6	-	-
Customer deposits	3,504.8	3,744.3	3,023.9	329.6	375.1	15.7	-
Total non derivative liabilities	4,636.5	4,891.3	4,019.2	377.4	470.0	24.7	-
Derivative liabilities							
Trading: outflow	-	1,619.9	1,176.6	190.0	194.3	59.0	-
Trading: inflow	1.1	1,617.8	1,175.1	189.8	194.1	58.8	-
Total derivative liabilities	1.1	3,237.7	2,351.7	379.8	388.4	117.8	-
Banking commitments	-	-	(219.1)	11.0	1.5	36.6	170.0
Financial guarantees	-	(46.2)	(12.2)	(5.8)	(8.7)	(19.5)	-

The Group's consolidated net stable funding ratio (NSFR) as at 31 December 2023 was 137% (31 December 2022: 139%), while the average LCR for the fourth quarter of the year stood at 288% (31 December 2022: 398%). The Group continues to meet minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio ("CAR"). Further details on NSFR are disclosed in note 38.

In BHD millions As 31 December 2022	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	472.3	476.3	250.4	54.6	139.8	31.5	-
Borrowings under repurchase agreements	244.4	249.8	152.2	97.6	-	-	-
Customer deposits	3,330.2	3,398.6	2,592.1	297.8	475.7	33.0	-
Total non derivative liabilities	4,046.9	4,124.7	2,994.7	450.0	615.5	64.5	-
Derivative liabilities							
Trading: outflow	-	1,500.9	1,024.1	184.4	282.8	9.6	-
Trading: inflow	2.1	1,498.9	1,022.5	184.4	282.5	9.5	-
Total derivative liabilities	2.1	2,999.8	2,046.6	368.8	565.3	19.1	-
Banking commitments	-	-	(230.5)	(1.0)	(22.6)	22.2	231.9
Financial guarantees	-	(50.1)	(18.1)	(1.0)	(11.8)	(19.1)	(0.1)

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38. NET STABLE FUNDING RATIO

The main objective of the NSFR is to promote resilience in the banking system by improving the funding profile of banks by ensuring sufficient level of stable funding in relation to assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position. Banks are required to meet a minimum NSFR of 100% on a continuous basis.

The main drivers behind the Group's strong available stable funding (ASF) are the healthy capital base (19% of the Group's ASF), large deposits portfolio with strong contributions from the retail and small business sectors (62% of the Group's ASF) and the sizable corporate and sovereign deposits (19% of the Group's ASF).

The majority of the Group's investment security portfolio is classified as high-quality liquid assets (HQLA). The Group's HQLA securities accounted for 28% of the Group's required stable funding (RSF) before applying the relevant weights. Lending provided to financial institutions in the form of loans or placements was predominantly short-term in nature, which required a lower level of required funding, with 85% of total lending provided to financial institutions being in the less than 6 months maturity bucket.

The NSFR ratio of 137% at 31 December 2023 is 2% lower when compared with the 31 December 2022 ratio at 139%. The total ASF was in line with last year's total while marginal increases across several asset lines resulted in a small increase in total RSF.

Further details on the calculation of the NSFR is presented in the following tables.

In BHD millions As at 31 December 2023	Item	Unweighted values (before applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available stable funding (ASF):						
Capital:						
	<i>Regulatory Capital</i>	592.1	-	-	26.4	618.5
Retail Deposits and deposits from small business customers:						
	Stable deposits	-	280.2	7.2	0.1	273.2
	Less stable deposits	-	1,769.8	164.0	17.0	1,757.4
Wholesale funding:						
	Other wholesale funding	-	2,168.3	218.9	0.4	635.5
Other liabilities:						
	All other liabilities not included in the above categories	-	118.9	-	12.3	12.3
Total ASF						3,296.9

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38. NET STABLE FUNDING RATIO (continued)

In BHD millions As at 31 December 2023	Item	Unweighted values (before applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Required stable funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)						80.2
Performing loans and securities:						
	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	185.9	0.7	32.8	61.1
	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs:	-	436.8	140.1	1,535.3	1,593.5
	-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	228.2	148.3
	Performing residential mortgages, of which:	-	-	-	106.0	68.9
	-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	10.5	45.6
	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
Other assets:						
	NSFR derivative assets	-	1.7	-	-	1.7
	NSFR derivative liabilities before deduction of variation margin posted	-	9.7	-	-	9.7
	All other assets not included in the above categories	329.7	-	-	-	329.7
	OBS items	-	-	-	-	62.4
Total RSF						2,401.1
NSFR %						137%

In BHD millions As at 31 December 2022	Item	Unweighted Values (before applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
Capital:						
	Regulatory Capital	596.9	-	-	26.5	623.4
Retail Deposits and deposits from small business customers:						
	Stable deposits	-	568.5	9.1	1.7	550.4
	Less stable deposits	-	1,488.5	252.9	25.8	1,593.0
Wholesale funding:						
	Other wholesale funding	-	1,331.9	327.4	25.8	521.0
Other liabilities:						
	NSFR derivative liabilities	-	36.9	-	-	-
	All other liabilities not included in the above categories	-	115.2	-	10.0	10.0
Total ASF						3,297.8

Notes to the Consolidated Financial Statements continued

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38. NET STABLE FUNDING RATIO (continued)

Item	Unweighted values (before applying factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	92.7
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	240.0	4.7	25.5	63.9
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs:					
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	469.7	107.7	1,677.7	1,714.8
Performing residential mortgages, of which:					
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	76.8	49.9
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	43.3	27.2	46.6
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	-	1.4	-	-	1.4
All other assets not included in the above categories	309.6	-	-	-	309.6
OBS items	-	-	-	-	52.1
Total RSF					2,372.6
NSFR %					139%

39. RETIREMENT BENEFIT COSTS

The Group's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognised as an expense in the statement of profit or loss. The Group's contribution for 2023 amounted to BHD 3.2 million (USD 8.5 million) [2022: BHD 2.5 million (USD 6.6 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year was as follows:

Movements during the year	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
At 1 January	3.0	7.9	2.7	7.2
Charge for the year	0.7	1.9	1.0	2.7
Paid during the year	(0.9)	(2.4)	(0.7)	(1.9)
At 31 December	2.8	7.4	3.0	8.0

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

40. LEGAL CLAIMS

As at 31 December 2023, legal suits pending against the Group aggregated to BHD 0.1 million (USD 0.3 million) [31 December 2022: BHD 7.4 million (USD 19.6 million)]. Based on the opinion of the Group's legal advisors and pending any final judgement on these suits, adequate provisions were maintained where required.

41. EARNINGS AND DIVIDEND PER SHARE

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Profit attributable to the shareholders of the Bank	79.1	209.8	68.1	180.6
Dividend proposed at 30% (2022: 25%)	68.0	180.4	51.5	136.6
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2023	2,060.1	2,060.1	2,060.1	2,060.1
Effect of bonus shares issued during 2023 for 2022	206.0	206.0	206.0	206.0
Less unallocated employee shares	(8.7)	(8.7)	(10.5)	(10.5)
Weighted average number of ordinary shares (millions) as at 31 December	2,257.4	2,257.4	2,255.6	2,255.6
Earnings per share	35 fils	9 cents	30 fils	8 cents
Dividend per share	30 fils	8 cents	25 fils	6 cents
Bonus / stock dividend per share	Nil	Nil	10 fils	3 cents

Diluted earnings per share is the same as basic earnings per share as the Group does not have any potential dilutive instruments in issue.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

42. ACCOUNTING CLASSIFICATION

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

In BHD millions As at 31 December 2023	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount
Cash and balances at central banks	-	181.3	-	181.3
Treasury bills	-	186.1	-	186.1
Placements with banks and other financial institutions	-	1,038.9	-	1,038.9
Loans and advances	2.1	2,533.0	-	2,535.1
Investment securities	20.9	710.7	423.4	1,155.0
Interest receivable & other assets	18.5	257.6	-	276.1
Total assets	41.5	4,907.6	423.4	5,372.5
Due to banks and other financial institutions	-	671.0	-	671.0
Borrowings under repurchase agreements	-	460.7	-	460.7
Customer deposits	-	3,504.8	-	3,504.8
Interest payable & other liabilities	-	158.8	-	158.8
Total liabilities	-	4,795.3	-	4,795.3

In BHD millions As at 31 December 2022	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount
Cash and balances at central banks	-	177.7	-	177.7
Treasury bills	-	343.5	-	343.5
Placements with banks and other financial institutions	-	275.1	-	275.1
Loans and advances	2.5	2,492.4	-	2,494.9
Investment securities	17.2	802.0	422.2	1,241.4
Interest receivable & other assets	13.7	239.0	-	252.7
Total assets	33.4	4,329.7	422.2	4,785.3
Due to banks and other financial institutions	-	472.3	-	472.3
Borrowings under repurchase agreements	-	244.4	-	244.4
Customer deposits	-	3,330.2	-	3,330.2
Interest payable & other liabilities	-	162.5	-	162.5
Total liabilities	-	4,209.4	-	4,209.4

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

42. ACCOUNTING CLASSIFICATION (continued)

b) Fair value hierarchy

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

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

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

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in the table below are classified as level 2.

(i) Loans and advances: The fair value of floating rate loans which have been disbursed at market rates approximate carrying value. The fair value of fixed rate loans, estimated by discounting future cash flows expected to be received and taking into account expected credit losses based on historical trends, also approximated the carrying value.

(ii) Customer deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Group estimates that fair value will approximate their book value as the majority of deposits are of short term nature and all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

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

In BHD millions At 31 December	2023				2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:								
Equity instruments / managed funds	-	3.6	-	3.6	-	3.9	-	3.9
Debt instruments	0.2	17.1	-	17.3	-	13.3	-	13.3
Loans and advances	-	-	2.1	2.1	-	-	2.5	2.5
Other assets - investment properties	-	18.5	-	18.5	-	13.7	-	13.7
Fair value through other comprehensive income:								
Debt instruments	264.5	73.7	-	338.2	269.2	60.6	-	329.8
Equity instruments	51.5	-	33.7	85.2	55.8	-	36.6	92.4
Derivative financial assets	-	33.5	-	33.5	-	65.3	-	65.3
Total	316.2	146.4	35.8	498.4	325.0	156.8	39.1	520.9
Derivative financial liabilities	-	16.3	-	16.3	-	9.8	-	9.8

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

42. ACCOUNTING CLASSIFICATION (continued)

b) Fair value hierarchy (continued)

The following table analyses the movement in level 3 financial assets during the year. There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

In BHD millions	Investment securities		Loans and advances	
	2023	2022	2023	2022
At 1 January	36.6	31.0	2.5	-
Acquisition of assets	-	6.1	-	2.5
Total losses in profit or loss	-	-	(0.4)	-
Total losses in other comprehensive income	(2.9)	(0.5)	-	-
At 31 December	33.7	36.6	2.1	2.5

Total loss for the year included in the statement of profit or loss for assets / liabilities classified as level 3 at 31 December 2023 is BHD 0.4 million (USD 1.1 million) [2022: nil].

Level 3 comprises unquoted equity investments classified as fair value through other comprehensive income and loans and advances classified as fair value through profit or loss which are measured at their estimated fair value based on the latest financial information by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

43. AVERAGE BALANCES

The following are average daily balances for the year:

	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Total assets	4,897.4	12,990.5	4,717.4	12,513.0
Total liabilities	4,354.6	11,550.7	4,193.6	11,123.6
Total equity	542.8	1,439.8	523.8	1,389.4
Contingent liabilities and undrawn loan commitments	529.8	1,405.3	576.2	1,528.4

44. SHARIAH-COMPLIANT FACILITIES

The Group offers various shariah-compliant facilities through approved products at the Bank or through BISB, the Islamic retail banking subsidiary. The activities of each bank are supervised by their respective Shariah Supervisory Board.

The Group does not commingle funds raised from shariah-compliant products and does not use shariah-compliant sources of funding to finance its non shariah-compliant assets.

The Group's shariah-compliant assets and liabilities are as follows:

As at 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Assets				
Cash and balances at central banks	55.6	147.5	57.2	151.7
Placements with banks and other financial institutions	41.7	110.6	62.6	166.1
Loans and advances	1,113.9	2,954.6	1,133.5	3,006.6
Investment securities	319.7	848.0	300.6	797.4
Investment in associates	9.5	25.2	10.0	26.5
Interest receivable and other assets	16.4	43.5	28.1	74.5
Property and equipment	15.9	42.2	16.0	42.4
Goodwill and other intangible assets	51.9	137.7	52.8	140.1
	1,624.6	4,309.3	1,660.8	4,405.3
Liabilities				
Due to banks and other financial institutions	295.6	784.1	221.4	587.3
Borrowings under repurchase agreements	76.6	203.2	-	-
Customer deposits	1,025.8	2,720.9	963.9	2,556.7
Interest payable and other liabilities	29.7	78.8	39.5	104.8
	1,427.7	3,787.0	1,224.8	3,248.8

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

44. SHARIAH-COMPLIANT FACILITIES (continued)

The Group's statement of profit and loss limited to shariah-compliant activities is presented below:

For the year ended 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Profit income	74.7	198.1	65.6	173.9
Profit expense	(39.1)	(103.7)	(20.6)	(54.5)
Net profit income	35.6	94.4	45.0	119.4
Net fee and commission income	3.4	9.0	3.3	8.8
Other income	4.6	12.2	1.6	4.1
Total operating income	43.6	115.6	49.9	132.3
Staff expenses	13.0	34.5	13.1	34.8
Depreciation, amortisation and equipment expenses	4.8	12.7	4.1	10.9
Other operating expenses	8.0	21.2	8.1	21.5
Total operating expenses	25.8	68.4	25.3	67.2
Operating profit before results of associates, impairment, and other provisions	17.8	47.2	24.6	65.1
Share of profits from associates, net	0.4	1.1	0.1	0.2
Loans, placements and securities impairment, net	(5.6)	(14.8)	(10.3)	(27.3)
Other impairment and provisions, net	(1.0)	(2.7)	(0.7)	(1.7)
Profit for the year	11.6	30.8	13.7	36.3

The Group follows IFRS for accounting and measurement of all its financial assets and liabilities and for any resulting income and expenses. Note 2 of the consolidated financial statements outlines the details of the Group's accounting policies.

Revenue recognition and measurement for shariah-compliant financing assets

Shariah-compliant financing assets are classified under loans and advances in the consolidated financial statements and are carried at amortised cost less impairment allowances. Profit from shariah-compliant financing contracts are recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate.

Unrestricted investment accounts

Unrestricted investment accounts are classified under deposits from customers in the consolidated financial statements and are carried at amortised cost. Finance expense on such accounts are recognised in the income statement as it accrues, taking into account the effective yield of the liability or an applicable floating rate.

The Group charges management fee (mudarib fees) to unrestricted investment account holders. The income attributable to customers from the total unrestricted investment accounts income is allocated to the investment accounts after setting aside provisions and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

Conflicts with the requirements of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

The Group's accounting and measurement policies differ from the requirements of AAOIFI in the following areas:

- In respect of income recognition from mudaraba and musharaka contracts, AAOIFI allows for recognition of income only on the basis of declaration and distribution of profits from the underlying contracts. However, as per the Group's current policies, income is recognised on an accrual basis taking into account the effective yield of the asset.
- In respect of finance lease contracts (ijarah muntahia bittamleek), AAOIFI standards require the Group to recognise the asset under lease on its books and depreciate it over the lease term. However, as per the Group's current policies, the amount financed is recognised as a loan and the income is recognised over the lease term on an accrual basis taking into account the effective yield of the asset. This accounting policy variation has no impact on the Group's consolidated statement of profit or loss.
- In respect of murabaha receivables (fixed profit products), AAOIFI requires recognition of receivables assets at its face value (i.e. the gross amount) and requires deferred profits to be netted against the receivable balance for the purpose of presentation in the consolidated financial statements. As per the Group's current policies, the amount receivable is recognised at its amortised cost (i.e. profits are recognised only on an accrual basis). However, the net amount of murabaha receivables for the purposes of the financial statements remains to be the same under both IFRS and AAOIFI.
- Funds raised from unrestricted investment account holders are required to be shown as a separate category between equity and liabilities. However, as the Group complies with IFRS, the funds raised from unrestricted investment account holders are disclosed under liabilities.
- In respect of investment properties, AAOIFI standards require the Group to recognise the changes in fair value (only gains) in the fair value reserve and losses to be adjusted against the fair value reserve to the extent of the available balance, with the remaining losses recognised in the consolidated statement of profit or loss. However, as per the Group's current policies, changes in the fair value of the investment properties subsequent to initial recognition are recorded in the consolidated statement of profit or loss. This has not resulted in any impact on the Group's consolidated statement of profit or loss during the year.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December

45. CAPITAL ADEQUACY

The Group operates as an independent banking institution with headquarters in Bahrain, subsidiary and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Group uses the standardised approach for computing credit risk. Operational risk is computed using the basic indicator approach. Market risk is computed using the standardised method.

The details of the Group's capital adequacy calculations are shown below:

As at 31 December	2023		2022	
	BHD millions	USD millions	BHD millions	USD millions
Common equity (CET1)	540.1	1,432.6	544.2	1,443.5
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	540.1	1,432.6	544.2	1,443.5
Tier 2	26.4	70.0	26.5	70.3
Total capital base	566.5	1,502.6	570.7	1,513.8

Risk weighted exposure:

Credit risk	2,114.9	5,609.8	2,122.8	5,630.8
Market risk	21.3	56.5	22.5	59.7
Operational risk	295.3	783.3	276.4	733.1
Total risk weighted exposure	2,431.5	6,449.6	2,421.7	6,423.6

CET 1 ratio	22.2%	22.5%
Total capital adequacy ratio	23.3%	23.6%

Conventional banks are required to maintain a minimum total capital adequacy ratio of 12.5%. Additionally, according to Central Bank of Bahrain rulebook, banks designated as domestic systemically important banks (DSIBs) must hold designated HLA (high loss absorbency) expressed as common equity tier 1 capital at 1.5% of the total risk weighted assets, as calculated for the purposes of capital adequacy.

Risk and Capital Management Disclosures

46. DEPOSIT PROTECTION SCHEME

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

47. SUBSEQUENT EVENT

The Group has initiated discussions with the Bank of Bahrain and Kuwait B.S.C. about a potential merger and would be appointing advisers to conduct the economic feasibility study of the merger. The discussions are at initial stage and an estimate of the financial effect of the potential transaction cannot be made reliably.

48. COMPARATIVES

Certain comparatives have been restated where necessary to conform to the current year's presentation. The restatement did not affect previously reported profit or total equity of the Group.

Risk and Capital Management Disclosures

For the year ended 31 December 2023

INTRODUCTION

This document presents the Pillar 3 disclosures on a consolidated basis as at 31 December 2023. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the Group's capital, risk exposures and risk assessment process. The Group is regulated by the Central Bank of Bahrain (CBB) and follows the Pillar 3 disclosure requirements as stated under the CBB guidelines.

The Group views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Group's stakeholders and market participants. The Pillar 3 disclosures are to be read in conjunction with the audited consolidated financial statements as of 31 December 2023.

REGULATORY FRAMEWORK

The Group assesses its capital adequacy based on the rules published by the CBB. The framework is structured around the following three Pillars:

- Pillar 1 on minimum capital requirements for credit, market and operational risk.
- Pillar 2 on the supervisory review process and the internal capital adequacy assessment process (ICAAP).
- Pillar 3 on market discipline including terms for disclosure of risk management and capital adequacy.

Pillar 1 – Minimum Capital Requirements

Pillar 1 defines the total minimum capital requirements for credit, market and operational risk. NBB currently employs the standardised approach for the assessment of credit and market risk weighted assets (RWAs), whilst using the basic indicator approach for assessment of operational RWAs.

The CBB capital adequacy rules provide guidance on the risk measurements for the calculation of capital adequacy requirements (CAR). Conventional bank licensees are required to meet the following minimum CAR requirements:

	Components of consolidated CARs			
	Limit	Minimum ratio required	Capital conservation buffer (CCB)	CAR including CCB
Common equity tier 1 (CET1)		6.5%	2.5 % comprising of CET1	9.0%
Additional tier 1 (AT1)	1.5 %			10.5%
Tier 1		8.0%		
Tier 2	2.0 %			
Total capital		10.0%		12.5%

The regulatory adjustments (i.e. deductions), including goodwill and intangibles, amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage service rights, and deferred tax assets from temporary differences, are fully deducted from CET1.

Banks are required to maintain a capital conservation buffer (CCB) of 2.5%, comprising of CET1 above the regulatory minimum total capital ratio of 10.0%. Furthermore, banks designated by the CBB as DSIBs (domestic systematically important banks) are required to maintain an additional 1.5% buffer compromising of CET1 above the minimum capital plus CCB. Capital distribution constraints will be imposed when the CCB falls below 2.5%. The constraints imposed only relate to distribution, and not the operations of the licensed banks.

As at 31 December 2023, the Group's total risk weighted assets amounted to BHD 2,431.5 million; common equity tier 1 (CET1) and total capital base amounted to BHD 540.1 million and BHD 566.5 million respectively. Accordingly, the CET1 capital adequacy ratio and the total capital adequacy ratio were 22.2% and 23.3% respectively. Meanwhile, NBB's subsidiary Bahrain Islamic Bank B.S.C. reported a CET1 capital adequacy ratio and a total capital adequacy ratio of 13.1% and 16.9% respectively. These ratios exceed the minimum capital requirements under the CBB's Basel III framework.

RISK AND CAPITAL MANAGEMENT

The Group is exposed to the following types of risks:

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

Risk management framework

The overall authority for risk management in the Group is vested in the board of directors. The board authorises appropriate credit, liquidity, market, and operational risk policies that form part of its risk management framework, based on the recommendation of management. The Group has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The risk division of the Group provides the necessary support to senior management and the business units in all areas of risk management. The risk division functions independent of the business units and reports directly to the board risk committee and administratively to the Chief Executive Officer. The risk division comprises of a credit risk department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), credit administration department (responsible for post approval implementation and follow up), liquidity and market risk management department, operational risk management department, and information security risk department.

The board risk committee is responsible for identifying, optimising and ensuring appropriate mitigation of risks within the framework of the risk appetite established by the Group's board of directors. This includes reviewing and reporting its conclusions and recommendations to the board on:

- The Group's current and future risk appetite (i.e. in relation to the extent and categories of risk which the board regards as acceptable for the Group to bear);
- The Group's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures and people); and
- The Group's risk culture to ensure that it supports the Group's risk appetite. In this regard, the committee will take a forward-looking perspective, seeking to anticipate changes in business conditions.

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

RISK AND CAPITAL MANAGEMENT (continued)

Credit risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Group acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Group evaluates risk in terms of the impact on income and asset values, and the evaluation reflects the Group's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Group has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

The Group monitors and manages concentration risk by setting limits on exposures to countries, sectors and counterparty groups. Stringent criteria are used by the credit risk department in setting such limits and these have ensured that the impact of any adverse developments on the Group's income generation and capital strength is limited. Similarly, prudent norms have been implemented to govern the Group's investment activities, which specify to the Group's treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Group has well laid out procedures, to not only appraise, but also regularly monitor credit risk. Credit appraisal is based on the financial information of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, and tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty, but day-to-day monitoring of financial developments across the globe by the business units and the credit risk department ensures timely identification of any events affecting the risk profile.

The business units of the Group are responsible for business generation and initial vetting of proposals in accordance with the stipulated policy requirements. Credit facilities in excess of certain levels or falling outside pre-approved product criteria are independently reviewed by the credit risk department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the credit administration department. An internal grading system and review process ensures identification of any deterioration in credit risk and consequent implementation of corrective action.

The Group uses an internal risk rating system that has 10 risk rating grades with "+" or "-" modifiers resulting in a 22-point scale. The system takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk ratings assigned to each borrower are reviewed on at least an annual basis. The internal risk rating grades range from 1 (highest quality with minimal credit risk) to 10 (lowest quality, typically in default with little prospect for recovery of principal or interest). For categories from 2 to 7, the Group uses modifiers '+' or '-' to show relative standing within these major rating categories. Regular monitoring of the portfolio enables the Group to identify accounts, which witness deterioration in risk profile. Consumer credit facilities, which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc. are excluded from this rating system.

Each major External Credit Assessment Institution's (ECAI) external rating is matched to a corresponding internal risk rating. For purposes of comparison, the table below depicts the Group's internal ratings approximate mapping to Moody's alphanumeric external ratings:

Internal ratings scale	Moody's Rating	Rating Description
1 to 4-	Aaa to Baa3	High Standard
5+ to 7-	Ba1 to Caa3	Standard
8 to 10	C (Default)	Default

Liquidity risk

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

The asset / liability management policies of the Group define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Group maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

The Group's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Group has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Group's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated or repoed. Considering the effective maturities of deposits based on retention history and in view of the availability of liquid investments, the Group is able to ensure that sufficient liquidity is always available. The Group Asset Liability Committee (GALCO) chaired by the Group Chief Executive Officer reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity.

Market risk

Market risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio, and foreign exchange and commodities holdings throughout the Group. The Group's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually, and by regular reviews. Quality and price stability are the main criteria in selecting a trading asset. The Group uses the standardised method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision-making purposes.

Interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Group's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest-bearing assets differs from that of liabilities. The Group's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, GALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

RISK AND CAPITAL MANAGEMENT (continued)

Market risk (continued)

The Group's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Group uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Group uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

Operational risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk arises from day-to-day operations or external events and is relevant to every aspect of our business.

Operational risk is:

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

The objective of the operational risk management framework (ORMF) is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control in Bahrain and at our overseas branches. The ORMF has been codified in a high-level operational risk management policy, supplemented with the detailed procedure, which describes our approach to identifying, assessing, monitoring and controlling operational risk and provides guidance on mitigating action to be taken when weaknesses are identified.

A dedicated operational risk management department (ORMD) has been established within the risk division. It is responsible for leading the execution of the ORMF and enforcing adherence to associated policies and processes across the first and second lines of defence. The ORMD supports the Group Chief Risk Officer and the Operational Risk Management Committee (ORMC), which meets on a monthly basis to discuss key risk issues and review the implementation of the ORMF.

Chief executives, heads of departments and functions throughout the Group are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfill these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational risk and control self-assessments, along with issues and action plans are facilitated, guided and monitored by ORMD and maintained by business units. To help ensure that operational risk losses are consistently reported and monitored, all business units are required to report individual losses or near-misses to ORMD.

In 2023, ongoing work to strengthen controls that manage the most material risks has continued. Among other measures, the Group is:

- Further developing controls to help ensure that it knows its customers, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter fraud risk;
- Continuing improvement of controls and security to protect customers when using digital channels;
- Increasing monitoring and enhancing detective controls to manage fraud risks which arise from new technologies and new ways of banking.

Risk monitoring and reporting

Systems and processes are in place to regularly monitor and report risk exposures to the board of directors and senior management to effectively monitor and manage the risk profile of the Group.

The board of directors are provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks. Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken twice a year or more frequently in times of need and communicated to the board of directors and senior management for appropriate decisions.

Capital management

The Group's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholders' equity is also considered and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Group's business activities and to maintain a well-capitalised status under regulatory requirements. The Group has a comprehensive internal capital adequacy assessment process (ICAAP) that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Group's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book and other miscellaneous risks. The ICAAP also keeps in perspective the Group's strategic plans, credit growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Group's capital adequacy to determine the capital requirement and planning to ensure that the Group is adequately capitalised in line with the overall risk profile.

The Group ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Group has branches. The Group has complied with regulatory capital requirements throughout the year.

Prior approval of the Central Bank of Bahrain is obtained by the Group before submitting any proposal for distribution of profits for shareholders' approval.

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Capital structure, minimum capital and capital adequacy

The Group's paid up capital consists only of ordinary shares, which have proportionate voting rights. The Group does not have any other type of capital instruments.

All amounts are presented at 31 December 2023 unless specified otherwise.

	In BHD millions
Common equity tier 1 (CET1)	
Share capital	226.6
Shares unallocated under share incentive scheme	(0.9)
Share premium	13.6
Statutory reserve	113.3
General reserves	32.4
Other reserves and retained earnings	193.5
Total equity	578.5
Addition: unrealised loss in cash flow hedge reserve not eligible for regulatory capital	-
Total CET1 capital before minority interest	578.5
Total minority interest in banking subsidiaries given recognition in CET1 capital	13.5
Total regulatory capital	592.0
Deduction from CET 1 (Goodwill and other intangible assets)	(51.9)
Total common equity tier 1 (CET1)	540.1
Additional tier 1	-
Total tier 1	540.1
Tier 2 capital	
Expected credit loss subject to 1.25% of credit risk weighted assets	26.4
Total tier 2	26.4
Total capital base (tier 1 + tier 2)	566.5

CREDIT RISK

The Group has a diversified on and off-balance sheet credit portfolio, which is divided into counterparty exposure classes in accordance with the CBB's Basel III capital adequacy framework. A high-level description of the counterparty exposure classes and the risk weights used to derive the risk weighted assets are as follows:

Sovereign portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0% for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0% risk weighting.

Public sector entities (PSEs) portfolio

PSEs are risk weighted according to their external ratings except for Bahrain PSEs and domestic currency claims on other PSEs that are assigned a 0% risk weight by their respective country regulator, which are risk weighted at 0%.

Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to foreign banks licensed in Bahrain. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is applied on exposures in Bahraini Dinar and US Dollar in the case of Bahraini incorporated banks.

Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100% risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0% risk weight.

Regulatory retail portfolio

Claims on individuals or to a small business with an annual turnover below BHD 2.0 million and where the maximum aggregated retail exposure to one counterpart is below BHD 250.0 thousand are risk weighted at 75%.

Residential mortgages

Lending fully secured by first mortgages on residential property that is, or will be, occupied by the borrower or that is leased are risk weighted at 75%. Social housing or Mazaya loans, however, are risk weighted at 25%.

Equities / funds portfolio

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

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

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

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CREDIT RISK (continued)

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

Past due exposures

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

Other assets

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

External credit assessment institutions (ECAI)

The Group uses ratings issued by external rating agencies to derive the risk weightings under the CBB's Basel III capital adequacy framework. As required by the CBB, where there are two assessments by eligible ECAIs which map into different risk weights, the higher risk weight is applied. If there are three or more assessments by eligible ECAIs which map into different risk weights, the assessments corresponding to the two lowest risk weights must be referred to and the higher of those two risk weights must be applied.

In BHD millions	Credit exposure before CRM	Eligible CRM	Credit exposure after CRM	Average risk weight percentage	Risk weighted exposure	Capital requirement at 12.5%
Sovereign portfolio	2,593.3	-	2,593.3	0%	0.1	-
PSEs portfolio	5.3	-	5.3	0%	-	-
Banks portfolio	631.9	401.1	230.8	47%	107.6	13.5
Corporates portfolio	1,305.6	35.9	1,269.7	57%	725.6	90.7
Regulatory retail portfolio	867.3	1.6	865.7	75%	649.3	81.2
Residential mortgages portfolio	366.7	-	366.7	57%	207.5	25.9
Equities / funds portfolio	93.8	-	93.8	155%	145.5	18.2
Past due exposures portfolio	64.5	4.9	59.6	118%	70.6	8.8
Others assets	215.5	-	215.5	97%	208.7	26.1
Total credit risk exposure	6,143.9	443.5	5,700.4		2,114.9	264.4
Market risk					21.3	2.7
Operational risk					295.3	36.9
Total risk weighted assets					2,431.5	304.0
CET1 capital adequacy ratio					22.2%	
Capital adequacy ratio					23.3%	

CRM is credit risk mitigants such as lien over deposits, mortgage over properties and / or shares and financial instruments. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel III is taken into consideration.

According to Central Bank of Bahrain rulebook, banks designated as domestic systemically important banks (DSIBs) must hold designated HLA (high loss absorbency) expressed as common equity tier 1 capital at 1.5% of the total risk weighted assets, as calculated for the purposes of capital adequacy. As at 31 December 2023, the Group's common equity tier 1 capital ratio was 22.2%, exceeding the minimum common capital tier 1 ratio and DSIB buffer requirement of 9.0% and 1.5% respectively.

Credit risk exposures

The following are gross credit exposures, presented before the application of any credit risk mitigation techniques:

In BHD millions	As at 31 December 2023	2023 Daily average
Balances at central banks	132.4	125.5
Treasury bills	186.1	181.8
Placements with banks and other financial institutions	1,038.9	555.0
Loans and advances	2,535.1	2,431.9
Investment securities	1,066.2	1,180.0
Interest receivable and other assets	110.6	114.6
Total assets	5,069.3	4,588.8
Non-derivative banking commitments and contingent liabilities	504.9	529.8
Derivatives (replacement cost)	33.5	48.3
	5,607.7	5,166.9

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CREDIT RISK (continued)

Industry or sector exposure

In BHD millions	Government / sovereigns		Manufacturing / trading	Banks / financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
Assets								
Balances at central banks	-	-	-	132.4	-	-	-	132.4
Treasury bills	-	186.1	-	-	-	-	-	186.1
Placements with banks and other financial institutions	-	-	-	1,038.9	-	-	-	1,038.9
Loans and advances	396.5	59.0	378.3	57.6	174.3	1,331.6	137.8	2,535.1
Investment securities - debt instruments	993.5	72.7	-	-	-	-	-	1,066.2
Interest receivable and other assets	11.7	0.3	1.1	40.1	0.2	2.3	54.9	110.6
Total assets	1,401.7	318.1	379.4	1,269.0	174.5	1,333.9	192.7	5,069.3
Contingent liabilities and banking commitments	57.4	9.5	104.3	123.4	101.8	39.9	68.6	504.9
Derivatives (replacement cost)	-	-	0.1	33.4	-	-	-	33.5
	1,459.1	327.6	483.8	1,425.8	276.3	1,373.8	261.3	5,607.7

The above includes certain exposures to customers / counterparties, which are in excess of 15% of the Group's capital base. These exposures have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty type	Total exposure (In BHD millions)
Counterparty A	Sovereign	1,255.2
Counterparty B	Central Bank	872.1
Counterparty C	Government related entity	262.5
Counterparty D	Sovereign	241.7
Counterparty E	Government related entity	184.4

Geographic distribution of exposure

In BHD millions	GCC	USA	Europe	Rest of the world	Total
Assets					
Balances at central banks	132.4	-	-	-	132.4
Treasury bills	10.0	176.1	-	-	186.1
Placements with banks and other financial institutions	949.9	82.2	6.5	0.3	1,038.9
Loans and advances	2,533.2	-	1.6	0.3	2,535.1
Investment securities	1,000.7	65.5	-	-	1,066.2
Interest receivable and other assets	77.7	0.3	32.5	0.1	110.6
Total assets	4,703.9	324.1	40.6	0.7	5,069.3
Contingent liabilities and banking commitments	467.0	10.0	19.4	8.5	504.9
Derivatives (replacement cost)	1.2	-	32.3	-	33.5
	5,172.1	334.1	92.3	9.2	5,607.7

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CREDIT RISK (continued)

Residual contractual maturity

In BHD millions	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Balances at central banks	132.4	-	-	-	-	-	-	-	132.4
Treasury bills	126.1	-	60.0	-	-	-	-	-	186.1
Placements with banks and other financial institutions	1,038.9	-	-	-	-	-	-	-	1,038.9
Loans and advances	379.2	134.6	140.1	573.2	473.8	533.2	242.1	58.9	2,535.1
Investment securities	87.4	89.7	69.1	388.9	182.4	147.4	73.1	28.2	1,066.2
Interest receivable and other assets	106.1	3.4	0.1	0.3	0.3	0.2	0.1	0.1	110.6
Total assets	1,870.1	227.7	269.3	962.4	656.5	680.8	315.3	87.2	5,069.3
Contingent liabilities and banking commitments	195.6	45.0	47.6	78.1	33.3	18.8	-	86.5	504.9
Derivative (replacement cost)	1.9	0.4	0.4	13.6	3.9	13.3	-	-	33.5
	2,067.6	273.1	317.3	1,054.1	693.7	712.9	315.3	173.7	5,607.7

Shariah compliant credit facilities

As at 31 December 2023, the Group held Shariah compliant assets amounting to BHD 1,624.6 million, Shariah compliant liabilities amounting to BHD 1,427.7 million, and profit for the year ended 31 December 2023 from Shairah compliant activities amounting to BHD 11.6 million.

Past due exposures

In accordance with the Group's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are over 90 days past due, are defined as non-performing.

Days past due represent the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group has systems and procedures in place to identify past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Group applies rigorous standards for provisioning and monitoring of non-performing loans. The level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. and adequate provisions are carried to guard against inherent risks in the portfolio.

All non-performing loans and advances are assessed for impairment as stage 3. Under stage 3, lifetime ECL is recognised using discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Impairment charges on the wider portfolio of financial assets which are not individually identified as impaired is a forward-looking calculation and is established based on various factors. These factors include internal risk ratings, historical default rates adjusted considering multiple scenarios of the future macroeconomic outlook, loss ratios given an event of default, and rating migrations.

Impaired and past due loans and advances

The analysis below excludes purchased or originated credit impaired ("POCI") financial assets which were acquired as part of the business combination at fair value and reflect the credit losses on which a lifetime ECL is already recognised.

Ageing analysis of impaired and past due loans and advances

In BHD millions	Total
Up to 1 year	96.8
1 to 3 years	19.9
Over 3 years	6.8
	123.5
Fair market value of collateral	109.8
Stage 3 impairment provision	60.3

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CREDIT RISK (continued)

Ageing of impaired and past due loans by industry

In BHD millions	Government / sovereigns	Manufacturing / trading	Banks / financial institutions	Construction	Personal	Others	Total
Up to 1 year	-	12.3	-	61.9	20.3	2.3	96.8
1 to 3 years	-	8.5	-	1.5	9.3	0.6	19.9
Over 3 years	-	3.2	-	0.1	3.0	0.5	6.8
	-	24.0	-	63.5	32.6	3.4	123.5

Geographical location of impaired and past due loans and advances

In BHD millions	Impaired loans	Stage 3 provisions	Collateral market value	ECL stage 1 and stage 2
Bahrain	123.1	60.0	109.5	29.6
Other GCC countries	0.4	0.3	0.3	2.9
	123.5	60.3	109.8	32.5

Industry breakdown of impaired and past due loans and advances

In BHD millions	Impaired loans	Stage 3 provisions	Collateral market value	ECL stage 1 and stage 2
Manufacturing / trading	24.0	11.5	15.0	12.2
Construction	63.5	24.0	64.8	2.5
Personal	32.6	23.6	27.4	14.7
Banks / financial institutions	-	-	-	0.3
Government	-	-	-	0.8
Others	3.4	1.2	2.6	2.0
	123.5	60.3	109.8	32.5

Collateral market value is applicable to the impaired loans only.

Movement in impairment provision for loans and advances

In BHD millions	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment at 1 January 2023	15.5	25.0	50.4	4.3	95.2
Net transfer between stages	7.6	(7.1)	(0.5)	-	-
Write off during the year	-	-	(2.4)	(1.5)	(3.9)
Net charge for the year	(8.9)	0.4	12.8	2.3	6.6
Impairment at 31 December 2023	14.2	18.3	60.3	5.1	97.9

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

CREDIT RISK (continued)

Restructuring

During 2023, credit facilities amounting to BHD 30.5 million were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Group's impairment charge or the future earnings. Loans that have been restructured are reported as stage 2 and should remain as such until the completion of a cooling off period in accordance with the Central Bank of Bahrain guidelines.

CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

- Adjusted exposure amount: the Group uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognised stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches).
- Substitution of counterparty: the substitution method is used for eligible guarantees (sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

COLLATERAL AND VALUATION PRINCIPLES

Collaterals taken for risk mitigation on credit exposures include: deposits held by customers, pledge of quoted shares, residential / commercial property mortgages, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters, etc. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel III is taken into consideration.

The Group's credit policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Group has a policy of independent valuation of collateral. In the case of real estate, valuation is done by independent valuers annually at the time of reviews as stipulated in the Group's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral as required in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral presented by portfolio is as follows:

In BHD millions	Gross credit exposure	Financial collateral	Credit exposure after risk mitigation
Sovereign portfolio	2,593.3	-	2,593.3
PSEs portfolio	5.3	-	5.3
Banks portfolio	631.9	401.1	230.8
Corporates portfolio	1,305.6	35.9	1,269.7
Regulatory retail portfolio	867.3	1.6	865.7
Residential mortgages portfolio	366.7	-	366.7
Equities / funds portfolio	93.8	-	93.8
Past due exposures portfolio	64.5	4.9	59.6
Others assets	215.5	-	215.5
	6,143.9	443.5	5,700.4

On and off-balance sheet netting

The Group enters into netting agreements during the normal course of business, the agreements provide the Group with the legal rights to set off balances from specific counterparties, for both on and off-balance sheet exposure.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BHD 60.8 million at 31 December 2023.

MARKET RISK

The Group applies the standardised method for allocating market risk capital. The Group has clearly documented policies and procedures for the management and valuation of the trading portfolio. The treasury operations department, which is independent of the treasury front office, is responsible for valuation. Valuation is performed on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models, as appropriate.

In BHD millions	Capital Charge			
	Amount	Maximum	Minimum	Average
Risk type				
Interest rate risk	1.3	3.3	1.0	1.9
Foreign exchange risk	0.4	5.0	0.1	2.6
Total minimum capital required for market risk	1.7			
Multiplier	12.5			
Market risk weighted exposure under the standardised method	21.3			

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

OPERATIONAL RISK

Whilst the Group recognises that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Group's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed, updated and implemented through regular staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Group applies the Basic Indicator Approach for assessing the capital requirement for operational risk. The capital requirement of BHD 295.3 million is based on the gross operating income (excluding profit / loss on debt instruments classified as fair value through other comprehensive income (FVOCI), amortised cost categories and any exceptional items of income) for the last 3 years. The average of the figures for these 3 years is then multiplied by 12.5 to arrive at the operational risk-weighted exposure.

EQUITY POSITION IN THE BANKING BOOK

The Group holds certain investments in equity securities as part of its strategic holdings (including investment in associates) and others are held with the objective of capital appreciation and realising gains on sale thereof. The accounting policies for FVOCI and investment in associates are described in detail in the financial statements under the significant accounting policies note.

Details of equity investments

In BHD millions	Amount	Amount subject to risk weight	Minimum capital requirement at 12.5%
Non-significant investment in the common shares			
Listed equities	46.3	46.3	5.8
Unlisted equities	7.2	7.2	0.9
Significant investment in the common shares of financial entities >10%			
	27.9	27.9	3.5
	81.4	81.4	10.2
Unrealised gains from equities fair value	(5.6)		
Deduction from CET 1 (significant investments in common stock of financial entities)	-		

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk positions are managed by the treasury department. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, GALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified duration of the Group's unhedged fixed income portfolio was 0.3% on 31 December 2023 implying that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BHD 0.3 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Group usually levies a pre-payment charge for any loan or deposit, which is repaid / withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Group faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

The Group uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

In BHD million As at 31 December 2023	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets							
Cash and balances at central banks	-	-	-	-	-	181.3	181.3
Treasury bills	126.1	-	60.0	-	-	-	186.1
Placements with banks and other financial institutions	941.6	-	-	-	-	97.3	1,038.9
Loans and advances	522.2	272.0	130.1	930.0	680.8	-	2,535.1
Investment securities	855.7	44.4	15.8	109.3	41.0	88.8	1,155.0
Investment in associates, interest receivable and other assets	-	-	-	-	-	153.9	153.9
Property and equipment	-	-	-	-	-	70.3	70.3
Goodwill and other intangible assets	-	-	-	-	-	51.9	51.9
Total assets	2,445.6	316.4	205.9	1,039.3	721.8	643.5	5,372.5
Liabilities and equity							
Due to banks and other financial institutions	512.3	20.0	52.0	9.0	-	77.7	671.0
Borrowings under repurchase agreements	394.9	27.6	38.2	-	-	-	460.7
Customer deposits	1,203.1	289.7	322.1	15.2	-	1,674.7	3,504.8
Interest payable and other liabilities	-	-	-	-	-	158.8	158.8
Equity	-	-	-	-	-	577.2	577.2
Total liabilities and equity	2,110.3	337.3	412.3	24.2	-	2,488.4	5,372.5
On-balance sheet interest rate sensitivity gap	335.3	(20.9)	(206.4)	1,015.1	721.8	(1,844.9)	-
Off-balance sheet interest rate gap	1,786.9	(45.2)	(32.6)	(446.2)	(1,262.9)	-	-
Cumulative interest rate sensitivity gap	2,122.2	2,056.1	1,817.1	2,386.0	1,844.9	-	-

The interest rate risk management process is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to an interest rate shock of 200 bps increase / decrease on the balance sheet. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

In BHD millions	200 bps parallel increase	200 bps parallel decrease
As at 31 December 2023	3.7	(3.7)
Average for the year	3.7	(3.7)
Minimum for the year	1.2	(1.2)
Maximum for the year	5.2	(5.2)

Risk and Capital Management Disclosures continued

For the year ended 31 December 2023

RELATED PARTIES

Certain related parties (major shareholders, directors of the Group and families and companies of which they are principal owners, key management personnel and associates) were customers of the Group in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Typically, key management personnel include the Group Chief Executive Officer and persons directly reporting to this position. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties are as below:

The Group qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholder is government owned. In addition to the government exposures reported below, in its normal course of business, the Group provides commercial lending, liquidity management and other banking services to, and also avails services from, various semi-governmental organisations and government owned companies in the Kingdom of Bahrain.

In BHD millions As at 31 December 2023	Major shareholder and related entities	Directors and key management personnel	Associates
Loans and advances	378.9	3.2	-
Treasury bills and investment securities	1,032.2	-	26.3
Customer deposits	157.1	52.6	0.8
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	43.6	26.7	-
For the year ended 31 December 2023			
Loans advanced	484.1	1.5	-
Loans repaid	326.8	2.0	-
Net (decrease) / increase in overdrafts	(49.6)	(4.7)	-
Treasury bills, bonds and equities purchased	495.7	-	-
Treasury bills, bonds and equities matured / sold	638.6	-	-
Capital expenditures	-	1.5	-
Interest income	73.4	0.4	-
Interest expense	4.7	2.4	-
Share of profit of associates	-	-	1.1
Dividend income	3.0	-	-
Directors remuneration and sitting fees	0.2	0.7	-
Short term employee benefits	-	4.9	-
Post employment retirement benefits	-	0.4	-
Other operating expenses	3.5	3.2	0.5

During the year, no provision charge has been recorded against outstanding balances with related parties.

NET OPEN FOREIGN CURRENCY POSITIONS

In BHD millions	
US Dollar (long position) – unhedged	46.9
UAE Dirhams (long position) – unhedged	44.9
Saudi Riyal (short position) – unhedged	(18.4)

All of the above currencies have a fixed rate of exchange against the Bahraini Dinar. The Group did not have any significant net open positions as at 31 December 2023.

DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The following table summarises the aggregate notional amounts, replacement cost and fair value of each type of derivative and foreign exchange financial instrument.

In BHD millions	Contract / nominal amount	Replacement cost	Fair value
Interest rate contracts			
Interest rate swaps	6,354.0	32.1	16.1
	6,354.0	32.1	16.1
Foreign exchange contracts			
Outright spot and forward contracts	248.2	0.1	-
Swap agreements	1,371.7	1.3	1.1
	1,619.9	1.4	1.1
	7,973.9	33.5	17.2

The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

In BHD millions	Up to 1 year	More than 1 year	Total
Interest rate contracts			
Interest rate swaps	219.2	6,134.8	6,354.0
	219.2	6,134.8	6,354.0
Foreign exchange contracts			
Outright spot and forward contracts	248.2	-	248.2
Swap agreements	1,312.7	59.0	1,371.7
	1,560.9	59.0	1,619.9
	1,780.1	6,193.8	7,973.9

LEGAL CLAIMS

As at 31 December 2023, legal suits pending against the Group aggregated to BHD 0.1 million. Based on the opinion of the Group's legal advisors and pending final judgement on these suits, adequate provision as assessed by management is maintained.

Appendix GRI & Bahrain Bourse Content Index

Appendix GRI & Bahrain Bourse Content Index

GRI STANDARDS				
GRI 1: FOUNDATION 2021				
Statement of Use	National Bank of Bahrain has reported in accordance with the GRI Standards for the period from 1 January 2023 to 31 December 2023			
GRI 2: GENERAL DISCLOSURES				
GRI DISCLOSURE	CONTENT	Bahrain Bourse Disclosures	REFERENCE SECTION	NOTES
The Organization and its Reporting Practice				
2-1	Organizational details		About this Report	
2-2	Entities included in the organization's sustainability reporting	G8: Sustainability reporting G9: Disclosure Practices G10: External Assurance	About this Report	
2-3	Reporting period, frequency and contact point	G8: Sustainability reporting G9: Disclosure Practices	About this Report	
2-4	Restatements of information		About this Report	
2-5	External assurance	G10: External Assurance	About this Report	
Activities and Workers				
2-6	Activities, value chain and other business relationships		Strategic Direction and Business Outlook	
2-7	Employees	S3: Employee Turnover S4: Gender Diversity	2023 Highlights, Our Human Capital	
2-8	Workers who are not employees	S5: Temporary Worker ratio S9: Child & Forced Labour	Our Human Capital	
Governance				
2-9	Governance structure and composition	G1: Board Diversity	Governance, Board of Directors & Executive management	
2-10	Nomination and selection of the highest governance body	G2: Board Independence	Governance	
2-11	Chair of the highest governance body		Governance, Board of Directors & Executive management	
2-12	Role of the highest governance body in overseeing the management of impacts		Governance, Board of Directors & Executive management	
2-13	Delegation of responsibility for managing impacts			
2-14	Role of the highest governance body in sustainability reporting	G3: Incentivized Pay	Governance, Board of Directors & Executive management	

Governance (continued)				
2-15	Conflicts of interest	G6: Ethics & Anti-Corruption	Compliance and Ethics	
2-16	Communication of critical concerns		Compliance and Ethics	
2-17	Collective knowledge of the highest governance body		Governance, Board of Directors & Executive management	
2-18	Evaluation of the performance of the highest governance body		Governance	
2-19	Remuneration policies	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	Business Policies	
2-20	Process to determine remuneration	S2: Gender Pay Ratio	Governance, Our Human Capital	
2-21	Annual total compensation ratio	G3: Incentivized Pay S1: CEO Pay Ratio S2: Gender Pay Ratio	Governance, Our Human Capital	
Strategy, Policies, and Practices				
2-22	Statement on sustainable development strategy	G8: Sustainability reporting G9: Disclosure Practices E8 & E9: Environmental Oversight	A message from the GCEO, BOD Report	
2-23	Policy commitments		Business Policies	
2-24	Embedding policy commitments		Governance, Compliance and ethics	
2-25	Processes to remediate negative impacts		Governance, Compliance and ethics	
2-26	Mechanisms for seeking advice and raising concerns		Governance, Compliance and ethics	
2-27	Compliance with laws and regulations	G6: Ethics & Anti-Corruption	Governance, Compliance and ethics	
2-28	Membership associations		Strategic Direction and Business Outlook	
Stakeholder Engagement				
2-29	Approach to stakeholder engagement		Our Stakeholder and Materiality Assessment	
2-30	Collective bargaining agreements	G3: Collective Bargaining	Strategic Direction and Business Outlook	

GRI 3: MATERIAL TOPICS				
GRI DISCLOSURE	CONTENT	Bahrain Bourse Disclosures	REFERENCE SECTION	NOTES
3-1	Process to determine material topics		Our Stakeholder and Materiality Assessment	
3-2	List of material topics		Our Stakeholder and Materiality Assessment	
3-3	Management of material topics		Our Stakeholder and Materiality Assessment	
GRI 200: Economic Standard Series				
GRI 201: Economic Performance 2016				
GRI 201 Topic Specific				
3-3	Management Approach		Our financial Capital	
201-1	Direct economic value generated and distributed		Our financial Capital	
201-3	Defined benefit plan obligations and other retirement plans		Our financial Capital	
201-4	Financial assistance received from government		Our financial Capital	
GRI 202: Market Presence 2016				
GRI 202 Topic Specific				
3-3	Management Approach		Our Human Capital	
202-2	Proportion of senior management hired from the local community	S11: Nationalization	Our Human Capital	
GRI 203: Indirect Economic Impacts 2016				
GRI 203 Topic Specific				
3-3	Management Approach	E10: Climate Risk Mitigation	Sustainability Strategy and Governance	
203-2	Significant indirect economic impacts		Sustainability Strategy and Governance	
GRI 204: Procurement Practices 2016				
GRI 204 Topic Specific				
3-3	Management Approach		Sustainable Supplier Relations	
204-1	Proportion of spending on local suppliers	G5: Supplier Code of Conduct	Sustainable Supplier Relations	

GRI 205: Anti-Corruption 2016				
GRI 205 Topic Specific				
3-3	Management Approach		Compliance and Ethics	
205-1	Operations assessed for risks related to corruption	G6: Ethics & Anti-Corruption	Compliance and Ethics	
205-2	Communication and training about anti-corruption policies and procedures	G6: Ethics & Anti-Corruption	Compliance and Ethics	
205-3	Confirmed incidents of corruption and actions taken	G6: Ethics & Anti-Corruption	Compliance and Ethics	
GRI 300: Environmental Standard Series				
GRI 302: Energy 2016				
GRI 302 Topic Specific				
3-3	Management Approach	E10: Climate Risk Mitigation	Our Natural Capital, Metrics and Targets	
302-1	Energy consumption within the organization	E3: Energy Usage	Our Natural Capital, Metrics and Targets	
302-2	Energy consumption outside of the organization	E4: Energy Intensity E5: Energy Mix	Our Natural Capital, Metrics and Targets	
302-4	Reduction of energy consumption	E4: Energy Intensity E5: Energy Mix	Our Natural Capital, Metrics and Targets	
GRI 303: Water and Effluents 2018				
GRI 303 Topic Specific				
3-3	Management Approach		Our Natural Capital, Metrics and Targets	
303-5	Water Consumption	E6: Water Usage	Our Natural Capital, Metrics and Targets	

GRI 305: Emissions 2016				
GRI 305 Topic Specific				
3-3	Management Approach	E8 & E9: Environmental Oversight	Our Natural Capital, Metrics and Targets	
305-1	Direct (Scope 1) GHG emissions	E1: GHG Emissions	Our Natural Capital, Metrics and Targets	
305-2	Energy indirect (Scope 2) GHG emissions	E1: GHG Emissions	Our Natural Capital, Metrics and Targets	
305-3	Other indirect (Scope 3) GHG emissions	E1: GHG Emissions	Our Natural Capital, Metrics and Targets	
305-4	GHG emissions intensity	E1: GHG Emissions E2: Emissions Intensity	Our Natural Capital, Metrics and Targets	
305-5	Reduction of GHG emissions	E1: GHG Emissions	Our Natural Capital, Metrics and Targets	
GRI 306: Waste 2020				
GRI 306 Topic Specific				
3-3	Management Approach		Our Natural Capital, Metrics and Targets	
306-1	Waste generation and significant waste-related impacts	E7: Environmental Operations	Our Natural Capital, Metrics and Targets	
306-2	Management of significant waste-related impacts	E7: Environmental Operations	Our Natural Capital, Metrics and Targets	
306-3	Waste generated diverted from disposal	E7: Environmental Operations	Our Natural Capital, Metrics and Targets	
GRI 400: Social Standard Series				
GRI 401: Employment 2016				
GRI 401 Topic Specific				
3-3	Management Approach		Our Human Capital	
401-1	New employee hires and employee turnover	S3: Employee Turnover	Our Human Capital	
401-2	Benefits provided to full-time employees that are not provided to part-time employees		Our Human Capital	
401-3	Parental Leave		Our Human Capital	

GRI 403: Occupational Health & Safety 2018				
GRI 403 Topic Management Disclosures				
3-3	Management Approach		Workforce Equity & Protection	
403-1	Occupational health and safety management system	S8: Global Health and Safety	Workforce Equity & Protection	
403-2	Hazard identification, risk assessment, and incident investigation	S7: Injury Rate S8: Global Health and Safety	Workforce Equity & Protection	
403-3	Occupational health services	S8: Global Health and Safety	Workforce Equity & Protection	
403-4	Worker participation, consultation, and communication on Occupational health and safety	S8: Global Health and Safety	Workforce Equity & Protection	
403-5	Worker training on occupational health and safety	S8: Global Health and Safety	Workforce Equity & Protection	
403-6	Promotion of worker health	S8: Global Health and Safety	Workforce Equity & Protection	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	S8: Global Health and Safety	Workforce Equity & Protection	
GRI 403 Topic Specific				
403-8	Workers covered by an occupational health and safety management system	S7: Injury Rate	Workforce Equity & Protection	
403-9	Work-related injuries	S7: Injury Rate	Workforce Equity & Protection	
403-10	Work-related ill health	S7: Injury Rate	Workforce Equity & Protection	
GRI 404: Training and Education 2016				
GRI 404 Topic Specific				
3-3	Management Approach		Professional Development & Empowerment	
404-1	Average hours of training per year per employee		Professional Development & Empowerment	
404-2	Programmes for upgrading employee skills and transition assistance programmes		Professional Development & Empowerment	
404-3	Percentage of employees receiving regular performance and career development reviews		Professional Development & Empowerment	

GRI 405: Diversity and Equal Opportunity 2016				
GRI 405 Topic Specific				
3-3	Management Approach		Workforce Equity & Protection	
405-1	Diversity of governance bodies and employees	G1: Board Diversity S4: Gender Diversity	Workforce Equity & Protection	
GRI 406: Non-Discrimination 2016				
GRI 406 Topic Specific				
3-3	Management Approach		Workforce Equity & Protection	
406-1	Incidents of discrimination and corrective actions taken	S6: Non-discrimination	Workforce Equity & Protection	
GRI 410: Security Practices				
GRI 406 Topic Specific				
3-3	Management Approach		Our Human Capital	
410-1	Security personnel trained in human rights policies or procedures	S10: Human rights	Our Human Capital	
GRI 413: Local Community 2016				
GRI 413 Topic Specific				
3-3	Management Approach		Our Social Capital	
413-1	Operations with local community engagement, impact assessments, and development programmes	S12: Community Investment	Our Social Capital	
GRI 418: Customer Privacy				
GRI 418 Topic Specific				
3-3	Management Approach			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	G7: Data Privacy	Data Security	

Task Force on Climate- Related Financial Disclosures (TCFD) Index

IFRS S2 CLIMATE CHANGE RISK MANAGEMENT INDEX

The purpose of IFRS S2 is to mandate that climate-related risks and opportunities are disclosed in a way that will help readers identify the reoirted Climate-related risks and opportunities that could reasonably be expected to affect an entity’s cash flows, financing availability, or cost of capital over the short, medium, or long term must be disclosed, according to IFRS S2. These risks and opportunities are collectively referred to as “climate-related risks and opportunities”.

During 2023, we have incorporated the IFRS S2’s guidelines into our sustainability reporting. While we have not yet fully disclosed all recommended metrics, we intend to gradually expand our reporting on climate-related risks and opportunities as we further integrate the IFRS S2’s recommendations into our businesses.

GOVERNANCE: Disclose the organisation’s governance around climate-related risks and opportunities	
Disclosure	Reference Section
a) What is the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities?	Our Natural Capital > Governance
b) How is the body’s responsibilities for climate-related risks and opportunities reflected in the entity’s terms of reference, board mandates, roles description and other related policies?	Our Natural Capital > Governance
c) How does the body ensure that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities?	Our Natural Capital > Governance
d) How and how often are the body and its committees (audit, risk or other committees) informed about climate-related risks and opportunities?	Our Natural Capital > Governance
e) How does the body and its committees consider climate-related risks and opportunities when overseeing the entity’s strategy?	Our Natural Capital > Governance
f) How does the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities?	Our Natural Capital > Governance
g) Describe management’s role in assessing and managing climate related risks and opportunities.	Our Natural Capital > Governance

STRATEGY: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.

Disclosure	Reference Section
a) What are the effects of significant climate-related risks and opportunities on decision-making, including its tran-sition plans?	Our Natural Capital > Strategy
b) What are the climate resilience elements of the entity’s climate change strategy (including within its business model) to significant physical risks and significant transi-tion risks?	Our Natural Capital > Strategy
c) Describe how climate-related risks and opportunities could reasonably be expected to affect the entity’s pro-spects.	Our Natural Capital > Strategy
d) Explain, for each climate-related risk the entity’s has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk.	Our Natural Capital > Strategy
e) Specify time horizons—short, medium or long term— of the effects of each climate-related risk and opportunity the entity has identified that could reasonably be ex-pected to occur for each climate-related risk and oppor-tunity.	Our Natural Capital > Strategy
f) Disclose information that enables users of general pur-pose financial reports to understand the current and an-ticipated effects of climate related risks and opportuni-ties on the entity’s business model and value chain.	Our Natural Capital > Strategy
g) What are the changes the entity is making within the strategy and its resource allocation to address the risks and opportunities identified targets it has set?	Our Natural Capital > Strategy
h) What are the direct and indirect adaptation and mitiga-tion efforts the entity is undertaking to incorporate cli-mate-related risks and opportunities in its strategy and decision-making?	Our Natural Capital > Strategy
i) How does the entity plan to achieve any climate-related targets?	Our Natural Capital > Strategy
j) What process does the entity have in place to review any and all the climate-related targets and plans?	Our Natural Capital > Strategy
k) What are the entity’s climate-related transition plan?	Our Natural Capital > Strategy
l) How is the entity resourcing, and plans to resource, the activities disclosed in the climate-related risks and opportunities within its strategy and decision-making?	Our Natural Capital > Strategy
m)How significantly have climate-related risks and opportunities affected the entity’s most recently reported financial position, financial performance and cash flow?	Our Natural Capital > Strategy
n) How does the entity expect its financial position to change over time (short, medium, long term), given its strategy to address significant climate-related risks and opportunities	Our Natural Capital > Strategy
o) How does the entity expect its financial performance to change over time (short, medium, long term), given its strategy to address significant climate-related risks and opportunities?	Our Natural Capital > Strategy
p) Describe, the entity’s climate-related scenario analysis to understand the resilience of the entity’s strategy (including business model) to climate-related changes, developments or uncertainties—taking into consideration the Bank’s identified significant climate-related risks and opportunities and related uncertainties.	Our Natural Capital > Strategy
q) How and when has the climate-related scenario analysis been conducted?	Our Natural Capital > Strategy
i. What were the implications, if any, of the entity’s findings for its strategy,including how it would need to respond to the effects identified?	Our Natural Capital > Strategy
ii. What were the significant areas of uncertainty considered in the analysis of climate resilience?	Our Natural Capital > Strategy

STRATEGY: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material (continued)

Disclosure	Reference Section
iii. What is the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments	Our Natural Capital > Strategy
r) Which climate-related scenarios were used for the assessment and the sources of the scenarios used?	Our Natural Capital > Strategy
i. Which climate-related scenarios were used for the assessment and the sources of the scenarios used?	Our Natural Capital > Strategy
ii. Clarify if the analysis has been conducted by comparing a diverse range of climate-related scenarios.	Our Natural Capital > Strategy
iii. Clarify whether the scenarios used are associated with transition risks or increased physical risk.	Our Natural Capital > Strategy
iv. Clarify whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change.	Our Natural Capital > Strategy
v. Explain why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities.	Our Natural Capital > Strategy
vi. What were the time horizons (short, medium, or long term) used in the analysis?	Our Natural Capital > Strategy
vii. What were the inputs used in the analysis, including—but not limited to—the scope of risks, the scope of operations covered, and details of the assumptions?	Our Natural Capital > Strategy
viii. What were the assumptions about the way the transition to a lower carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the Bank operates; assumptions about macroeconomic trends; energy usage and mix; and technology?	Our Natural Capital > Strategy
ix. What is the reporting period in which the climate-related scenario analysis was carried out?	Our Natural Capital > Strategy

RISK MANAGEMENT: Disclose how the organization identifies, assesses, and manages climate-related risks

Disclosure	Reference Section
a) What is the process, or processes, the entity uses to identify climate-related risks?	Our Natural Capital > Risk Management
b) What were the inputs and parameters the entity uses in its processes and related policies to identify, assess, prioritise and monitor climate-related risks?	Our Natural Capital > Risk Management
c) How did the entity assess the nature, likelihood and magnitude of the effects of those climate-related risks?	Our Natural Capital > Risk Management
d) Specify whether and how the entity prioritises climate-related risks relative to other types of risk and how the Bank monitors climate-related risks.	Our Natural Capital > Risk Management
e) What is the extent to which and how the climate-related opportunity identification, assessment and management process are integrated into the entity's overall management process?	Our Natural Capital > Risk Management
f) What are the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities?	Our Natural Capital > Risk Management
g) What is the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process?	Our Natural Capital > Risk Management

Sustainability Accounting Standards Board Index

The below index is prepared in accordance with Industry Standard | Version 2023-06 issued by the Sustainability Accounting Standards Board (SASB). The topics listed below are associated to the sector aligned to our business: Commercial Banks.

We do not yet disclose all metrics associated with our sector standard but aim to continuously increase the number of metrics disclosed in future reports.

Sustainability Industry Classification System System® (SICS®): Commercial Banks				
Topic	Accounting Metric	Category	Code	Reference Page Or Section
Data Security	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected	Quantitative	FN-CB-230a.1	Data Security
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	FN-CB-230a.2	Data Security
Financial Inclusion & Capacity Building	(1) Number and (2) amount of loans outstanding qualified to programmes designed to promote small business and community development	Quantitative	FN-CB-240a.1	Our Relationship Capital
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programmes designed to promote small business and community development	Quantitative	FN-CB-240a.2	Our Relationship Capital
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	FN-CB-240a.3	Our Relationship Capital
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	Quantitative	FN-CB-240a.4	Our Relationship Capital
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Description of approach to incorporation of environmental, social and governance (ESG) factors in credit analysis	Discussion and Analysis	FN-CB-410a.2	Our Relationship Capital
Financed Emissions	Absolute gross financed emissions, disaggregated by (1) Scope 1, (2) Scope 2 and (3) Scope 3	Quantitative	FN-CB-410b.1	This information hasn't been disclosed
	Gross exposure for each industry by asset class	Quantitative	FN-CB-410b.2	This information hasn't been disclosed
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	FN-CB-410b.3	This information hasn't been disclosed
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	FN-CB-410b.4	This information hasn't been disclosed
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations	Quantitative	FN-CB-510a.1	Responsible Business Practices
	Description of whistleblower policies and procedures	Discussion and Analysis	FN-CB-510a.2	Business Policies
Systematic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	Quantitative	FN-CB-550a.1	This information hasn't been disclosed
	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	Discussion and Analysis	FN-CB-550a.2	This information hasn't been disclosed
Activity Metrics	(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	FN-CB-000.A	Refer to the Financial Statements
	(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate	Quantitative	FN-CB-000.B	Refer to the Financial Statements

BUSINESS POLICIES

NBB has developed a comprehensive suite of policies designed to bring consistency, clarity, accountability, and efficiency to day-to-day operations across the business.

Environmental, Social, Governance Policies		
Policy	Description	Link
<i>Code of Conduct</i>	The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision-making integral to their work. All officers and employees subscribe to this Code of Conduct and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.	Operation Risk - Disciplinary Code for NBB - English - 2023.pdf - All Documents (mcas.ms)
<i>Whistle Blower Policy</i>	The Whistleblowing Policy encourages stakeholders to report any activities they believe could harm the Bank's finances or reputation to the Board Audit Committee Chairperson. These activities could be fraudulent, unethical, or significant breaches of policies, laws, and regulations. The policy protects those who report from retaliation or disadvantage. It aligns with best practices and meets the Central Bank of Bahrain's requirements.	Operation Risk - NBB - Whistle Blowing Policy.pdf - All Documents (mcas.ms)
<i>AML Policy</i>	Our AML policy details the procedures, systems, and controls NBB has in place including Know Your Customer (KYC) and Customer Due Diligence (CDD) to ensure we are always in compliance with all aspects of legislation and regulations related to anti-money laundering and combating terrorist financing (AML/CFT).	Operation Risk - Group AML CFT Sanctions Policy - All Documents (mcas.ms)
<i>Key Persons' Dealing Policy</i>	Our Key Persons' Dealing Policy outlines a set of rules and procedures that govern the trading of the Bank's shares by the Bank's Board of Directors, senior management, and other individuals who have access to insider information. The policy aims to prevent insider trading and ensure that individuals with access to confidential information about the company do not use that information to gain an unfair advantage when buying or selling the company's securities.	Operation Risk - Key Person Dealing Policy.pdf - All Documents (mcas.ms)
<i>Compliance Policy</i>	Our Compliance Policy outlines a framework of rules and guidelines aimed at ensuring the Bank's adherence to legal and regulatory requirements. It establishes standards that all employees and other stakeholders are expected to comply with to foster a culture of transparency, integrity, and accountability within the organization.	Operation Risk - Group Compliance Policy - signed.pdf - All Documents (mcas.ms)
<i>Sanctions Policy</i>	Our Sanctions Policy outlines how NBB complies with national and international sanctions that may be issued against individuals, entities, groups or nations and details the controls we have in place to identify such parties.	Operation Risk - Group AML CFT Sanctions Policy - All Documents (mcas.ms)
<i>Group Treasury and Investment Policy</i>	NBB recognizes the important role which treasury and capital markets play in today's financial system. The Bank also recognizes the importance of regulatory compliance and risk controls which must accompany the activities of a treasury and capital markets function. The Treasury and Capital Markets Policy defines the Group's integrated view of enterprise-wide trading, investment, compliance, and risk controls which must be adhered to by the Group Treasury and Capital Markets Unit. The Policy also highlights the essential details of corporate governance, corporate behavior, and ESG-compliant investment considerations. The National Bank of Bahrain is committed to serving its community, its clientele base, and its shareholders while ensuring that all activities undertaken by its Treasury and Capital Markets Unit adhere to best market practices.	Policy Statements National Bank of Bahrain (nbbonline.com)

Environmental, Social, Governance Policies (continued)		
Policy	Description	Link
<i>Employee Training and Development</i>	NBB is committed to providing an environment that is a conducive to effective performance and promotes training and development opportunities for all employees. This approach ensures they have the required competencies to meet the performance and quality standards their role demands. Line managers are responsible for proposing learning objectives and plans for their subordinates to develop their skills through appropriate training courses.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Equal Opportunities</i>	NBB believes in equality and fairness when it comes to recruitment and does not discriminate against the employment of persons for any job towards a certain gender, age, disability, marital status or any other elements falling outside the scope of the bank's business and operational needs or requirements of the law. In addition, NBB fully supports the employment of qualified persons with disabilities as required by law	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Diversity & Inclusion</i>	Diversity and Inclusion is a pillar within NBB's Human Resources and Talent Management Policy. It embraces the differences between people in various forms including gender, age, religion, disabilities, personality, ethnicity, skill set, experience, knowledge base, and background.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Community Initiatives and Promotion of Social and Economic Development</i>	NBB's commitment to its social responsibility is evident through an established Donations Policy that covers education, healthcare and social welfare. NBB is committed to allocate 5% of its annual net profits to support various programmes and initiatives that fall under the seven Donations and Contributions pillars.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Nationalisation</i>	In line with Bahrain's 2030 Vision to reduce the unemployment rate in the country, NBB's recruitment policy is to prioritise Bahraini nationals for employment opportunities if a suitable candidate can be found to meet the bank's business and operational needs.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Group Health & Safety</i>	NBB is committed to ensuring the health & safety and wellbeing of its employees as well as customers, visitors, contractors and tenants. The Group Health & Safety Policy describes appropriate standards to ensure health & safety risks are controlled across the workplace in line with local regulations and international best practices, including guidelines issued by World Health Organisation (WHO). NBB periodically provides appropriate health & safety training and awareness programmes for all staff.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Supplier Code of Conduct</i>	NBB continuously drives sustainability in products and solutions, combining economic success, social responsibility and environmental protection in our business operations and thereby enable our customers to meet current and future needs of society. Ensuring the principles of sustainable development in our supply chain is important to us. We want to partner with our suppliers to further develop their sustainability performance in our supply chain. We expect our suppliers to fully comply with applicable laws and to adhere to internationally recognized suppliers to use their best efforts to implement these standards with their suppliers and subcontractors.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Environmental Policy</i>	NBB is committed to minimising our direct impact on the environmental as well as working with our suppliers to positively influence their environmental performance. The Environmental Policy sets the foundation of Environmental Management framework and governs the environmental activities that are appropriate to the Bank. This policy incorporates elements of energy efficiency, emissions management, waste reduction, water consumption as well as climate change. NBB was the first bank in Bahrain to successfully attain the ISO 14001:2015 Environmental Management System (EMS) certification which helps organisations to reduce their environmental impact.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Human Rights Policy</i>	NBB respects human rights and complies with all related national and international laws. Our Human Rights policy ensures fair employment practices and a supportive organisational culture that encourages freedom of expression. We have a zero tolerance policy towards forced or child labour.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Global Credit Policy</i>	Since 2020, Credit Risk Management has embedded sustainability within its Global Credit Policy. Our ambition to be recognised as a regional leader in responsible lending and sustainable finance stems from our commitment to make a positive impact on the clients and communities we serve. ESG risk factors are examined across our financing activity and we are working to entrench ESG risk assessment within our overall credit risk management framework.	Policy Statements National Bank of Bahrain (nbbonline.com)
<i>Youth Employment Support Policy Statement</i>	NBB is committed to developing, training and providing employment opportunities for youth. We accommodate at least 40 graduates annually on our internship programme, which offers both on the job and formal training, helping to equip interns with the experience and skills they need to advance their careers.	Policy Statements National Bank of Bahrain (nbbonline.com)

CSE Independent Assurance Statement

Center for Sustainability and Excellence (CSE) has been engaged by National Bank of Bahrain (NBB) to provide independent assurance over the Annual Sustainability Report 2023. The aim of this process is to provide reassurance to NBB's stakeholders over the accuracy, reliability and objectivity of the reported information and the coverage of the material issues regarding the business and the stakeholders. NBB's 2023

Sustainability Report is in compliance with the requirements of the GRI STANDARDS Guidelines at 'In Accordance level' as well as the SASB Standards for the Commercial Banks Sector.

Scope of work

The scope of work included a review of the NBB 2023 Sustainability Report activities and performance data related to the 2023 year that ended December 31, 2023.

The assurance process was conducted in line with the requirements of the AA1000 Assurance Standard v3 and applied a Type 2 'moderate' level of assurance. Type 2 requires assessment of organization's adherence with the AA1000AS Principles and shall additionally assess and evidence the reliability and quality of specified sustainability performance and disclosed information. The principles that the assurance process is focused on are:

- **Inclusivity, Materiality, Responsiveness, and Impact.**

The scope of work included a review of the 2023 ESG Report activities and performance data.

Specifically, this included:

- Statements, information and performance data contained within the Sustainability Report.
- NBB's process for determining material aspects for reporting and the management approach to material issues.

- NBB's reported data and information as per the requirements of the Global Reporting Initiative (GRI) STANDARDS Sustainability Reporting Guidelines, and SASB standards for Commercial Banks Services as indicated in the Report index.

Methodology

In order to verify the content of the 2023 Sustainability Report we undertook the following activities to inform our independent assurance engagement:

- Conducted document reviews, data sampling and associated reporting systems as they relate to selected content and performance data.
- Reviewed the outcomes of NBB's stakeholder engagement activities in 2023.
- Reviewed the materiality analysis and its outputs.
- Evaluated NBB's public disclosures against the GRI and SASB standards.

More details on the specific information and data that were verified are presented in the following sections of the present independent assurance report.

General Conclusions

With respect to the scope of work, we conclude that:

- The account of NBB's activities and performance during 2023 and the way they are presented in the 2023 Sustainability Report is accurate.
- NBB adheres to the principles of inclusivity, materiality, responsiveness, and impact as per the AA1000 Accountability Principles Standard.

Key Observations and Recommendations

Based on the observations and concluding remarks derived from the assurance engagement, our key observations, and recommendations for the improvement are:

- With respect to the principle of inclusivity, NBB maintains a comprehensive communication process with its key stakeholders. It is suggested that NBB builds on this model to maximize its effectiveness and results and educate its C-Suite Executives on ESG issues.
- With respect to the principle of materiality, it is suggested that NBB considers a materiality assessment at least every two years and sets a more detailed ESG goals
- With respect to the principle of responsiveness NBB has taken significant steps to incorporate the concerns and preferences of its key stakeholder groups.
- With respect to the principle of impact, NBB shows adequate monitoring, measuring, and accountability for its actions and how they affect its broader natural and human ecosystems.
- With respect to performance indicators, it is recommended to continue showing performance from previous years in most indicators, and to be able to show the progress made in managing all material issues.

Findings and conclusions concerning adherence to the AA1000AS principles of Inclusivity, Materiality, Responsiveness and Specific Performance Information

Inclusivity – how the key stakeholder groups were identified and engaged regarding sustainability issues. All the key stakeholder groups were engaged. NBB applied widely accepted principles in developing its approach to stakeholder engagement and sustainability.

Materiality – how the assessment of the importance of each sustainability topic took place. The process for determining the material issues by NBB provides a balanced representation of the material issues regarding its sustainability performance and impacts.

Responsiveness – how the company responded to the issues that were pointed out by each stakeholder group, and how this response is described in the 2023 Sustainability Report.

Impact – how the company monitors, measures, and is accountable for how its actions affect their broader ecosystems. NBB provides adequate information in its 2023 Sustainability

Report on how it monitors its impacts to the natural and human ecosystems. The performance indicators used are based on commonly accepted standards and local/global best practices.

Specific Performance Information – The Specific Performance Information (quantitative data related to GRI and SASB metrics and indicators) has been collected and presented in a commonly acceptable manner in the 2023 Sustainability Report and the 'general and specific disclosures' have been reviewed during the assurance process. Specifically, during the independent assurance process, CSE examined evidence and documentation regarding:

- A description of other means, besides the materiality assessment, of identifying and verifying important sustainability topics for the 2023 fiscal year.

- A description (along with any supporting evidence and documentation) of the stakeholder engagement process, including the materiality assessment process.

- Evidence and documentation about NBB's Sustainability Strategy and KPIs.
- Evidence and documentation regarding material ESG topics, included in the report:
 - o GHG Emissions
 - o Waste management
 - o Petrol consumption
 - o Energy consumption
 - o Water management
 - o Workforce
 - o Training and education
 - o Community investment programme
 - o Business digital transaction
 - o Social housing loans
 - o Local suppliers
 - o Bloomberg and Refinitiv ESG scores
 - o Euromoney awards
 - o Charter of the Board Committee
 - o Investors in People accreditation
 - o ISO 27001, ISO 27701, ISO 45001, and ISO 14001 certifications

Overall, the report is in accordance with the GRI STANDARDS and follows the SASB STANDARDS for the Commercial Banks Sector. It is recommended, for future reports, that NBB sets definite goals for all material topics and outlines a 5-year plan for its ESG Goals.

Exclusions and Limitations Excluded from the scope of our work is information relating to:

- Activities outside the defined reporting period or scope.
- Financial data taken from NBB's 2023 Sustainability Report
- Content of external websites or documents.
- Any other issue or policy was not referred in the documentation

This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the 2023 Sustainability Report. The scope of our work was defined and agreed in consultation with NBB.

Statement of CSE Independence, Impartiality and Competence

This is the first year that CSE has provided independent assurance services in relation to the NBB Sustainability Report. Our assurance team completing the work for NBB has extensive knowledge of conducting assurance over environmental, social, health, safety and ethical information and systems, and through its combined experience in this field, an excellent understanding of good practice in Sustainability Reporting and assurance.



On behalf of the Assurance Team

Marina Alonistioti

Head of Assurance Services

Centre For Sustainability and Excellence (CSE)

