بنك البحرين الإسلامي

BisB

CONNECTED DESPITE THE DISTANCE

Annual Financial & Sustainability Report 2020

His Royal 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

CONNECTED DESPITE THE DISTANCE

Bahrain Islamic Bank B.S.C.
Diplomatic Area
P.O. Box 5240, Manama, Kingdom of Bahrain
Tel: (+973) 17 515 151
Fax: (+973) 17 535 808
Email: corporate.communications@bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

NO MATTER WHERE YOU ARE BisB IS ALWAYS CONNECTED TO YOU

CORPORATE PROFILE

Founded in 1979 as the first Islamic Bank in the Kingdom of Bahrain, and the fourth in the GCC, Bahrain Islamic Bank (BisB) has played a significant role in the development not only of the Kingdom's economy, but also of the Islamic banking industry. The Bank operates under an Islamic Retail Bank license from the Central Bank of Bahrain and is listed on the Bahrain Bourse. The Bank operates with four branches, four innovative financial malls, one Digital branch and 52 ATMs located throughout the Kingdom.

Driven by our Islamic values, BisB has developed itself in the Kingdom of Bahrain as a leader of the Islamic industry and the leading provider of integrated financial solutions compliant with Shari'a. Adopting a customer-centered approach, we have shown our forward-thinking by constantly developing in anticipation of the needs and expectations of our customers.

Innovation has always been at the core of our operations and financial offerings. We believe we are the industry's "mover and shaker", and as part of our strategic drive for digitalisation, we have achieved major milestones since our establishment. We have succeeded in changing the norms of banking within the Kingdom, thus improving the lives of society.

The role of Bahrain Islamic Bank as the leading Shari'a-compliant Bank has been cemented by a steady emphasis on sound corporate governance and risk management, employee growth, and the use of state-of-the-art technology to provide superior customer service.

The Bank has successfully built a strong base of excellence from the implementation of the Back-to-Basics Ishraq strategy; digitalisation, streamlining operations, restructuring our financial role and engaging with our employees and local partners to grow deeper and more meaningful roots. We wish to promote the principles of sustainability in all markets, as this shift will further maximize total positive impact in Bahrain. Nourished by our combined efforts and hard work, the ideals of BisB have evolved and flourished, giving birth to a new DNA brand that will lead us to a stronger and brighter future, where we compete by being different.

During 2020, the National Bank of Bahrain (NBB) acquired additional shares of Bahrain Islamic Bank, which increased NBB's shareholding in BisB from 29.06% as reported at 31 December 2019 to 78.81%. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

This successful integration of NBB and BisB - two of the country's historic banks - into a robust banking Group, is a proud achievement that serves as a national benchmark and has contributed to strengthening the Kingdom's position as a regional financing hub. The integration has served to reinforce both brand positions by drawing on their respective strengths and best practices to maximise their potential and deliver operational excellence. Both entities are benefitting from the delivery of significant synergies in business and investments; access to a shared talent pool of expertise, resources and technologies; improved efficiencies and optimised performance; and an expanded solutions portfolio, all of which serve to enhance profitability and shareholder returns as well as better the customer experience, sharing the same aspirations and sustainability framework.

Instant cash withdrawal online from credit cards to savings and current accounts

The first bank in Bahrain to automate the Know Your Customer providing eKYC processes

New digitally empowered self-service kiosks across all branches and financial Malls

Account Opening for Corporate Customers through Mobile

BisB BRAND

OUR BRAND PROMISE

FUELED BY BAHRAINI DEVOTION, WE CRAFT NEW WAYS OF SIMPLIFYING YOUR MONEY MATTERS

BAHRAINI DEVOTION	Our legendary national warmth and caring for others guide our approach to our customers, partners, personnel and broader society.
WE	Our entire team and organisation is committed to your financial well-being.
CRAFT	We sculpt and refine our services and products to best serve your needs.
NEW WAYS	Innovation and continuous development drive us to challenge the ordinary
SIMPLIFYING	We remove barriers and get things done efficiently and easily for you.

BRAND VALUES

Bahraini

We are Muslims, generous, polite, modest and respect others. We are hospitable and treat everyone with warmth. We desire to establish trust and build relationships with people before doing business. Family at home and at work is important to us and we are loyal to them. We care about the people we interact with and offer a helping hand. We are modern, intelligent and very literate.

Innovative

We move rocks to create more effective processes, products and ideas. Being innovative does not only mean inventing something new but changing the status quo and adapting to change to deliver better products and services to everyone.

Simple

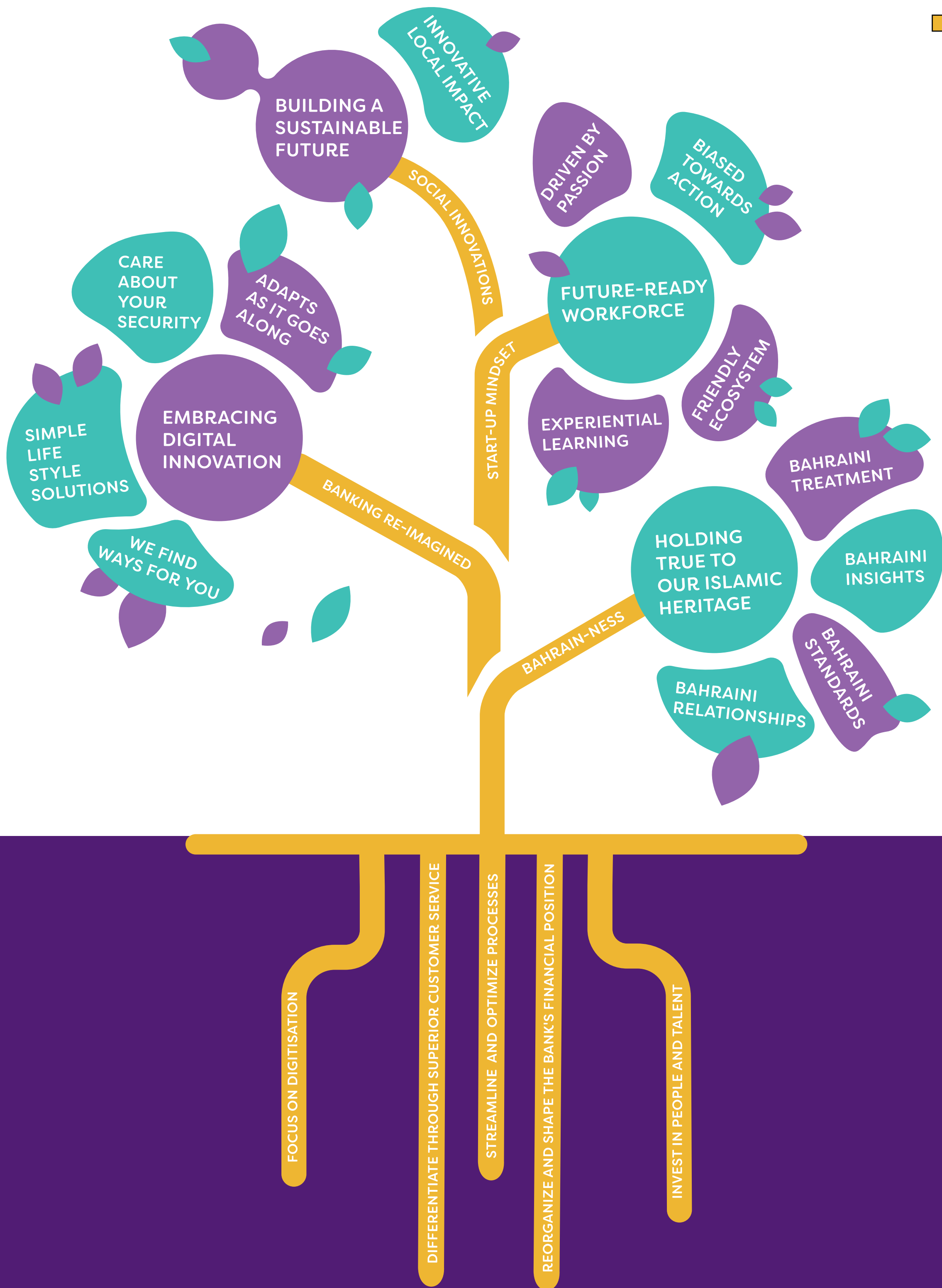
We strive for clarity and consistency, make decisions quickly and pragmatically and focus on what's essential. We go out of our way to simplify the lives of everyone around us because we understand that banking is complicated. We always challenge ourselves to find better ways. We celebrate successful improvements and learn from experiences.

Bold

We think big and work with others across boundaries to drive transformational growth. We always attempt to stand out within the boundaries of simplicity. Being different does not always mean digitalisation and does not always require us to reinvent the wheel. We seek to challenge the norm and be heard - to be a head turner.

BisB BRAND (Cont'd)

OUR GUIDING PRINCIPLES



BisB BRAND (Cont'd)

OUR GUIDING PRINCIPLES

BisB Tree of Life Pillars

Bahrain-ness

We want to instill our Bahraini insights and local values in our daily tasks at work and our business approach, cementing our "Bahrain-ness" as a living value. We want to capture the hearts of our customers, and be known for our friendly and open voice, treating our customers with warmth and respect, dedicated to surpassing their expectations.

Banking re-imagined

Constantly finding new solutions for our customers, we connect people to the right technology, adding world-class security measures to deal with the increased risks they face in an increasingly digital world.

Start-up mindset

A creative space, our BisB Innovation Lab fosters idea generation and is one of the achievements we are most passionate about. We want to celebrate every day success stories in our culture of continuous learning.

Social innovation

Social innovation is at the heart and soul of all that we do at BisB. We are excited about the projects we are developing and will be counting on all of our stakeholders to actively participate in creating a positive impact on local society.

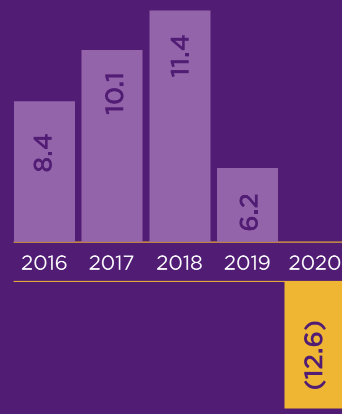
FINANCIAL HIGHLIGHTS

	2020	2019	2018	2017	2016
Earnings (BD Millions)					
Net profit income	**34.4**	34.7	33.9	32.9	30.6
Other income	**4.6**	7.6	9.5	7.0	8.2
Operating expenses	**23.4**	25.1	23.1	23.5	20.7
Net profit/(loss)	**(12.6)**	6.2	11.4	10.1	8.4
Cash dividend	**-**	-	-	-	5.1
Stock dividend	**-**	-	-	5.1	-
Financial Position (BD Millions)					
Total assets	**1,211.6**	1,223.6	1,280.5	1,228.6	1,022.0
Total Islamic financing	**783.6**	779.3	766.9	740.7	666.8
Investment securities	**276.6**	246.2	240.1	258.4	145.7
Earning assets	**1,139.9**	1,139.0	1,190.4	1,133.5	932.4
Total deposits	**1,091.9**	1,081.1	1,137.6	1,094.9	890.7
Customer deposits	**1,033.5**	963.3	935.0	721.2	786.8
Owners' equity	**96.0**	120.9	117.7	122.3	116.5
Ratios (%)					
Earnings					
Return on average equity	**(11.6)**	5.2	9.5	8.5	7.5
Return on average assets	**(1.0)**	0.5	0.9	0.9	0.8
Earnings per share (fils)	**(11.9)**	5.9	10.8	9.7	8.4
Cost-to-income ratio	**60.0**	59.3	55.5	61.9	56.4
Earnings per head count (BD 000's)	**(35.5)**	17.2	31.2	28.1	23.1
Capital					
Owners' equity as % of total assets	**7.9**	9.9	9.2	10.0	11.4
Total liabilities and URIA to owners' equity (times)	**11.6**	9.1	9.9	9.0	7.8
Capital adequacy ratio	**16.0**	14.9	17.1	19.4	20.3

FINANCIAL HIGHLIGHTS

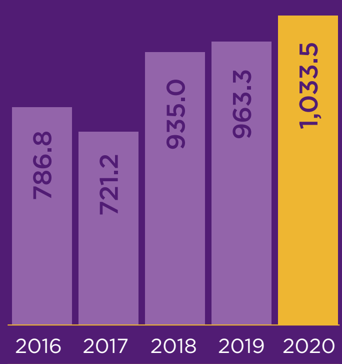
NET PROFIT/(LOSS)
(BD Millions)

(12.6) M



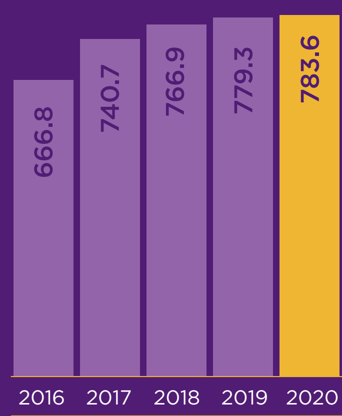
CUSTOMER DEPOSITS
(BD Millions)

1,033.5 M



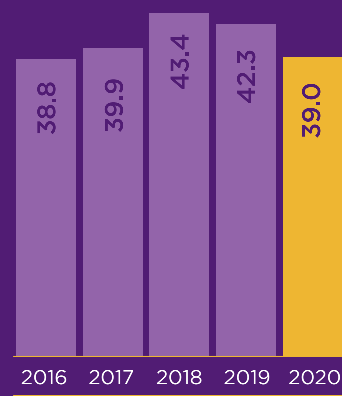
TOTAL ISLAMIC FINANCING
(BD Millions)

783.6 M



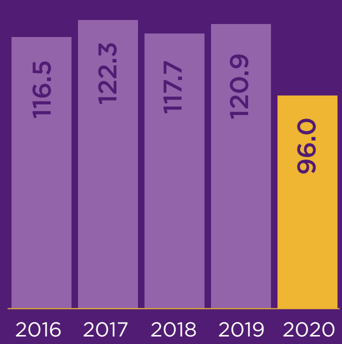
TOTAL INCOME
(BD Millions)

39.0 M



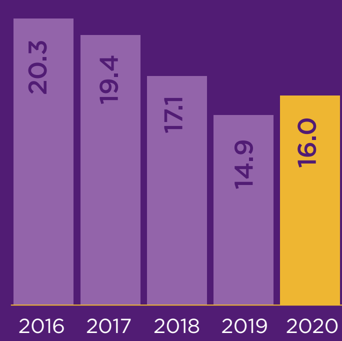
OWNERS' EQUITY
(BD Millions)

96.0 M



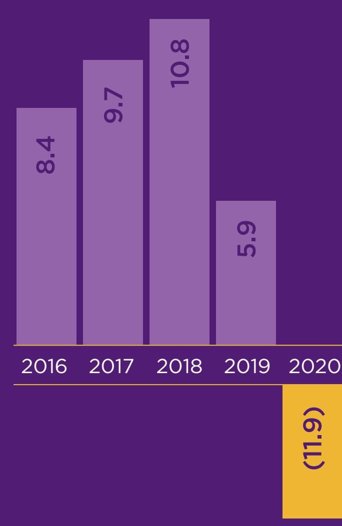
CAPITAL ADEQUACY
(%)

16.0%



EARNINGS PER SHARE
(FILS)

(11.9) Fils



OPERATIONAL HIGHLIGHTS

01

Corporate Governance and Ethical Behaviour

- Created a best governance framework, not only in terms of introducing technology to our governance and compliance processes but also building a robust framework for accountability, transparency and regulatory relations.
- First Bank in Bahrain to obtain the ISO Certificate for Business Continuity Management System, as part of our efforts to address potential risks or disruptions.
- Hosts annual events, ordinary and extra-ordinary General meetings virtually via video conferencing in celebration of the Spirit of Innovation and Collaboration.

02

Serving our Customers

- Launched Tejoori Instant Finance, allowing Tejoori credit holders to take instant finance against a pledge from their Tejoori accounts.
- Installed new digitally empowered self-service kiosks across all branches and Financial Malls, enabling existing and potential retail customers to open an account without the need for human intervention.
- Worked with Omar Farooq, social media influencer and our official new Brand ambassador, to promote products, services, and other innovations in exciting ways through social media channels.
- Enabled instant cash withdrawal online from credit cards to savings and current accounts.
- Launched “End-to-End Mobile Account Opening for Corporate Customers”, allowing individual establishments and Sijili customers to open and operate a corporate account using facial recognition.
- Upgraded digital services by rolling out new open banking services, in partnership with Tarabut Gateway, enabling customers to link and view multiple bank accounts through the BisB Digital mobile application.
- The first Bank in Bahrain to automate the Know Your Customer providing eKYC processes.

03

Responsible Banking

- Signed an agreement with Bahrain Bourse for its newly launched Murabaha Financing Digital Service, as part of the Bank’s commitment to position the Kingdom of Bahrain as the regional FinTech hub and global capital of Islamic banking.
- Offered relief measures to retail and corporate clients, providing credit facilities and restructuring advice; and urged the use of digital platforms to ensure personal safety, in line with our commitment to help lessen the financial burden of companies and individuals under our portfolio.
- Rewarded frontline customers during the coronavirus outbreak and increased the financial rewards to BD 57,000.

04

Nurturing our Workforce

- Embraced work from home to safeguard employees and implemented health and safety measures during COVID-19.
- We revealed the #Faces_of_BisB, where we celebrate the success stories and lives of our employees.

05

Community Investment

- Supported Bahrain Polytechnic University students with laptops, as part of our corporate responsibility Program, Jood. We partnered with Polytechnic University to provide a number of initiatives which aimed to equip students with enhanced soft skills such as innovation, creativity, entrepreneurship and leadership in order to create a future-ready workforce.
- Participated in the government’s national campaign "Feena Khair” by donating BD 250,000.
- Extended support to the Capital Governorate's "Together we care" campaign, donating BD 30,000.
- Took part in the Global Islamic and Sustainable FinTech Center (GISFC) Acceleration Program where participants are required to contribute to at least one of the UN Sustainable Development Goals. Under this program, we

OPERATIONAL HIGHLIGHTS (Cont'd)

embarked a strategic partnership with CBB to launch the CBB Digital Lab "FinHub 973" and launched the exclusive "Digital Marketing - Tech Minds of Tomorrow" Program in collaboration with Bahrain FinTech Bay.

- Organized the annual digital event for the Bank "#BisB" under the theme title: Celebrating the Spirit of Innovation & Collaboration. This event, broadcasted on social media channels, gathered several finance and banking officials in Bahrain as well as media, social media influencers and customers.
- Supported the 9th conference of the Shari'a Islamic Boards of Islamic Financial Institutions as a silver sponsor, organized by the Accounting and Auditing Organisation for Islamic Financial Institutions. The conference addressed Murabaha and Musharaka profit calculation, utilizing al Wafa sale and cash option in treating liquidity problems, or Shari'a methods in handling non-performing financing.

06

Preserving Natural Resources

- Enabled a seamless paperless onboarding process for new customers at BisB branches.
- Introduced water sensors in the BisB datacenter to monitor and detect leakage as part of our Business Continuity Management requirements to protect the devices and eliminate water waste.

07

Awards in 2020

- Received an Award for "Best Corporate Social Responsible Bank- Bahrain" and "Most Innovative Retail Bank Product-Bahrain" and the 2020 Asian Banking & Finance Wholesale Banking Award "Bahrain Domestic Initiative of the Year for Open Banking".
- Awarded "Excellence in Islamic Banking" at Finnovex Middle East Awards 2020.
- Received two gold awards for the categories of "Product Launch" and "Internal Communications Campaign" at the 2020 MarCom Awards, honoring excellence in Marketing and Communication.
- The head of Internal Shari'a Audit has been ranked #35 in the Womani Awards, honoring the 150 most influential women in Islamic business and finance.
- Rewarded at the 'Transformers Awards®' ceremony held in Morocco, organized by Trusted Advisors Group, certified in change management and transformation management. The first 'Transformers Award' was given in light of our success in facilitating financial transactions for customers through digital innovations, the second 'Customer Journey Award' was presented for the deployment of 'Selfie' Mobile Account Opening digital solution.
- The Chief Information Officer of BisB, Osama Nasr, was named "CIO of the Year" during the 2020 Bahrain Smart SMB Summit and Awards, which focused on topics related to transformation which impact the business dynamics in the market.
- Recognized as the 'Most Innovative Retail Bank Product – Bahrain', for the year 2020 from International Finance Magazine (IFM), a publication that recognizes and honors organisations that have developed innovative products or services that have set benchmarks for their peers across a variety of fields.
- Rewarded "Bahrain Domestic Initiative of the Year for Open Banking" category from the Asian Banking and Finance Wholesale Banking Awards 2020, honoring the most outstanding banks in Asia with successful and innovative wholesale banking initiatives.
- The Head of Information Security, Mohammed Isa Hammad, was named 'Continuity and Resilience Professional (Private Sector)' during the Business Continuity Institute (BCI) Middle East Awards 2020, recognizing the outstanding contributions of business continuity, risk and resilience professionals and organisations living or operating within the Middle East region.
- Won the platinum 'Marketing Effectiveness Award' in the social media category for our efforts on 'End-to-End Mobile Account Opening through Face ID Authentication' at the Summit International Awards 2020 which was announced in February 2021, USA.

BOARD OF DIRECTORS REPORT

Dr. Esam Abdulla Fakhro
Chairman of the Board

> The COVID-19 pandemic created unprecedented challenges in 2020. The Bank rose to these challenges, with our focus on simplifying customer matters and digital banking, which has proved to be essential in the pandemic context.

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors, I am privileged to present the annual report and consolidated financial statements of Bahrain Islamic Bank for the year 2020.

The COVID-19 pandemic created unprecedented challenges in 2020. The Bank rose to these challenges, with our focus on simplifying customer matters and digital banking, which has proved to be essential in the pandemic context. Moreover, the Bank was able to demonstrate a resilient financial position. The Bank managed to capitalize on the low rate environment and improve its deposits composition further towards CASA accounts reducing its cost of funding by 17%.

The Bank also took immediate steps to begin benefiting from the acquisition of additional 49.75% shares in BisB by the National Bank of Bahrain ("NBB"). In particular, the Bank sold certain non-yielding assets to NBB and accelerated the write-off of impaired assets, which allowed the Bank's financing portfolio to become significantly healthier and resulted in a lower NPF of 7% as of 31 December 2020 compared to 16% as of 31 December 2019. This step will allow the Bank to demonstrate the true quality of its financial performance.

The Bank's risk management, governance and compliance policies and practices remain prudent and are constantly under review and enhancement, in order to keep up with regulations and equally important increased external risks.

The COVID-19 pandemic was a stark reminder that the success of the Bank is directly linked to the health, safety and economic vitality of the society. Accordingly, the Bank increased its focus on the Environmental, Social and Governance ("ESG") risks and opportunities, including specialized ESG and sustainability training for the Board.

On behalf of the shareholders, the Board of Directors convey their sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa – the King of Bahrain; to His Royal Highness Prince Salman bin Hamad Al Khalifa – the Crown Prince, Prime Minister for their wise leadership and continuous support for Islamic Banking sector.

The Directors also express their appreciation to all Government ministries and authorities – in particular to the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism for their invaluable guidance, kind consideration and constant support, particularly in the context of this unprecedented year. Moreover, the Directors would like to take this opportunity to express their gratefulness for the guidance and counsel of the Bank's Shari'a Supervisory Board.

Ultimately, as with every year but even more so this year, we could not have demonstrated such resilience without the outstanding dedication of BisB's staff and management, the loyalty of our customers, and the reliability of our business partners. BisB is grateful and honored that these relationships grew in strength during such extraordinary circumstances. We look forward to the new possibilities these strengthened relationships can offer.

Dr. Esam Abdulla Fakhro
Chairman of the Board

BOARD OF DIRECTORS

Dr. Esam Abdulla Fakhro
Chairman

Non-Executive Director
Chairman- Nomination, Remuneration & Governance Committee (NRGC)

Mr. Khalid Yousif Abdul Rahman
Vice Chairman

Non-Executive Director
Vice Chairman- Executive Committee

Dr. Esam Fakhro is a holder of a PhD Degree in Mechanical Engineering from London University. He was awarded the Bahrain Medal – FirstClass. He is also a member of the Supreme Council for Education Development, and a member of the board of Trustees of AMA International University. Dr. Fakhro was a former member of the Economic Development Board. Previously, he chaired the Aluminum Bahrain Co. (ALBA), in addition to chairing the Bahrain Chamber of Commerce & Industry, and the Federation of GCC Chambers. Dr. Fakhro was a former member of Mumtalakat. Currently, he chairs Abdullah Yousif Fakhro & Sons Group in the field of transport and electronics, as well as foods and financial services. Dr. Fakhro is also the Chairman of the Board of Directors of the Bahrain Cinema Company. In addition, he assumes the post of the Deputy Chairman of National Bank of Bahrain, and the Qatar Bahrain Cinema Company and Vox Cineco. He is also a member of the Board of Directors of Trafco and Bahrain Livestock Company.

Mr. Khalid Yousif Abdul Rahman is Vice Chairman and Chief Executive Officer of Yousif Abdul Rahman Engineer Holding Company W.L.L. He is also Chairman of Food Supply Company Limited, Vice Chairman of National Establishment of Technical and Trade Services, Vice Chairman of National Transport Company, and Vice Chairman of Awal Dairy Company. He is a member of the Board of several major companies in Bahrain, including National Bank of Bahrain and Bahrain Ship Repairing & Engineering Company. He gained his B.Sc. Mechanical Engineering from Plymouth Polytechnic University, UK, and is a registered member of Bahrain Society of Engineers and the Committee for Organizing Engineering Professional Practice (COEPP) Mechanical Engineering Cat. B. Mr. Abdul Rahman has over 45 years of professional experience.

Mr. Jean-Christophe Durand
Vice Chairman

Executive Director
Chairman - Executive Committee

Mr. Yaser Abduljalil Alsharifi
Board Member

Executive Director
Member - Executive Committee

Mr. Jean-Christophe Durand joined the National Bank of Bahrain (NBB) as the CEO in December 2016 with a focus on reinforcing and expanding the Bank's role as a driver for economic growth and development. Mr. Durand brings over 39 years of international and regional banking and finance experience gained from senior leadership roles at leading global banking institutions, 32 years of which were in the GCC. Mr. Durand graduated from ESSEC Business School (Ecole Superieure des Sciences Economiques et Commerciales) in Paris. Prior to taking on the role of CEO of NBB, he was the regional CEO of BNP Paribas for Middle East and Africa, and was responsible for Corporate and Institutional Banking and Asset Management, and served on the board of a retail bank owned by the BNP Paribas group. He holds several Board positions locally and regionally, including sitting on the boards of Gulf Air, Bahrain Telecommunications Company (Batelco) and Bahrain Islamic Bank. He serves as the Chairman of Batelco's Audit Committee, Chairman of BisB's Executive Committee and is a member of the Human Resources Committee at Gulf Air. Additionally, he is the Chairman for Umniah Telecommunication Company in Jordan, Director of the Bahrain Institute of Banking and Finance (BIBF) and Chairman of the French Chamber of Commerce and Industry in Bahrain (FCCIB). Mr. Durand was awarded the 'Legion d' Honneur' by the Government of France.

Mr. Yaser Alsharifi joined NBB in 2017 as the Chief Strategy Officer, leading the Bank's transformation and innovation efforts, heading NBB's project management office and business development arm, as well as the Bank's operations in Saudi Arabia and the United Arab Emirates. Mr. Alsharifi was appointed as the Group Chief Strategy Officer in 2020. He boasts over 25 years of experience in investment management and corporate finance across the GCC, Europe and the US, with past roles in Al Rajhi Holdings, and Partner at Ernst & Young. Additionally, Mr. Alsharifi serves as the Chairman of the Bahrain Institute for Pearls and Gemstones (Danat). He is also a Board Member of Bahrain Real Estate Investment Company (Edamah), Bahrain Bourse, Bahrain Clear and Bahrain Car Parks Company B.S.C. Mr. Alsharifi represents NBB on the Board of Bahrain Islamic Bank, and is part of the Limited Partners Advisory Committee of the Al Waha Fund of Funds. Furthermore, he is a Member of the Young Presidents Organisation (YPO) and holds a Bachelors in Business Administration from the University of Massachusetts at Amherst, USA.

BOARD OF DIRECTORS (Cont'd)

Mr. Khalid Abdulaziz Al Jassim
Board Member

Independent Non-Executive Director
Chairman - Audit Committee (AC)
Member - Board Risk & Compliance Committee (BRCC)

Mr. Khalid Abdulaziz Al Jassim is the Chairman and the Managing Director of Afkar Holding Company, which specializes in investments. Prior to that, he was an Executive Director at Arcapita Bank. Mr. Al Jassim has also worked for Arthur Anderson as a senior business consultant. He holds a BSC in Computer Science & Mathematics from the California State University, Long Beach, USA as well as an Executive MBA from Pepperdine University in California, USA.

Mr. Mohammed Abdulla Al Jalahama
Independent, Non-Executive Director

Member - Audit Committee (AC)

Mr. Mohammed Abdulla Al Jalahama is the former Secretary General of the General Secretariat of Awqaf in Kuwait. In addition to holding previous board positions on several governmental institutions, Mr. Al Jalahmah was on the Board of Directors at both Bangladesh Islamic Bank as well as Al Madar Finance and Investment Company. He holds a Bachelor's degree in Business Administration from Concordia University, Canada.

Mr. Marwan Khaled Tabbara
Board Member

Independent Non-Executive Director
Chairman - Board Risk & Compliance Committee (BRCC)
Member - Nomination, Remuneration & Governance Committee (NRGC)

Mr. Tabbara is a co-founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain, and has over 20 years of experience in strategic, financial, and transaction advisory. Prior to Stratum, Mr. Tabbara worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, and supported large private and public sector clients on financing transactions within the Middle East and internationally. He currently also serves as Chairman of the Board of Directors of Bahrain Flour Mills Company BSC (publicly listed and majority owned by Mumtalakat, the sovereign wealth fund of the Kingdom of Bahrain) and as Board Member of Bahrain Development Bank BSC (c). He has also previously served as Vice Chairman of the Board of Directors of Bahrain Bourse BSC (c) (Bahrain's National Stock Exchange). Mr. Tabbara holds a Master of Engineering Management and a Bachelor of Science in Electrical Engineering and Economics from Duke University, USA.

Mr. Mohamed Abdulla Nooruddin
Board Member

Independent Non-Executive Director
Member - Nomination, Remuneration & Governance Committee (NRGC)
Member - Board Risk & Compliance Committee (BRCC)

Mr. Mohamed Abdulla Nooruddin is the Chairman of Newbury Investments W.L.L., a private entity firm established in the Kingdom of Bahrain that provides financial and investment advisory services. He was also a Board member at Al Baraka Bank-Egypt and Tadhamon Capital. He is also an ex-board member of Ibdar Bank. In the past, Mr. Nooruddin has held several executive positions at Arcapita Bank, First Islamic Investment Bank, Bahrain International Bank and Gulf International Bank. He holds a BSc in Business Administration from the University of Bahrain.

BOARD OF DIRECTORS (Cont'd)

Ms. Dana Buheji
Board Member

Executive Director
Member - Nomination, Remuneration & Governance Committee (NRGC)

Ms. Dana Buheji joined NBB in 2017 and now operates as the Group Chief Human Resources & Sustainability Officer overseeing the integration and provision of human resources and talent management services to both NBB and BisB. Ms. Buheji is tasked with professionalising our people services, empowering our employees to reach their full potential and creating sustainable, excellent, Human Resources and Talent Management practices that support the transformation of the Group. Prior to joining NBB, Ms. Buheji held roles with, the Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, the Ministry of Finance and National Economy, and Ahli United Bank. Ms. Buheji also represents NBB on the Board of Bahrain Islamic Bank and serves as a Board Member for Injaz Bahrain a member of Consultative Committee for Bahrain International Federation for Business and Professional Women (BPW) and as a member of the Human Resources and Remuneration Committee of Bahrain Association of Banks (BAB). Ms. Buheji has a B.A. in Commerce from Concordia University, Canada and a professional certification in human resources (CPP) from London, UK.

Mr. Isa Hasan Maseeh
Board Member

Executive Director
Member - Audit Committee (AC)
Member - Board Risk & Compliance Committee (BRCC)

Mr. Isa Maseeh joined NBB in 2017 as Deputy Chief Risk Officer and took over as Chief Risk Officer in July 2019 to focus on reinforcing and further developing the risk management framework in support of the Bank's future growth and transformation. He has since assumed the position of Group Chief Risk Officer. Moreover, he was appointed as Acting Chief Compliance Officer in 2020. Mr. Maseeh carries with him over 23 years of banking experience spanning commercial and investment banking in the Kingdom of Bahrain in the areas of risk management, credit and compliance. Prior to joining NBB, Mr. Maseeh was the Group Chief Risk Officer of Al Salam Bank Bahrain where he was focused on the integration and management of the risk function post the acquisition of BMI Bank. He has also held various other senior risk management positions with Islamic and conventional banks including BMI Bank, United Gulf Bank, and Gulf Finance House. Additionally, Mr. Maseeh is a Board Member representing NBB on Bahrain Islamic Bank B.S.C., and RE Property S.P.C. Mr. Maseeh holds an MBA (Hons) from DePaul University, USA and a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

THE PRIMARY RESPONSIBILITY OF THE BOARD OF DIRECTORS IS TO PROVIDE EFFECTIVE GOVERNANCE OVER THE BANK'S AFFAIRS FOR THE BENEFIT OF ITS STAKEHOLDERS AND TO BALANCE THE INTERESTS OF ITS DIVERSE CONSTITUENCIES, INCLUDING ASSOCIATED CONCERNS, EMPLOYEES, AND OTHER STAKEHOLDERS.

SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Latif Mahmood Al Mahmood

Chairman of Shari'a Supervisory Board

- Former Head of Arabic Language and Islamic Studies Department at the University of Bahrain.
- Member of the Supreme Council for Islamic Affairs, Bahrain.
- Member of the Shari'a Supervisory Board of Bahrain Central Bank, Oman Central Bank, AlBaraka Banking Group ,Takaful International, and ABC Islamic Bank Kingdom of Bahrain and London.
- Preacher at a number of Bahrain's Masjeds since 1973.
- He gives lessons in Quran interpretation, jurisprudence, principles of jurisprudence and preaching.
- He participated and spoke in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Mohammed Jaffar Al Juffairi

Vice Chairman of Shari'a Supervisory Board

- Studied at Al Ahliya University of Najaf, and joined the Hawza studies for higher education in Shari'a sciences (Comparative Studies).
- Judge of the High Shari'a Court of Appeal and seconded as President of the High Shari'a Court, Ministry of Justice, Kingdom of Bahrain.
- Former Member of the Zakah Committee, Ministry of Justice.
- He participated in a number of Islamic committees, courses, seminars and conferences.

Shaikh Adnan Abdulla Al Qattan
Shari'a Supervisory Board Member

- Chairman of Shari'a section, Cassation Court, Ministry of Justice and Islamic Affairs and Awqaf, Kingdom of Bahrain.
- Vice Chairman of the Royal Charity Organisation.
- Chairman of the Pilgrimage Mission, of the Kingdom of Bahrain.
- Puisne Justice of the High Shari'a Court.
- Preacher of Ahmed Al Fateh Islamic Masjed.
- He participated in a number of Islamic committees, courses, seminars and conferences.
- He worked as a lecturer at the Islamic Studies Department, University of Bahrain.
- Member of the Shari'a Supervisory Board of Al Salam Bank, Ibdar Bank, and LMC.

Shaikh Dr. Nedham Mohamed Saleh Yacoubi
Shari'a Supervisory Board Member

- Member of various Shari'a Supervisory Boards including Central Bank of Bahrain, Abu Dhabi Islamic Bank, UAE., Sharjah Islamic Bank, UAE, Ithmaar Bank, Kingdom of Bahrain, Gulf Finance House, Kingdom of Bahrain, Khaleeji Commercial Bank Bahrain, ABC Islamic Bank, Kingdom of Bahrain, ABC Islamic Bank, London.
- Member of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).
- Holds a number of Academic degrees and awards, First Degree Award of Capability for Islamic services within and outside Bahrain, from the King of Bahrain, Euro Money Award for innovation in Islamic banking supervision, Malaysia, Malaysia Award for contribution to Islamic Banking, Malaysia.
- He participated and is a speaker in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Dr. Essam Khalaf Al Enizi
Shari'a Supervisory Board Member

- Professor of Comparative Jurisprudence and Faculty of Shari'a and Islamic Studies, University of Kuwait.
- Member of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI),
- Member of the Shari'a Supervisory Board at Boubyan Bank – State of Kuwait, Alahli Bank, Investment Dar – State of Kuwait, Kuwait Zakah House.
- He participated and is a speaker in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

CHIEF EXECUTIVE OFFICER REPORT

Mr. Hassan Amin Jarrar
Chief Executive Officer

"We are grateful that our ongoing focus on "Simplifying your money matters" and the digitalisation of the Bank and its services were extremely well-suited to meet these twin goals of safety and economic security for our key stakeholders. We spent every effort possible in 2020 accelerating our simplification and digitalisation efforts to make banking as easy and reliable as possible throughout the year."

2020 presented rare challenges. As the COVID-19 pandemic affected individuals, families, communities and the economy, BisB's utmost priority was, and continues to be, safety and security. Safety for our customers. Safety for our employees. Safety for our business partners. Safety for society. And as much economic security as possible for each of these stakeholders in such uncertain circumstances.

We are grateful that our ongoing focus on "Simplifying your money matters" and the digitalisation of the bank and its services were extremely well-suited to meet these twin goals of safety and economic security for our key stakeholders. We spent every effort possible in 2020 accelerating our simplification and digitalisation efforts to make banking as easy and reliable as possible throughout the year.

In terms of responsible banking and taking care of our customers, we introduced more ways for individual and companies to access banking services without having to leave their homes, interact unnecessarily with others, touch paper or even touch money. For example, companies can now set up accounts online, or update their records uploading all necessary forms strictly online through the "BisB Digital" smart phone application, in the same five-minute timeframe that we have achieved for individual banking customers. We also worked in a co-operative spirit with regulators, going beyond their requests, to reschedule or extend financing repayment terms for our customers in need.

To take care of our employees, we made it clear that their safety and the well-being of their families was essential. Our simplicity and digitalisation efforts made it possible for more than 50% of our employees to work effectively from home, particularly for those who are caregivers in their family, offering them support and training sessions to ensure their mental well-being.

With our partners, we are particularly proud that much of the financial technology (or FinTech) that is making our user interface and experience so friendly is developed in Bahrain, particularly in a time when the economy has been impacted by the pandemic. We continued to invest in the growth of this Bahrain FinTech ecosystem by supporting Finhub 973, a partnership with the CBB and other leading banks in Bahrain, and similar initiatives, that promote innovation on a local level, further enabling the Kingdom of Bahrain's FinTech sector to thrive and cementing its position as a FinTech hub in the region.

Financially, the business demonstrated remarkable resilience. There were savings in some areas such as cost of funding and operational expenses, while other areas such as fees and commissions income suffered as a result of the pandemic. NBB's completion of the acquisition of a majority stake in BisB has been particularly timely and valuable for BisB. With prudent provisioning including acceleration of write off of impaired assets and sale of certain assets to NBB, we have been able to improve our balance sheet, even while taking extra care of our customers during the pandemic.

Last year, I emphasized that as millennials and 'Generation Z' continue to rely heavily on mobile and smart phones, the aim of our 'Simplification' approach is to mirror the seamless, reliable, and predictable end-user experience in banking, as much as it is in other services. Just as millennials and 'Generation Z' expect this technological capability and experience, we recognize they also increasingly expect a clear, genuine focus on sustainability. They have a preference to bank with, purchase from, work for and invest in products, services and companies that understand sustainability, value it, and demonstrate better sustainability performance.

As an Islamic Bank, values always come first. This combined annual and sustainability report captures how we perform not only in terms of financial performance, but also sets out our social, socio-economic, environmental and governance performance. It is a fitting way to report on a year that was so focused on working together with our stakeholders to preserve and create value for both shareholders and society. I extend my sincere thanks to all of our stakeholders for their engagement and collaboration.

Hassan Amin Jarrar
Chief Executive Officer

EXECUTIVE MANAGEMENT

Mr. Hassan Amin Jarrar
Chief Executive Officer

Mr. Hassan Amin Jarrar is one of the most prominent banking leaders in the region with more than 30 years of international, regional and local banking experience. Prior to joining Bahrain Islamic Bank on July 1, 2015 as Chief Executive Officer, Mr. Jarrar held the position of Chief Executive Officer of Standard Chartered Bank, Bahrain. Mr. Jarrar's diverse career in banking includes extensive experience in retail, SME, and Corporate Banking in the Middle East and the US. Regionally, he served as Head of Corporate and SME Banking at Abu Dhabi Commercial Bank, and Head of Corporate Banking at Mashreq Bank, Abu Dhabi. Internationally, he has over two decades of experience in key management positions in leading banking institutions in the USA, namely Security Pacific Bank, and Bank of America. He is the Chairman of Liquidity Management Center "LMC" and serves on the Boards of Bahrain Bourse, the Bahrain Association of Banks, and Tamkeen. Mr Jarrar holds a BSc in Finance from California State University, San Jose, USA.

Mr. Wesam Abdul Aziz Baqer
Chief Corporate & Institutional Banking

Mr. Wesam Baqer is an approved international arbitrator, an experienced banking professional with a diverse career in Corporate Banking, Private Banking, and Business Development. Mr. Baqer joined BisB in 2008 as Head of Corporate Banking. Previously, he held the same position at National Bank of Kuwait. Prior to that, he managed corporate relationships with HSBC for eight years. He is a Certified Financial Advisor (CeFA), and a member of the Chartered Institute of Bankers. Mr. Baqer is a Board Member representing BisB in various companies across Bahrain, and is an active member in several local charities and community service societies. Mr. Baqer completed an Executive Management Leadership Diploma from Darden Graduate School of Business, University of Virginia, in the US. He also holds an MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland, and a BS in Business Administration from the University of Bahrain.

Mrs. Dalal Ahmed Abdulla Al Qais

Chief Retail Banking

Mr. Ameer Abdul Ghani Dairi

Chief Financial Officer

Mrs. Dalal Al Qais is the first Bahraini woman to hold a GM position at Bahrain Islamic Bank (BisB) with over 18 years of extensive financial and banking experience. Prior to joining BisB in October 2017 as the first Bahraini woman to hold the position of Head of Retail Banking for the Bank, she headed the Consumer Banking Division of Standard Chartered Bank in Bahrain, with regional responsibilities covering Bahrain, Qatar and Oman. During her 16 years with Standard Chartered Bank, her management roles covered retail branch banking, SMEs, credit cards, and wealth management. Mrs. Al Qais also brings to the Bank in-depth knowledge of consumer banking digitalisation channels. Ms. Al Qais holds a BSc in Management and Marketing from the University of Bahrain and an MSc in Finance.

Mr. Ameer A.Ghani Dairi has over 19 years of experience in financial management and accounting in addition to a broad commercial banking background in Bahrain. He joined BisB in 2007 and holds the position of Chief Financial Officer at BisB. Mr. Dairi is a Board Member and Chairman of Audit Committee in Liquidity Management Centre (LMC), representing BisB. He is also the Chairman of the Board of Directors of Abaad Real Estate Company.

Mr. Dairi is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US and holds a BSc in Accounting from the University of Bahrain. Mr. Dairi has been awarded a certificate of excellence in data science and analytics from Berkeley University of California and a leadership grooming program certificate from Ivey Business School, Canada, a program designed by CBB Waqf Fund for Islamic Banking future leaders.

EXECUTIVE MANAGEMENT (Cont'd)

Mr. Fahim Ahmed Shafiqi
Chief Risk Officer

Mr. Fahim Ahmed is an experienced banker with over 20 years of international experience gained through various roles in Corporate Banking and Risk Management, spanning the markets of Pakistan, GCC, Africa and the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He holds a Diploma in Islamic Finance (CDIF) and an MBA from the University of Warwick, UK.

Mr. Mazar Rashid Mohammed Jalal
Chief Compliance & Governance

Mr. Mazar Rashid Mohammed Jalal has over 18 years of experience in the financial services industry, covering Asset Management, Risk Management, Corporate Governance and Compliance. Prior to joining BisB, he was Head of Compliance at Kuwait Finance House, Bahrain. Mr. Mazar has had extensive experience with various Central Bank regulators in the field of compliance and corporate governance, AML procedures, and FATCA, among others. He holds a BSc in Accounting from the University of Bahrain, and a Diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance, UK and Wales, with which he also has an Associate Fellowship. In 2014, he acquired the International Diploma in Compliance with distinction.

Mr. Khaled Waheeb Alnaser

Chief Internal Audit

Mr. Osama Ali Nasr

Chief Information Officer

Mr. Khaled Waheeb Alnaser has over 10 years' experience in the fields of external audit, financial reporting and control, internal control, and internal audit. Prior to joining BisB in 2014 he worked at EY as an external auditor with focus on Islamic financial institutions. He joined BisB as a Senior Manager in Financial Control in charge of financial reporting and payables, then moved to establish and head the Internal Control department prior to joining Internal Audit and holding his current position as Chief Internal Auditor. He is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), Certified Islamic Professional Accountant (CIPA) from Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and a Chartered Global Management Accountant (CGMA). Mr. Alnaser also completed a Leadership Development Program from Darden School of Business, University of Virginia, in the US.

Mr. Osama Nasr has over 20 years of experience in Information Technology (IT) and is currently the Head of Information Technology at BisB. Prior to joining BisB in 2007 as Head of Application Services in the IT department, Mr. Osama has held various key positions in several specialized companies abroad. Mr. Osama Nasr holds a Masters degree in Information System Management from the University of Liverpool in the United Kingdom. He also participates in several courses and workshops specialized in his field of work.

EXECUTIVE MANAGEMENT (Cont'd)

Mrs. Maisa Jawdat Shunnar

Chief Digital Transformation

Mr. Hussain Ebrahim Al Banna

Head of Treasury Department

Mrs. Maisa has substantial experience in Transformation and Business Process Re-engineering (BPR). She oversees Business Planning and is responsible for strategy alignment to the latest industry practices within the FinTech field for Bahrain Islamic Bank (BisB). Mrs. Maisa is a notable speaker and active participant on topics such as FinTech and Transformation. She has participated in many conferences within the Middle East & Europe. Furthermore, she is a member of many national committees in the fields of FinTech and Innovation. Additionally, Mrs. Maisa serves on the Advisory Board of Bahrain FinTech Bay. Prior to holding her current position in BisB, Mrs. Maisa worked in the National Bank of Abu Dhabi as Transformation Manager, headed the BPR Department in the Electronic Government Authority of Bahrain and served as the Manager of Performance and Productivity Improvements for Electronic Data Systems - Bahrain. Prior to moving to the Middle East, Mrs. Maisa worked in Shell Oil and Gas and for the City of Houston in the State of Texas, USA.

Mrs. Maisa holds a B.Sc. degree in Business Administration majoring in Computer Information Systems from the University of Houston (Texas, USA), and a Master's degree in Business Communication and Leadership from Jones International University (Colorado, USA). Mrs. Maisa has also acquired a Certificate from Oxford University on FinTech, a Diploma in Islamic Finance Studies from CIMA, UK and a Certificate in Business Excellence from Columbia Business School in FinTech, Digital and Analytics.

Mr. Hussain Al Banna is a banking professional with more than 15 years of conventional and Islamic banking experience in various capacities. He joined BisB in 2008 and is currently Assistant General Manager heading the treasury department with a mandate of handling Foreign Exchange (FX), Money Markets (MM) as well as the Bank's sukuk portfolio. His banking career started in 2004 when he joined BNP Paribas as an Officer in the Regional Treasury Operations and was later selected for the prestigious Executive Management Trainee Program in 2005 at Bank of Bahrain and Kuwait (BBK) where he gained experience in the Treasury & Investments Department. During the program, he gained in-depth knowledge of FX, MM - Asset Liability Management (ALM), Corporate Treasury sales and handled over US$ 700 million fixed income bond portfolio. He holds a BS in Banking and Finance from the University of Bahrain and has successfully completed a diploma in Treasury and Capital Markets from Bahrain Institute of Banking and Finance (BIBF).

Mrs. Eman Ali Abdulla Ebrahim
Head of Central Operations

Ms. Afnan Ahmed Saleh
Chief Human Resources Officer

Mrs. Eman Ali Abdulla Ebrahim has more than 23 years experience in Banking sector, including banking operation front and back office coordination for Trade Finance, Treasury and Islamic Finance. She is well-versed in conventional and Islamic banking operations, as well as banking products and services support. Mrs. Eman joined BisB in 2006, after completing eight years with Ahli United Bank in customer service and related support functions. Mrs. Eman has MBA in Islamic Finance from University College of Bahrain.

Bringing to the role over 20 years of work experience, Ms. Afnan Saleh began her career at the Career Counseling Office of the University of Bahrain where she worked for five years, ultimately heading Professional Liaisons Division as Senior Counselor. She later joined Intelnacom as a Corporate Affairs Manager in 2006. From 2008, Ms. Afnan Saleh held several leading positions at Tharawat Investment House, namely as Director of HR & Corporate Management and Secretary of the Board of Directors. Ms. Afnan joined BisB in 2015 as a Manager in the Bank's HR Department, where she was promoted to Chief Human Resources Officer. In addition to her work experience, she holds a B.Sc. in Business Administration from the University of Bahrain, and an MBA in Business Administration from Strathclyde University, UK.

SUSTAINABILITY

As an Islamic Bank, we have strong ethical foundations, and we believe that sustainability is essential to business and society. We aim to embed it in our DNA, at the core of our business and operations.

Sustainability is an institutional commitment and comprises an integral part of our pursuit of both good corporate citizenship and the fundamentals of sound business practice. We share the vision and aspirations of NBB, our main shareholder, and we too believe that sustainability can make our Bank the "banking partner of choice" as it can bring strong growth in the high impact sectors that will shape the future economy and competitiveness of Bahrain. As such, we wish to promote the principles of sustainability in all markets, as this shift will further maximize total positive impact in Bahrain.

We believe that effective communication is a key component of sustainability, involving understanding the needs of our stakeholders and ensuring that their voices are heard and that their concerns are acted upon. In this, sustainability is fully aligned with our own philosophy of listening to our customers and putting their needs first.

This spirit of engagement is also an integral part of reporting on sustainability - ensuring that we have a proper process in place to identify our stakeholders, understand their concerns, and make sure that our reporting focuses on the issues of most importance to them and to our future success.

Since last year, the Bank has reported important non-financial information about its operations, promoting transparency and providing comprehensive coverage of significant sustainability topics. This year is the first time that we are publishing a consolidated Annual and Sustainability Report which highlights our goal to implement sustainability in our business. We will assess our sustainability practice in accordance with international standards and best practice.

Stakeholder dialogue

We value our stakeholders, who have invested in us, and with whom we have built strong relationships. Our stakeholders are the customers, our employees, shareholders and investors, government and regulators, the communities, and our suppliers.

Customers

In BisB, we want to differentiate by offering superior customer service. The aim is to capture the heart of our customers and be known for a friendly and open voice, treating them with warmth, respect and dedication to surpassing their expectations. We desire to establish trust, build relationships before doing business with our customers. BisB aims to provide new and innovative solutions for its customers, connecting people with the right technology, adding world-class security measures to deal with the increased risks in an increasingly digital world.

SUSTAINABILITY (Cont'd)

Employees

BisB invests in people and their talents by developing an ecosystem of continuous learning, creativity and innovation. For BisB it is important for the employees to love their job and love coming to work every day. We want to share the Bahraini values with employees, so that they in return offer that spirit to our customers. Shareholders and investors

BisB considers that delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives is crucial for future investors and current shareholders. The Board is responsible and accountable for this.

Shareholders and investors

BisB considers that delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives is crucial for future investors and current shareholders. The Board is responsible and accountable for this.

Government and regulators

The Bank works with regulators, government authorities, regional and international professional organisations, to develop security, privacy, resilient standards and policies. BisB corporate governance is crucial for optimal service delivery. Security, privacy and reliance are important elements of our culture. The Bank has also been offering products and services in accordance with the provisions of Islamic Shari'a.

Communities

Our sustainability framework works as a reminder of how we aspire to drive change. Giving back to the community has helped the Bank reach where it is today and is at its heart and its soul. BisB undertakes community-centric projects focused on shared goals. We believe that traditional sustainability approaches simply are not sufficient to drive solutions to the problems of our world today, nor address the long-term needs of our community.

Suppliers

BisB is committed to its partners and suppliers, who provide essential services and technology in support of our offering to customers. Through its contractual terms, the Bank aims to ensure that all security requirements are identified, along with protection of personal data and resilience requirements to ensure continuity of services and operations.

Communication

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Key communication channels include this Report, our website and regular announcements in the appropriate local media.

Our strong media presence ensures our stakeholders are provided with transparent and day-to-day information about our activities. We understand their needs by informing, consulting, and collaborating with them through various channels.
We found new ways to engage with our audience creating our own community of followers, through engagement on social media channels such as Facebook, Twitter, Instagram and LinkedIn, which reflect our bold fresh approach. We have worked with Omar Farooq, social media influencer and our official new Brand Ambassador, to promote products, services, and other innovations in exciting ways through social media channels.

We have our YouTube channel that we are continuing to develop with new content, including a series called "Suwalif BisB" which features industry professionals who discuss a wide range of topics related to the banking sector and other economic sectors, the first of its kind in Bahrain.

The Bank wants to be in close contact with its stakeholders and as such, facilitates contact even with departmental heads. Moreover, we share our Bank's achievements, we revealed the #Faces_of_BisB, where we celebrate the success stories and lives of our employees.

Another communication channel used is the virtual employee, Dana, our appointed Head of Simplification, who has her own channel on Instagram and Twitter. We created a virtual employee because we believe in doing things differently. Dana is a living reflection of our promise to simplify, and our desire to break boundaries, to question the status quo, to innovate and imagine. Our ongoing commitment, and engagement helps us meet our stakeholders' expectations.

Specifically, the social media channels used are:

LinkedIn: https://www.linkedin.com/company/bahrain- islamic-bank-bisb/

YouTube: https: // www. youtube. com/user / BahrainIslamicBank

BisB: Instagram, Facebook @Bahrain Islamic Bank Twitter @_BisB

Dana**:** Instagram @Dana_Simplifies Twitter @dana_ simply

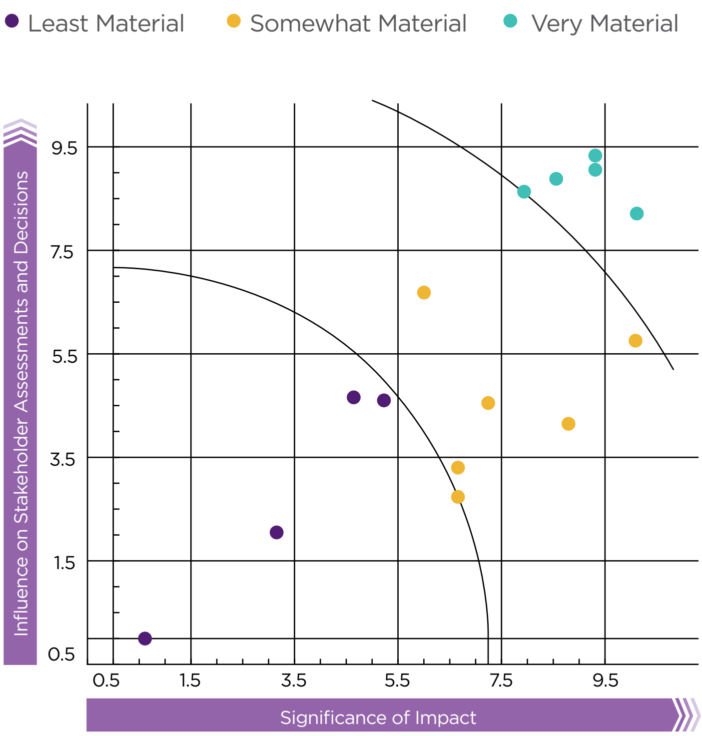
SUSTAINABILITY (Cont'd)

Material topics

To ensure that this report focuses on the issues of most importance to our stakeholders, we have conducted a materiality assessment to identify the most important sustainability topics we should focus on. Material topics are those that reflect our economic, environmental and social impact or any matters that significantly influence the assessments and the decisions of our stakeholders. The materiality analysis was developed to define our understanding of the influence of each topic and link them with our sustainability goals.

Material topics are identified based on customer, employee, shareholder and other stakeholder priorities. They also take into account the Bahrain 2030 vision, the SDGs, ESG analyst priorities, GRI guidance and standards, and overall, our impacts which have the greatest financial implications for shareholders and overall benefit for society.

BisB Material Matrix



Material Topic

Very Material	1	Compliance and ethical behaviour
	2	Data privacy and security
	3	Responsible customer relationships
	4	Financial and economic performance
	5	Governance, transparency and accountability
Somewhat Material	6	Digital transformation and Innovation
	7	Employee training and Development
	8	Financial inclusion
	9	Diversity, inclusion and equal opportunity
	10	Community investment
	11	Workforce wellbeing
Least Material	12	Integration of Environmental and Social Factors in Lending Activities
	13	Integration of ESG in Investment Activities
	14	Direct environmental footprint
	15	Responsible sourcing

The materiality analysis identified 15 topics which are presented below. We have considered the issues and grouped then into six focus areas, which link to our beliefs and aspirations:

- Responsible banking: We believe we have an important role to play, engaging with the CBB and National Bank of Bahrain, in supporting sustainable and responsible banking and delivering innovative solutions to our customers.
- Serving our customers: Our customers come first. In delivering services to them, simplification lies at the heart of our approach.
- Nurturing our workforce: Human capital remains our most valuable resource and our employees are at the heart of everything we do.
- Community investment: The spirit of giving and generosity is rooted in our values. Our initiatives create a positive and sustainable impact on our local communities.
- Preserving natural resources: Reducing direct carbon footprint and conserving our natural resources to fight climate change will help leave our planet habitable for future generations.
- Corporate governance and ethical behaviour: Our rigorous systems of governance and control reinforce our commitment to behave ethically and transparently at all times.

SUSTAINABILITY (Cont'd)

Responsible Banking

- Integration of Environmental and Social Factors in Lending Activities (12)
- Integration of ESG in Investment Activities(13)
- Financial and Economic Performance (4)
- Financial Inclusion (8)

Serving our Customers

- Responsible Customer Relationships (3)
- Data Privacy and Security (2)
- Digital Transformation and Innovation (6)

Nurturing our Workforce

- Workforce Wellbeing (11)
- Diversity, Inclusion, and Equal Opportunity(9)
- Employee Training and Development (7)

Community investment

- Community Investment (10)

Preserving Natural Resources

- Direct Environmental Footprint (14)
- Responsible Sourcing (15)

Corporate Governance and Ethical Behaviour

- Compliance and Ethical Behaviour (1)
- Data Privacy and Security (2)
- Governance, Transparency, and Accountability (5)

RESPONSIBLE BANKING

BisB is a member of the Bahrain Association of Banks, and follows the priorities and aspirations set by it. The Association has prioritized sustainability by establishing a permanent committee that examines what sustainable development means for the banking sector in Bahrain. The committee's purpose is to work on highlighting the areas in which the banking and financial sector should engage with the CBB and the Government of Bahrain to help develop a framework of policies and measures to promote sustainable and green finance in the Kingdom. We want to play an important role in supporting responsible banking and delivering innovative solutions to our customers.

In the framework of responsible banking, we have supported the Government of Bahrain Social Housing Finance Scheme 'Mazaya Program', which is designed to provide affordable housing for the lower mass market. We also structured a unique new product to cater for the beneficiary housing needs with an inclusive credit policy and pricing.

Moreover, we have engaged in several initiatives and specific measures to mitigate the impact of COVID-19, for the benefit of our customers and our community. We have provided support to our customers including deferral of financing installments without accruing additional profit or late fees, and financing restructuring based on mutually agreed terms and conditions. We have also offered cash rewards to our COVID-19 frontline customers, contributing to the wellbeing of the society.

We have participated in Tamkeen's Solar Energy Panel Financing Program and we were the first Bank to sign on the financing scheme approval.

Next year, we plan to enhance our responsible product lines and to implement ESG criteria on our investment and lending activities.

Islamic Finance

We aim to conduct our financing activities in compliance with national and international regulations, ensuring high ethical standards in decision making. We propose Shari'a compliant products that prohibit investments in uncertainty and risk, while promoting activities that have a positive impact on society, achieving equality, inclusion and economic prosperity.

As part of our commitment to position the Kingdom of Bahrain as the regional FinTech hub and global capital of Islamic banking, and our continuous efforts in providing innovative Islamic Banking solutions, we have signed an agreement with Bahrain Bourse for our newly launched Murabaha financing Digital Service. This Murabaha financing framework is using a Shari'a compliant lending service provided by the CBB. We are working on bringing ethical alternatives to traditional investments and promoting Islamic Finance in the Kingdom and internationally. We have supported the ninth conference of the Shari'a Boards of Islamic Financial Institutions as a silver sponsor. The conference addressed Murabaha and Musharaka profit calculation, utilizing al Wafa sale and cash option in treating liquidity problems, or Shari'a methods in handling non-performing finances.

Financial inclusion

At BisB, we constantly work on ensuring accessibility to our products for all our users across the Kingdom, helped by our digitalisation initiatives. In 2020, the proportion of new accounts held by first time account holders (74%) demonstrates the effectiveness of our efforts in ensuring our financial services are extended to all populations. Moreover, we make sure that we provide access to our services on our branches, for disabled customers.

Serving our Customers

Simplification lies at the heart of our approach to the delivery of service for all our customers, personal and corporate. We are committed to simplifying and supporting our customers' journey by transforming our services and our customer's acceptance of digital approaches to banking. We are at work continuously to simplify money matters and transform traditional customer service to digital solutions.

We believe we are becoming an industry leader in digital transformation and innovation. Our three-year journey to simplicity has enabled us not only to commit to our objectives of simplifying key business processes but also to manage an internal process of transformation, in which change management and effective project management have developed our people and corporate culture. We are also preserving our Islamic values and staying faithful to our traditional roots, the cement of our reputation. We are embedding innovation at the core of our strategy and operations. As a digital Bank, our aim is to create a unique multi-channel experience for our customers and to become the one stop shop Bank, helping elevate standards of banking in the Kingdom.

Digitalisation has been helpful in enabling people to respond to the consequences of the COVID-19 pandemic. We were able to provide customers with digital services that ensured their safety as well as that of our employees. The Bank has developed new and attractive offerings for its customers and employees - enabling people to remain connected despite social distancing. In 2020, we introduced various new products and services mainly through our digital platform including kiosks, credit card online acquisition, Tejoori instant finance, and cash finance.

Financial inclusion: accounts and lending	2018	2019	2020
New accounts held by first-time account holders (%)	79	79	74
New accounts held by first-time credit card holders (%)	5	5	3
Financing-to-deposit ratio for overall domestic lending (%)	79	82	84
Financing default rates for overall domestic lending (%)	4	5	3

SERVING OUR CUSTOMERS

OUR JOURNEY TO DIGITALISATION

2017

Digital Channels:
Rollout of Mobile app and revamped online services for Retail clients with over 60+ services and features.

Kiosk:
No kiosks were available

2018

Digital Channels:
Rollout of Mobile app and revamped online services for Corporate Clients.
Delivering the same experience provided to retail clients, in addition to key services for corporate clients; such as salary transfer, online batch transfers and trade finance service. Introduced PayPal services for Retail & Corporate clients.

Kiosk:
No kiosks were available

2019

Digital Channels:
Two key services were added to the service portfolio: Introduced in- app digital onboarding for retail clients using selfie & automated ID verification services as well as instant account opening for all account types. Introduced online finance topup service.

Kiosk:
Number of total kiosks: 1
Number of total services: 1
Services: New to Bank Clients: Retail customer onboarding

Branches:
Paperless retail clients onboarding in all branches.

2020

Digital Channels:
Added 9 new additional services to Retail Clients and Corporate clients.

1. Credit Card Applications
2. Online disputes
3. PIN reset
4. Certified Digital Certificates
5. Certified Digital Statement
6. Small business online onboarding & account opening
7. Finance against tejoori account
8. Credit Card Cash Finance service
9. Open Banking - Account Aggregation service

Kiosk:
Number of total kiosks: 10
Number of total services: 11

Services Details:

New to Bank Clients:

1. Retail customer onboarding

Existing to Bank Clients:

1. Get Prepaid Card,
2. Update Your Address. Customers can update their address with their ID(CPR) card.
3. Issue or Replace Card,
   a. New Prepaid Card
   b. New ATM Card,
   c. Replace Debit/Prepaid Card,
4. Print Statements & Certificates,
   a.Print Official Statement,
   b.Print IBAN Certificate,
   c.Print Balance Certificate,
5. Update Personal Details. Customer can update their expired IDs expiry dates (CPR card and Passport), monthly income and expense, and FATCA/CRS details.
6. Update Employment Info. Customers can update their employer information with the data fetched from their ID(CPR) card, and the salary amount.

SERVING OUR CUSTOMERS (Cont'd)

We believe in 'Everything Customer' by providing services and support across different channels, anywhere, anytime. We are committed to using digital technology to bridge the gap between us and our customers and to cater to all types of customers. We are currently pursuing several exciting new projects:

- Business process automation – aiming to achieve complete automation across all functions, services and products.
- Corporate simplification – platform for getting easy and quick decisions on corporate credit applications.
- Implementation of Dana Chatbot – implementation of Chatbot to provide better customer experience using artificial intelligence.
- Branch automation – fast track automation of branch services with high volumes to minimize physical interactions during COVID-19.

Retail banking

Embracing technology to deliver innovative, digital and sustainable products and services is a priority for BisB. The journey to digital innovation has been undertaken with a focus on achieving efficiency through automating processes, empowering customers by providing more self-service using digital channels, and continuously improving the services delivered. The simplicity we provide to our customers' banking experience makes use of advanced technologies.

Highlights in 2020

- Introducing digital mobile onboarding using selfie verification, the first of its kind in Bahrain.
- Rolling out small footprint self-service kiosks machines in different locations in Bahrain.
- Enabling a seamless paperless onboarding process for new customers at BisB branches.
- Becoming the first bank in Bahrain to automate the Know Your Customer providing eKYC processes.
- Providing an open Banking enabled service within the BisB app, in partnership with Tarabut Gateway, allowing customers to add other bank's accounts, providing them with the ability to view their consolidated net worth across banks as well as view their statement and search through transactions from all accounts.
- Enabling withdraw cash online from credit cards to savings and current accounts instantly.

Our clients can open a Bank account using a mobile phone, instead of a traditional process taking two to three days. Our digital virtual employee "Dana" joined us in 2019 and since then has been setting measures and instilling creative methodologies to ensure the BisB's portfolio of products and services are developed in a way that puts simplicity at their core. This is in line with our objective to make customers' money matters easy, by enabling them to conduct daily transactions with the ultimate convenience.

BisB has established and adopted Open Banking Services in line with Central Bank of Bahrain directives. We were amongst the first banks in Bahrain to enable such services, offering a streamlined experience from within its mobile app. In 2019, the open banking platform was established and Application Programing Interfaces (APIs) for any licensed FinTech to use was published. During 2020, the open banking was launched within BisB app by enabling customers to add other banks accounts into the BisB app, providing them with the ability to view their consolidated net worth across banks and view their statement and search through the transactions in all accounts.

This shift to automation of our financial processes not only involves offering online services to customers, but also ensuring end-to-end integration through APIs to the key third parties involved in the delivery chain. The personal financing process is automated, offering service to customers online through integration of end-to-end third-party personal finance agent ALFAJER to provide a Shari'a compliant financing. This enabled the Bank to offer a paperless and instant financing service. In this context, the services enabled are personal finance online top-up and additional finance application of existing approved clients, instantly and online. Instant Tejoori finance offers clients with existing Tejoori accounts the capacity to obtain financing services entirely online. Additional online financing services will soon be added to the different customer segments.

Credit card processes have also been automated, enabling BisB clients to apply for a card online. The card request will be sent through APIs to the card payment processor to issue the cards instantly. In addition, a feature for instant credit card withdrawal has been offered online, enabling customers in need of cash to instantly transfer funds.

More specifically, the total new retail clients onboarded through branches other than headquarters was approximately 92% of the total onboarding in 2019 across a total of 8 branches working six days a week. The other 8% were onboarded online. During 2020, 63% of the total new retail clients were onboarded online.

SERVING OUR CUSTOMERS (Cont'd)

	2018			2019			2020		
	Non-Financial transactions	Financial transactions	No. of Channels	Non-Financial transactions	Financial transactions	No. of Channels	Non-Financial transactions	Financial transactions	No. of Channels
Branch	25%	99%	9	18%	86%	9	13%	60%	9
ATM	52%	0%	52	50%	0%	54	44%	0%	52
KIOSK	0%	0%	0	0%	0%	1	1%	19%	10
Call center	0%	1%	4	0%	4%	6	0%	2%	6
ITM	0.01%	0%	1	0.2%	0%	1	0.2%	0%	2
Digital	23%	0%	1	32%	10%	1	42%	19%	1

We are proud to see that 40% of the financial transactions were completed in 2020 electronically, over 60% in branches. This shows a dominant shift to digital banking, and to simplifying money matters. For non-financial transactions, we are seeing substantial increases, with an increase of more than 28% since 2019. Our journey to digitalisation is progressing, confirming the appropriateness of our plan to add further online financial and non-financial services to reach different customers segments.

Innovation and simplification in action: kiosk development

Our goal was to introduce self-service machines across all our branches and in financial malls enabling the customer to do most of the transactions 24/7, without the need to enter the branch. To achieve this required overcoming security challenges and raising customer awareness and confidence, while simultaneously addressing regulatory and compliance requirements.

The kiosks were developed from start to finish by the Bank's employees as a result of their collaborative efforts and creativity. The development was housed within the Bank's Innovation Lab, a creative space within the Bank headquarters dedicated to brainstorming and empowered by advanced technology that seeks to change the face of traditional customer service by creating new and better customer experiences.

By using face recognition technology and streamlined processes, we succeeded in making the transition as smooth and seamless as possible for the customer. The response and take-up of the kiosks has been a good source of service, benefiting the community throughout the COVID-19 pandemic, restricting levels of human interaction. A measure of the success has been that in the course of 2020, kiosks were used up to 63% of prepaid cards for printing, and up to 20% of total account opening.

"We are delighted to introduce the self-service kiosks, developed by the Bank's in-house team of local Bahraini talent from their extensive experience of information technology. Our ultimate goal is to simplify the customer's experience by providing them with the ability to conduct multiple transactions independently, so they will no longer be forced to stand in a long queue simply to execute a routine transaction such as the issue of pre-paid cards. We've installed these innovative self-service kiosks across every branch and in financial malls with the aim of simplifying our customer's money matters".

Hassan Jarrar,
BisB Chief Executive Officer.

SERVING OUR CUSTOMERS (Cont'd)

Corporate and financial institutional banking

Our strategy is to focus on digitalisation to gain competitive advantage over large local rivals in the banking industry. We are committed to provide our customers with a differentiated banking experience in which digital transformation plays a central role. We believe we have made a good start in this journey and will reap the benefits of first-mover advantages in the market.

The main corporate digital service launched by BisB is our online banking platform. The platform represents a disruptive innovation introduced to improve end-user experience through efficient and cost-effective measures of instigating banking transactions. The online banking platform eliminates the need to invest in expensive physical infrastructure to cater for our products and services. The platform is currently considered BisB's core strength in creating sustainable outcomes.

We believe that we gain much from efficient financial and administrative processes, especially in the face of intensifying regulatory compliance demands, both in the case of Central Bank of Bahrain specific directives and adhering to existing policies and procedures. We also seek to distinguish ourselves and keep up with the general trend to focus on control of people and processes within BisB to avoid an exposure or risk to our banking practices.

Innovation has supported the Bank's corporate customers. Since September 2020, more than 400 corporate customers have been able to open an account digitally. The Banks' end-to-end digital service allows both individual establishments and Sijili customers to open a corporate account using advanced facial recognition technology via the Bank's corporate mobile application, BisB Corporate Digital, within a matter of minutes. The service is seamless and provides the ultimate level of convenience, eliminating the hassle of customers visiting branches or financial malls in person.

In 2020, we launched our enhanced Corporate online digital banking platform to cope with the increased pressure to shift processes online and remotely, allowing corporations to open online accounts without visiting branches. We successfully expanded our customer base both for corporations and financial institutions, with a total financing portfolio of BD 262 million (BD 251 million for corporations and BD 11 million for financial institutions). With a diversified portfolio, we have supported critical sectors of the economy including healthcare, information technology, telecommunication services, SMEs, and others.

Given the current economic difficulties, credit facilities are being restructured to meet customers' cash flow requirements and give room to enhance their offerings and growth potential. We have provided support measures through a six-month grace period, advising customers on solutions for their liquidity positioning and cash collection services at a reasonable rate. During the recovery phase, accounts across the board will be closely monitored to ensure their robustness and timely delivery of obligations. Otherwise, BisB will take proactive measures to ensure the efficacy of the financing/ deposit portfolio.

BisB has also participated in Tamkeen's solar energy panel financing program and was the first Bank to sign on to the financing scheme approval. We will market Tamkeen's solar energy panel financing program once it becomes available.

Total financing to companies in the following sectors (BD Millions)	2018	2019	2020
Industrials	174	169	134
Infrastructure	112	104	101
Financials	26	21	11
Healthcare	5	4	7
Consumer Staples	6	6	5
Oil and gas	20	20	2
Consumer Discretionary	5	3	1
Information Technology	2	2	1
TOTAL	**350**	**329**	**262**

Total financing to companies by size	2018	2019	2020
Micro	2	2	1
Small	18	20	19
Medium	39	44	42
Commercial	291	263	200
TOTAL	**350**	**329**	**262**

SERVING OUR CUSTOMERS (Cont'd)

Treasury

As the leading retail Islamic Bank within the Kingdom of Bahrain, the Treasury department arranges for a large proportion of local and international funding and investments that facilitate economic support.

The COVID-19 pandemic has created unprecedented levels of market uncertainty and economic disruption, with severe financial and social implications across all sectors of the economy. It has put significant financial and organisational strain on the banking system, with serious consequences for many of our customers and clients - both personal and corporate. Several sectors have been disrupted by the need for social distancing and lockdowns, supply chain constraints and transportation difficulties. We have witnessed a deceleration in world economies with higher risks faced by emerging economies.

Within the region, the dual effects of the coronavirus-induced economic contraction coupled with record low oil prices resulted in negative repercussions on the economies, liquidity and credit spreads. However, we witnessed central banks and governments pump monetary and fiscal stimulus at an unprecedented pace which helped to offset and reverse part of the damage done by the lockdowns initiated.

Despite market conditions, BisB maintained healthy liquidity and continued to focus on reducing the cost of funding by fully repaying USD 78 million of repurchase agreements, thereby lowering the costs associated with its interbank liabilities, while simultaneously improving regulatory metrics, such as Liquidity Coverage Ratio and Net Stable Funding Ratio.

In terms of portfolio management, the Sukuk portfolio grew 18% to BD 252 million with the sovereign portfolio constituting more than 97% of the Sukuk book.

During 2020, as part of our digital transformation efforts, we have implemented the phase one upgrade of our treasury management solution that will enhance and automate our treasury operations. We aim to provide more innovative products and services to our customers, and thus improve our customer experience.

Customer relations

We believe in building a sustainable relationship with our customers, based on openness, trust and confidence. We dedicate all our efforts to meet their expectations, enhance and facilitate their experience, while treating them with warmth, respect and dedication.

We are committed to do everything we can to meet our customer needs. Their satisfaction lies at the top of our priorities and we pledge to continue valuing and preserving them and our community. Our enduring aim is to find new and innovative solutions for our customers, connecting people to the right technology, and protecting them from the increasing risks of the digital world by providing world-class security measures. We are solution-oriented, and are known for being bold, and different, for re-imagining the traditional way of doing things and creating entirely new solutions to simplify their lives.

Despite the challenging market circumstances this year, BisB has sought to grow its products and services offering to serve customer's requirements and ensure companies and individuals are offered suitable financing schemes. Moreover, products were developed to cater for the demand for digital banking as a support channel to ensure business continuity during periods of restriction. We have also succeeded in providing several specific measures to support our customers in the light of the global health and economic crisis, including deferral of financing installments, without fees and grace periods.

Awarding medical staff

In line with government efforts to tackle COVID-19, the Bank announced in April 2020 an initiative to reward its customers who worked in the medical sector on the front-line in government hospitals and health centers during the pandemic.

As a gesture of gratitude for their efforts, the Bank dedicated a total of BD 57,000 to reward its customers in treating COVID-19 patients and for going over and above their normal responsibilities to keep the Bahraini community safe during this challenging period. The initiative included Bahraini doctors and nurses.

Customer security and privacy

We continue to embed awareness of security and privacy into the culture of our organisation. We aim to ensure that security by design principles are applied to existing and newly enhanced processes, products and services. Our layered security controls approach is entrenched in everything we do as we transform our business.

At BisB, we value customer data privacy and security. We have made a formal commitment in our Security and Privacy Statement, publicly available on our website. We commit to respect our customers' privacy, cyber security, recovery and resilience. The Bank has internal processes to enforce privacy protection internally and in outsourcing contracts. In addition, the Bank is certified against the standard ISO 22301:2019 Business Continuity Management System, PCI-DSS 3.2 for card security and SWIFT Customer Security Framework 2020.

As part of the Bank's information security strategy, people play a significant role in providing the first line of defense against security threats. At BisB, we ensure that we cover all security and privacy topics through our social media and communication channels, targeting all our stakeholders. The department is staffed with subject matter experts in the fields of information security, cyber security, privacy management and business continuity. There are more than 20 professional certifications in these fields in the team, including some qualifications that are the first in the region.

Furthermore, we protect our customers' personal information with the highest care to maintain their trust and confidence. The numerous security and privacy measures implemented enable us to safeguard our customers and facilitate transactions across different platforms: online, mobile, and ATMs. We are happy to say that no security breaches including those involving customers' personally identifiable information have been reported since 2017.

SERVING OUR CUSTOMERS (Cont'd)

Customer security and privacy (Cont'd)

At BisB, we value the importance of transparency. We want our customers to trust their Bank's products and services. It is our core mandate to ensure that all communications with customers are fair and transparent and that any sensitive communications with customers and third parties are sufficiently vetted by respective departments such as Marketing, Corporate Communications, Legal, Compliance and Business Units with professionally trained frontline staff.

Customer satisfaction

We are committed to measuring and enhancing our customers' experience and to increase our Net Promoter Score (NPS). We are proud of our levels of customer satisfaction as reflected in our high scores of 94.77%.

We take action to stay in touch with what our customers want and are always prepared to launch new ideas. This year, for example, we surveyed customers on the idea of opening coffee shops in financial malls to serve customers during waiting times. The idea was positively received, and having secured the necessary regulatory approvals, shops were opened at Budiaya and Riffa financial malls.

Customer satisfaction	2018	2019	2020
Overall customer satisfaction (%)	90	96	95

Customer complaints

A customer complaint form is available on BisB website. Customers can raise concerns, with all complaints categorized, investigated, and shared with the respective business units and involved parties. If the proposed resolution is not satisfactory to the customer, we seek further resolution depending on the circumstances until the incident is closed. This year only 76 complaints were reported, a decrease of 44% which reflects our dedication to always provide high quality services.

Customer complaints	2018	2019	2020
Number of complaints received	204	136	76
Number of complaints closed	204	136	76
Response rate to customer queries	Avg. 3-5 working days	Avg. 3-5 working days	Avg. 3-5 working days

Know Your Customer

To further facilitate and enhance the customer experience at BisB, we have automated the Know Your Customer process all through the mobile phone, delivering the eKYC (electronic KYC). Historically, a customer would have to update their records once or twice per year depending on the classification within the Bank, which entailed coming up with copies, waiting in line, handling paperwork and coming into physical contact with people. This has saved time for customers and de-cluttered branches, while supporting the health and safety of customers and employees.

NURTURING OUR WORKFORCE

We empower the Human Resources function to play a role as a strategic business partner as part of creating a sustainable and productive work environment. This necessitates flexibility in the way the department approaches its work, to respond to the rapidly changing operating environment in which we live and work. This need for flexibility extends to the need for our people management processes to have a positive impact on the social, environmental and governance factors.

Human capital remains our most valuable resource. Our employees are at the heart of what we do, and we consider them to be our most valued asset. We have responded to the pandemic in many ways that help our employees. We implemented all the necessary safety precautions across our buildings and facilities by practicing social distancing and installing barriers where required. Around 80% of our people were enabled to work remotely during the pandemic.

We have used BisB's LinkedIn page to attract the best professional talent from the market and to showcase the Bank's achievements, promote its thought leaders and position BisB as an employer of choice.

Workforce composition	2017	2018	2019	2020
Total workforce (excluding trainees, students and outsourced)	360	365	361	350
Senior management employees	41	47	46	42
Middle management employees	98	106	110	107
Non-management employees	221	212	205	201
Trainees and sponsored students	-	35	30	14

Workforce by age and gender (excluding trainees, students and outsourced employees)	2017	2018	2019	2020
Employees aged 18-30	121	101	89	76
Employees aged 31-50	228	254	264	263
Employees aged 51+	11	10	8	11
Male employees	237	238	233	228
Female employees	123	127	128	122
Female employees in middle management	38	45	45	39
Female employees in senior management	5	8	8	8
New hires and turnover	**2017**	**2018**	**2019**	**2020**
Total new employee hires	34	28	23	8
Male	20	18	16	6
Female	14	10	7	2
Employee turnover (voluntary and involuntary)	27	23	27	19

NURTURING OUR WORKFORCE (Cont'd)

Corporate Culture and Ethics

Everyone who works at BisB is a representative of the Bank. This goes far beyond simply having a Bank email signature or our logo on a business card. It is about the fact that every interaction with a customer is representative of the Bank and that each of our employees is a reflection of the Bank. At BisB, we want everyone to thrive in their job, love coming to work every day, enabling all to bring the best versions of themselves each day.

Our employees' opinions matter. Everyone is encouraged to share thoughts, feedback and suggestions. We have an open-door policy at Human Resources, and our department heads are happy to hear ideas for a new product, or a new way of working. It is part of our culture of collaboration.

We are planning on setting a fully implemented employee self-service within Human Resources Management System (HRMS), which will be addressing all subjects related to our HR policy, employee leave, overtime, career development, performance management, succession planning and learning. We are working towards enabling a data analytics training academy to capture highflier employees and train them to satisfy the Bank's needs in data analytics.

Employee engagement

2020 has seen further intensive investment in our employees and management. We continued to build employee engagement, employee experience, and improve productivity through focusing on accountabilities.

On our journey of digitalisation, we have made remarkable progress in our HR system automation through the implementation of a Performance Management System. The system allows interactive communication between employees and their line managers in setting up job objectives and development plans with the ability to monitor them in real-time and provide continuous feedback throughout the year. Moreover, it allows for annual performance reviews, which are conducted for all employees via this automated HRMS portal efficiently and effectively.

On employee engagement, communication at a departmental level was initiated and an action plan prepared to increase engagement levels. We have updated our HRMS portal with all the necessary COVID-19 precautions and government requirements. We also have a quarterly newsletter in place.

We offer our employees a wide range of benefits. For example, we facilitate workers' access to non-occupational medical and healthcare services. Employees and their families are covered by a comprehensive medical scheme with wide network coverage nationally and internationally. In addition, optical, dental and maternity cover is included in their medical plan and delivered in private hospitals. We also offer life insurance, year-end bonuses, and health club membership payment. From 2021, we will continue providing a medical scheme for all employees with additional benefits across the group.

Diversity and Inclusion

Nationalisation

Bahrain-ness reflects our desire to instill our Bahraini insights, which have grown from our Islamic roots. It is how we transcend our local values in daily tasks at work and in our approach to business. It is a living value in the way we try to capture the hearts of our customers, and to be known for our friendly, expert voice by treating our customers with warmth and respect, maintaining our dedication to surpassing their expectations.

Recruitment, retention and development of qualified Bahraini remains at the very top of our people agenda. With a Bahrainisation rate of 93% in 2020, we are proud that BisB is one of the most successful organisations in the country in recruiting and investing in Bahrainis, in all bank's levels, including senior management. We are currently building career programmes for young Bahrainis, which will enable them to be the long-term successors for expatriates.

Empowering Women

Acknowledging the importance of women in the workforce is essential. We attach great importance to female participation and are proud to report that our commitment to female representation in our Bank is in line with the Kingdom of Bahrain's strategy to empower women. We have appointed women to managerial and chiefs' positions within BisB and worked on a tailored development program targeting them as part of the diversity and inclusion. We currently have 120 female employees, accounting for 35% of our total workforce. 33% of women are in middle management roles and 7% are senior managers. Our Board of Directors includes one female member.

The ratio of basic remuneration between women and men has improved since last year. The average wage gap between male and female employees (excluding Chief level and above) has improved from 4% at the end of 2019 to 2.4% at the end of 2020, getting closer to our equal pay target and in line with our initiatives to empower women. Our HR policy is also addressing parental leave. Female employees are entitled for maternity leave as per Bahraini labour law. Male employees eligible for paternity leave are entitled to paid paternity, and new parent leave of one paid calendar day. Leave must be taken within one month of the birth.

The Bank offers voluntary health services to its employees to address non-work-related health issues. Every year and as part of a 'Think Pink' campaign within the Bank, all female employees are offered a mammogram breast checkup. We maintain a list of all employees with chronic illnesses and have arrangements in place to anticipate any issues arising to ensure people are properly cared for in a timely manner.

We have a grievance mechanism in place and a whistleblowing policy that has been communicated to all employees. We are pleased to report that no incidents of discrimination or harassment have been reported this year.

NURTURING OUR WORKFORCE (Cont'd)

Health and Safety

The COVID-19 pandemic has placed extraordinary demands on our people and on our systems to ensure their health and wellbeing. We have had to adapt and show flexibility in our response. In compliance with CBB and the Ministry of Health guidelines, we have introduced all necessary measures to control this outbreak within our premises. Our main office and branches are equipped with temperature screenings and no entry is allowed without a face covering. Safety screens have been erected where appropriate. All waiting area seating is segregated by a minimum of 2-2.5 meters to abide by social distancing requirements. Furthermore, all our employees working from the office during COVID-19 have been offered COVID-19 tests and supported with the care and equipment they need. All employees who can work remotely have been asked to do so, to limit unneeded interaction between employees. To further reduce risk, all roles have identified a main group of employees and a backup doing the same role, with the groups being deployed on two different floors.

As the safety of our people matters for us the most, we are in the process of formalizing our safety management system, and embedding it to our risk management guidelines, in accordance with Bahrain Health and Safety (H&S) legal requirements. The system will cover important areas such as a safety manual, legal compliance, inspection, induction material and procedures, employees H&S training matrix, incidents, and unsafe condition reporting and investigation procedures. The scope also covers contractors' management, fire aid and safety communication procedures, emergency, workstation safety, manual and chemicals handling processes. The system will build on the Health & Safety policy and the safety and security manual that we already have in place.

We also conduct regular safety and security training, and all floors and branches have trained first aid personnel and two trained fire marshals, whose roles are clearly defined. A yearly fire drill is carried out with the help of the Civil Defense to calculate the response time of employees, fire marshal counts, and how employees react.

To further safeguard our people, we compile monthly information on H&S incidents and report this to the Bank's senior management. These are also reported to the Operational Risk and Human Resources depending on the nature of the incident. We are pleased to report that no employee fatalities were recorded in 2020.

As part of NBB Group, BisB has been part of a health and safety audit that will result in an action plan to address the findings and ensure the Bank fulfills the requirements of being a healthy and safe workplace for everyone.

Training and Education

Empowering our people is the key to achieving best performance. At BisB we have developed a wide set of policies and processes that ensure that our employees possess the necessary tools to develop their skills and knowledge and increase the use of e-learning. Our management training plan for 2020 ensured that professional development plans are in place for all employees, through mandatory learning and development objectives and personal development plans for all employees. We have identified several areas that are important for development such as leadership and management skills, business awareness or policies and procedures.

During 2020, the Bank delivered:

- 12,004 training hours compared to 7,392 hours in 2019, an increase of 62%.
- Female employees undertook 4,337 hours of training during 2020.
- Average training per employee totalled 34.6 hours in 2020.
- 38 of our employees completed sustainability awareness e-learning programs.
- Our 300 courses, webinars and e-learning training sessions were attended by our employees.

We work on ensuring that our DNA is embedded within our performance reviews. The plan has also allowed us to launch a BisB/NBB monthly calendar webinar and select 10 hours of e-learning courses for each employee. We make sure that courses and interventions target employees based on their knowledge, skills, and needs as well as their professional development plans.

We want to create an environment that inspires new ways of thinking and working to boost collaboration, creativity and innovation, to be able to deliver the best customer service. We maximised the utilisation of our own training academy where more than 600 online tutorials in various subjects are available on the portal. In addition, 88 employees have been certified as holding professional qualifications, representing 25% of total workforce. As sustainability holds an important role in our day-to-day work, we offered two ESG webinars in 2020 to our employees and Board Members, to enhance their knowledge of environmental, social and governance topics.

Furthermore, through our online learning portal, BisB Academy, learning opportunities were extended for all BisB personnel, giving them the opportunity to register for any of more than 600 courses. Over 340 employees have benefited from the courses provided by the academy in topics like anti-money laundering, FATCA, blockchain, and trade finance.

The Bank also maintains a comprehensive information security awareness program that aims to embed information security, privacy and continuity into the organisation's culture. Targeted training programs are provided to specific groups, along with computer-based security training modules, tests and knowledge assessment, and phishing simulation activities.

Several initiatives have taken place to elevate managers and senior managers personal and interpersonal growth through attending 7 habits of highly effective people and effective presentation skills to reflect an immediate and lasting impact on their leadership skill. In addition, a customized Branch Heads' training workshop was attended by all branch managers and their deputies.

NURTURING OUR WORKFORCE (Cont'd)

Training during the pandemic

As part of our response to the pandemic, we launched initiatives to ensure an effective work-from-home policy, to enable effective and safe remote working. We have continuously worked to safeguard the mental wellbeing of those working-from-home in isolation. For example, we held virtual training programmes, and motivational online sessions for home workers. The sessions focused on promoting positive mental health practices and were led by influential medical professionals. The events were designed to inspire and motivate on a professional and personal level.

The organisational changes necessitated by the pandemic have reinforced our long-standing belief in adapting. 'Virtual' is the 'new normal', and we will continue to have virtual onboarding sessions for new employees and will continue to conduct virtual training. For the health of our planet, and our mental wellbeing, our meetings and conferences will continue to be held online. Meetings will be held via Microsoft Teams, or Zoom because we have realized we can all be more productive using the virtual technology we have at hand.

During the holy month of Ramadan, when the global pandemic was still in full force, we continued to check in and maintain our social ties. We held weekly virtual 'Coffee Rooms' to check on wellbeing as part our efforts to stay connected, including the attendance of the CEO.

COMMUNITY INVESTMENT

As part of the brand DNA, the Bank is committed to community investment. 'Jood' is our corporate sustainability pillar and serves as a reminder of how we aspire to make a change. We chose the name Jood because of its Arabic meaning of 'giving' and 'generosity' which is rooted within our values. Its focus is on investment in initiatives which foster education and innovation in a digital age, creating a positive and sustainable impact on our local communities. We recognize that we need to start working together across industries to create an innovative ecosystem of learning and foster creative minds to solve the problems of tomorrow. Ultimately, our aim as a Bank is to simplify banking. We have been working to drive digitalisation in the financial industry and launch innovative financial solutions to make banking less complicated and more intuitive, more human. Similarly, we wanted to simplify the act of giving back to the community. The Bank also invests in the wellness of the community through its Zakah and non-halal income.

Many and varied Jood initiatives were undertaken by the Bank's personnel during the year. Jood is structured as an over-arching umbrella, covering the following:

- Donations
- Sponsorships
- Volunteering activities
- Zakah amounts

We have a committee in charge of donations, reporting to the Chairman. Our sponsorship guidelines are embedded within our corporate communications policy manual. The Bank's motive for sponsorship should always be in line with our DNA to create goodwill in the community. Moreover, sponsorships for promotional purposes and activities are carried out by the Zakah committee and should always be aligned with Shari'a principles. All event sponsorships need to be approved by the CEO.

During 2020, we supported the national initiative "Feena Khair" to support the underprivileged and those who have been adversely affected by the COVID-19 pandemic, by donating BD 250,000. BisB also extended its support to the Capital Governorate's 'Together We Care' campaign. We have launched this initiative, which involves distributing meals, to support underprivileged members of our community as well as those adversely affected by COVID-19, by donating BD 30,000. Overall, the Bank invested BD 784,762, BD 934,779, and BD 1,001,163 in 2018, 2019 and 2020 respectively in the community.

Our employees manned road intersections, serving Iftar meal boxes to motorists as they travelled home during the Holy Month of Ramadan. We also delivered Iftar meals and maintained houses to needy families and others. Other support was given to our less fortunate neighbours during the heavy rains period. Through Jood, we also bought Eid clothes for orphaned children. In medical and care, we supported the Ministry of Health in buying devices for heart-scanning, and devoted time for the 'Yoko' elderly care centre.

On the educational front, in partnership with the Ministry of Education, BisB sponsored its Iqra campaign, aimed at motivating school children to read. In a further alliance with Injaz, two Innovations Camps for BIBF students and the Royal University for Women were conducted. Our Islamic affiliation continued in sponsoring the AAIOFI and WIBC Conferences. Within the framework of the existing partnership with Bahrain Polytechnic University, we have provided students in need, in coordination with the university's Student Services Directorate, with laptop computers to help them continue their e-learning. Many of these students had been unable to access the university library given the preventive measures undertaken by the Government to limit the spread of coronavirus.

We have initiated a contest in collaboration with the Ministry of Commerce, and the Chamber of Commerce, for a locally owned coffee house, to be the first coffee house to open an outlet inside a bank branch, to enhance customer experience, and attract younger people. More than 6,000 applicants participated, and an external auditor was engaged to validate the results. The winner was given a space of approximately 200 m^2 for a symbolic monthly rental fee of 1 BD including all fixed costs for three years.

At BisB, we want to celebrate everyday success stories and support an ecosystem of continuous learning, creativity and innovation through all the community. We have partnered with CBB to launch the CBB Digital Lab "FinHub 973" in 2020, the Kingdom's latest innovation platform that enables the testing and development of FinTech solutions. We are proud to sponsor Bahraini small FinTech start-ups, offering space on an entire floor in one of BisB centers, who are given financial aid, to find solutions for problems that BisB is facing on a periodic basis. The winners are rewarded and can be offered the opportunity to join our Bank.

Moreover, we took part in the Global Islamic and Sustainable FinTech Center (GISFC) Acceleration Program where participants are required to contribute to at least one of the UN Sustainable Development Goals. Under this program, BisB will be collaborating with Bahrain FinTech Bay (BFB) to launch the program "Digital Marketing-Tech Minds of Tomorrow" providing local talents and startups with the opportunity to develop a digital marketing tech program for the Bank's marketing division. BisB will sign a one-year contract with the winners to host their software and will assist them build it during a 3 month-residency at BFB.

Financial literacy

As part of Jood, the Bank has entered into partnership with Bahrain Polytechnic University, developing synergies between our organisations through initiatives that allow future talents and leaders to benefit and develop a range of skills such as innovation, creativity, entrepreneurship and leadership.

Each year, our Human Resources department welcomes many students from the Ministry of Education as well as various universities in the Kingdom. These training programs allow our young talents to learn further about banking, finance and become familiar with different Bank departments. BisB hosted 17 interns during the year.

COMMUNITY INVESTMENT (Cont'd)

Following our successful participation in the "Iqra Bus Campaign" in 2019, we have hosted three lectures to polytechnic students and employees in Marketing and Communication, Islamic Banking and Information Security. Our BisB Innovation Lab fosters idea generation and is one of the achievements we are most passionate about. The end result is the development of the industry as a whole, providing the next generation with the tools and knowledge to rise to the challenges of the future.

We have also supported the field of information security and business continuity management by:

- Forming part of the National Cybersecurity Strategy working group, with active participation in development of the financial sector cybersecurity strategy and the overall strategy for the Kingdom.
- Contributing to Draft ISO22301 (Security and resilience — Business continuity management systems Consultation) guidance, providing feedback and comments into general requirements, which contributes to making the standard accepted internationally.
- Working with the Business Continuity Institute (BCI) to review the Arabic version of professional certification exam.
- Serving in professional judging panels of various BCI Awards in APAC, Americas, Europe, Africa India and South Asia, and Global since 2018 in many categories (Team, Provider, Contributor, Private Sector, Innovation and most Effective recovery) committing more than 62 hours in 2020.

Contribution to the profession in hours

Supplier Relations

BisB is committed to its responsibility towards all partners and suppliers. We make sure that through our procurement activities, we have a positive impact on our local economy.

We continuously seek to mitigate risks associated with our supply chain, streamlining our performance and sustaining our operations. In all agreements signed with suppliers, especially with technology partners, relations are governed by contractual terms ensuring protection for both parties. Contractual arrangements are reviewed by Information Security to ensure security requirements are identified, along with protection of personal data and resilience requirements to ensure continuity of services and operations. As part of our supplier selection process, we measure service quality, vendor capability and cost.

Local procurement	2020
Total number of suppliers engaged	134
Total number of local suppliers engaged	83
Total local procurement spending (BD Millions)	2.2

PRESERVING NATURAL RESOURCES

Bahrain Islamic Bank puts the future of the next generations at the forefront of its decisions. Our management team reviews yearly new ways to ensure we act in an environmentally responsible manner - through initiatives to increase recycling, decrease waste, reduce paper use, and minimize electricity and water consumption. In the year ahead, we will develop an Environmental Management system at a group level, to help us align targets, processes and monitoring activities with NBB Bank.

Water and Energy Saving

BisB recognizes that water is a valuable resource in the world and particularly in our region. All water taps are fitted with water saving nozzles and are checked weekly for leakage, including all other water outlets. All newly renovated floors have been fitted with smaller WC water tanks, and motion detection water taps. Bahrain Islamic Bank Tower water consumption in 2019 totalled 9,076 m^3 and in 2020, 8,326 m^3.

Water consumption	2019	2020
Total water consumption (litres)	9,076,000	8,326,000
Water consumption intensity (litres/employee)	27,503	26,100

To reduce water leakage, we introduced, in 2020, water sensors in the BisB datacenter to monitor and detect leakage as part of our Business Continuity Management requirements to protect the devices and eliminate water waste.

On energy efficiency, we in BisB, have a long history of implementing initiatives. Since 2015, BisB has procured Capacitor Banks to correct consumption power factors. In 2016, the Bank changed all the lighting fixtures used at its premises to energy efficient LED lights, and fitted motion detectors in all its offices, corridors, lift lobbies, service areas and emergency staircases. In 2018, BisB upgraded all four lifts in its tower to energy efficient lifts that work on regenerative energy, which reduced power consumption by more than 30%. BisB is also currently in process of procuring solar panels for two of its branches which would collectively produce approximately 370 kwh annually in clean renewable energy.

Energy consumption	2019	2020
Total electricity consumption (kWh)	3,863,000	3,711,000
Energy consumption from electricity (GJ)	13,907	13,360
Energy intensity (GJ/employee)	42.14	41.88

Since 2012, BisB has redefined the design of the cooling system distribution on-premises for its data centre and server room to drive greater energy efficiency. The benefits continue to be realized today.

We are committed to building on the steps we have taken to continue to improve our energy efficiency and reduce our energy use. BisB plans to procure new Building Management Systems (BMS) for the main office and branches by 2022, and to have two branches using clean green energy, by covering the carparks with Solar Panels that generate up to 60% of over the year usage. The Solar Power generated would give back to the grid in winter months.

Waste Management

One of the benefits of BisB's drive through the journey of digital transformation has been the corresponding reduction of waste and paper. Since 2017, BisB has stopped printing all yearly statements for customers and has introduced E-Statement, with physical statements provided to regulatory defined segments. All mandatory paper transactions are shredded after the end of the regulatory and legal period and are recycled at a local welfare society. We have also reduced the cost of printing items by 57% over the past four years and have ensured that all printing is recyclable.

Over the years, we have seen growth in customer adoption of digital services and various alternative channels like mobile, web, the call center. There has been a significant increase in the use of digital channels for financial and non-financial services compared to the traditional branch channel, where most transactions are handled on paper. In addition, 2020 has witnessed paperless onboarding activities - which has also resulted in a reduction of transport activity. By automating the retail customers onboarding process, BisB has minimized the transit of papers between different branches and headquarters. BisB has also launched its first Self-Service kiosk machine, reducing our carbon footprint through lower energy consumption. The kiosks are stationed across the country providing around the clock services to customers, according to their convenience.

BisB recognizes the importance of materials management and waste minimization. We are planning to introduce a waste management system to ensure minimal damage to the environment. We do not procure non-reusable plastic. We are also seeking to recycle in all areas of our operations. A good example of this is the measures we have taken to recycle the old ATM machines components. In 2020, around 60 machines were sold as spare parts to the vendor to be reused/recycled in different regions.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR

Corporate Governance Framework

Bahrain Islamic Bank B.S.C. ("BisB" or the "Bank") is committed to upholding the highest standards of corporate governance by way of balancing entrepreneurship, regulatory compliance, and industry best practices, while creating value for all stakeholders. It also involves having the right checks and balances in place throughout the organisation to ensure that the Bank's processes are within an adequate, efficient, and robust internal control and governance framework.

Statement of Responsibility

The Board of Directors (the "Board") is ultimately accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management and maintaining a dialogue with the Bank's shareholders. The Board has established the following Committees to assist it in carrying out its responsibilities:

1. Executive Committee* ("EC");
2. Audit Committee ("AC");
3. Nomination, Remuneration and Governance Committee ("NRGC"); and
4. Board Risk and Compliance Committee ("BRCC").

*The responsibilities of the Board's Credit Committee have been enhanced and accordingly the committee has been renamed to EC during 2020. Moreover, the Board's compliance and governance oversight responsibility were transferred to BRCC and NRGC respectively.

BisB's corporate governance framework is built on a code of business conduct, policies, procedures, internal controls, risk management, Shari'a review and audit, internal and external audit and compliance functions. The framework is based on effective communications, transparent disclosures, performance measurement and accountability. An independent Internal Audit function is established within the Bank that reports directly functionally to the AC.

Code of Business Conduct

BisB conducts its business in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed, based on the Central Bank of Bahrain ("CBB") Principals of Business regulations, to govern the personal and professional conduct of the directors and employees of the Bank. The code is based on the following principals:

1. Integrity
2. Conflicts of Interest
3. Due Skill, Care and Diligence
4. Confidentiality
5. Market Conduct
6. Customer Assets
7. Customer Interests
8. Relations with Regulators
9. Adequate Resources
10. Management, System and Controls

The requirements under each of the above principals are made available to the Board and employees of the Bank. The Board monitors any exceptions to the above principals by way of reviewing formal reports issued to the Board's AC.

Compliance

Compliance is an independent function that reports to the BRCC. The Compliance function, guided by the Board approved policies, works with various business and controlled functions of the Bank to ensure compliance with the applicable rules and regulations of the CBB.

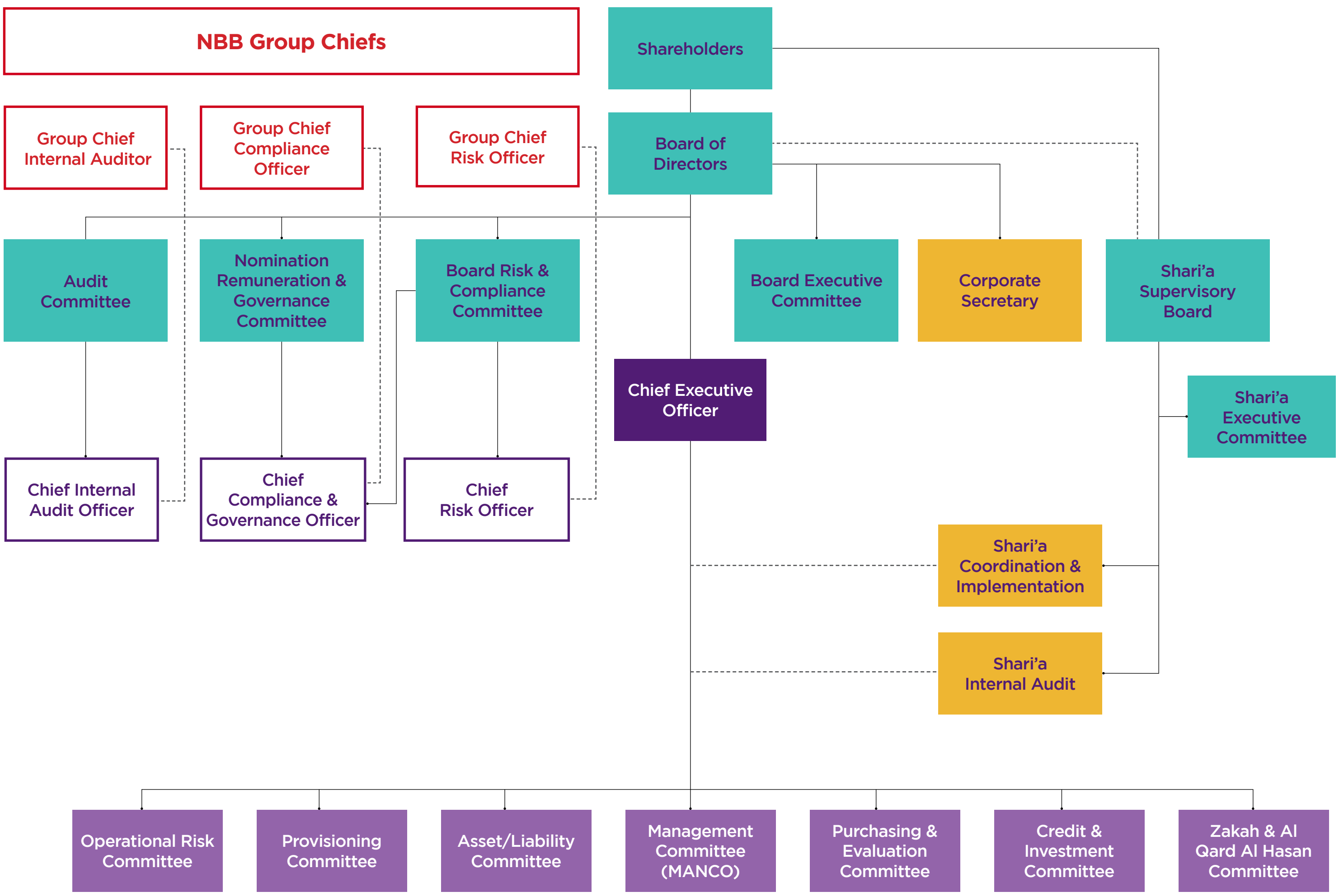
Given the digital business strategy of the Bank, as well as the expanding regulatory scrutiny and enforcement, the Compliance & Governance Department of the Bank is keeping up with the digital advancements by also taking on an active role in directly participating in the risk management process.

Communications

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include the annual financial & sustainability report, website, and regular announcements in the appropriate local media.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

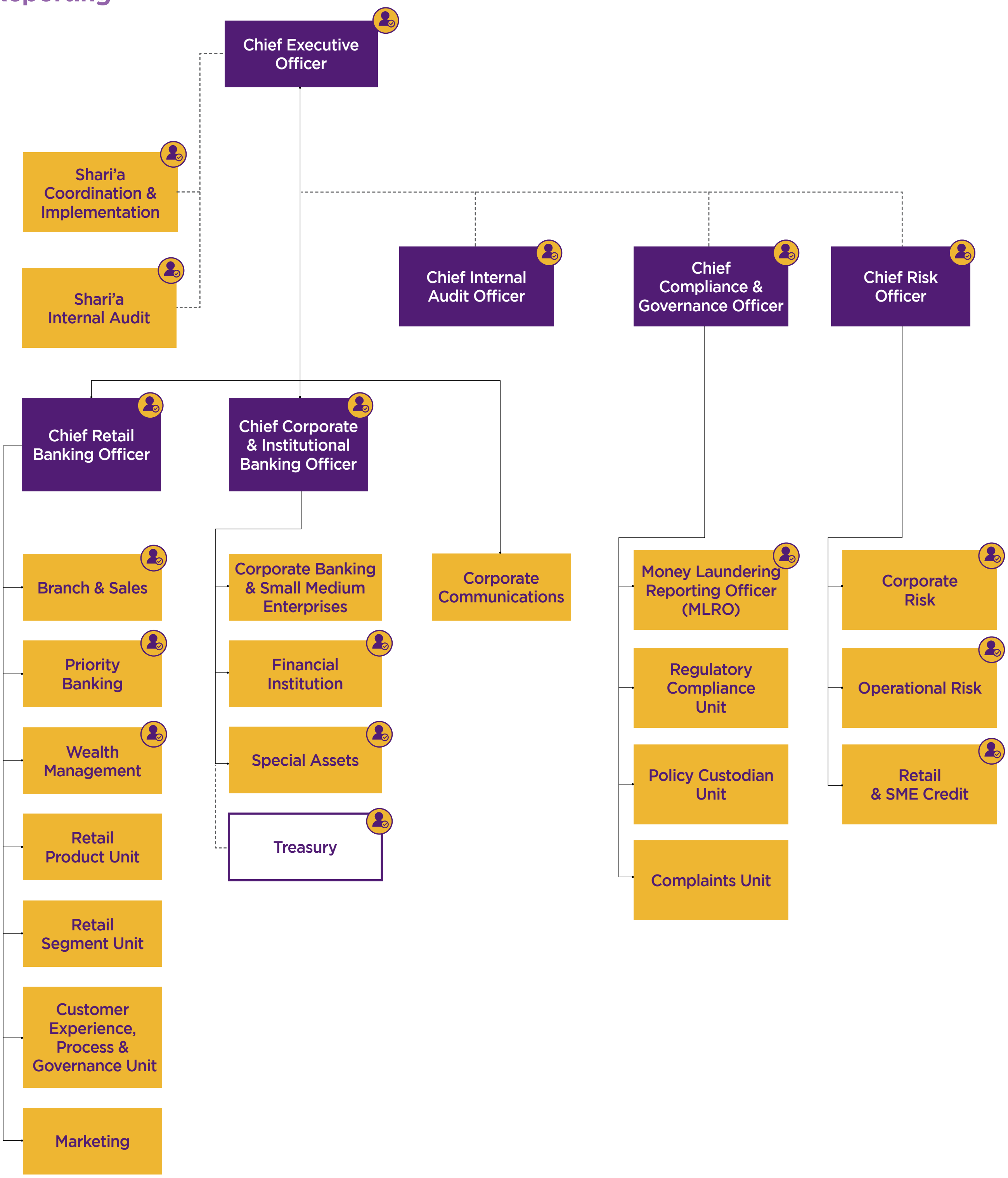
Governance Structure



CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Bank's Structure

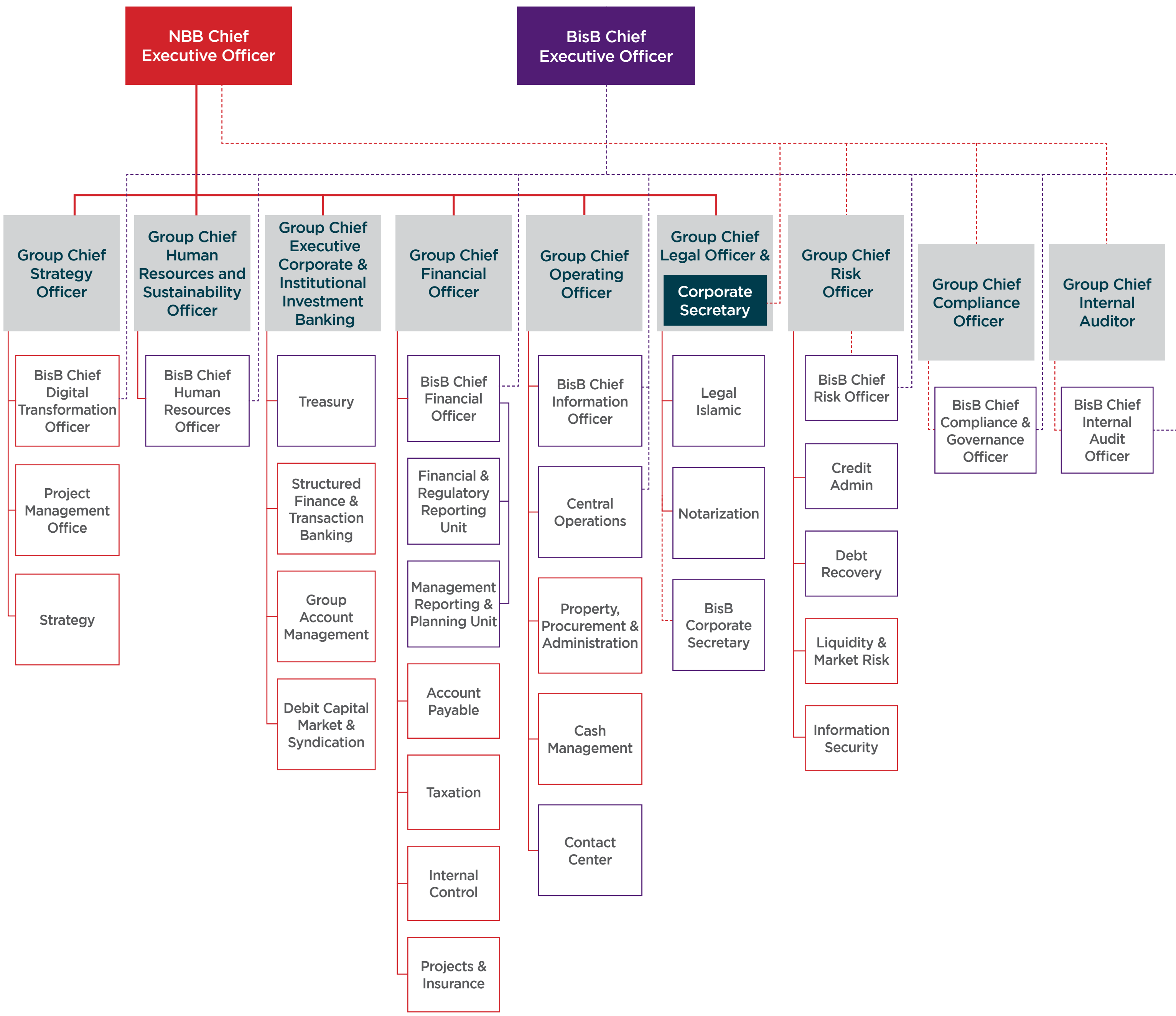
Direct Reporting



CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Bank's Structure

Group Reporting



CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Board of Directors

Composition

No.	Director	Designation	Start Date	Term
1	Dr. Esam Abdulla Fakhro	Non-Executive & Non-Independent	23rd March 2016	Second
2	Mr. Khaled Yusuf Abdul Rahman	Non-Executive & Non-Independent	23rd March 2016	Second
3	Mr. Jean-Christophe Durand	Executive Director	05th February 2020	First
4	Mr. Khalid Abdulaziz Al Jassim	Non-Executive & Independent	21st March 2019	First
5	Mr. Mohammed Abdulla Al Jalahama	Non-Executive & Independent	21st March 2019	First
6	Mr. Marwan Khaled Tabbara	Non-Executive & Independent	21st March 2019	First
7	Mr. Mohammed Abdulla Nooruddin	Non-Executive & Independent	21st March 2019	First
8	Mr. Yaser Abduljalil Alsharifi	Executive Director	05th February 2020	First
9	Ms. Dana Abdulla Buheji	Executive Director	05th February 2020	First
10	Mr. Isa Hasan Maseeh	Executive Director	19th April 2020	First
11	Gen. Ebrahim Abdulla Al Mahmood (Until 27th January 2020)	Non-Executive & Non-Independent	28th May 2017	-
12	Mr. Muhammad Zarrug Rajab (Until 27th January 2020)	Non-Executive & Non-Independent	23rd March 2016	-
13	Mr. Abdulla Ahmed Kamal (Until 27th January 2020)	Non-Executive & Non-Independent	21st March 2019	-

The detailed profiles of the Board members are available on the Bank's website.

Board of Directors' Responsibilities

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of its stakeholders and to balance the interests of its diverse constituencies, including associated concerns, employees, and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board will approve and oversee the implementation of the Bank's strategies and will review and approve the Bank's strategic plan. As part of its strategic review process the Board will review major action and business plans, set performance objectives, and oversee major investments, divestitures, and acquisitions. The Board is also ultimately responsible to ensure effective risk management function, regulatory compliance, adequate internal controls, preparation of financial statements as well as compliance with Shari'a rulings. Every year, at an annual Board strategy session, the Board will formally reassess the Bank's objectives, strategies and plans.

One of the Board's most important responsibilities is identifying, evaluating and selecting candidates for the Board of Directors. The Board will seek members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contributions they can make to the Board.

The Board may not necessarily carry out all these responsibilities but should ensure that these have been delegated to various board committees or executive management committees to act on their behalf and communicate periodic reports to the Board for their review.

Induction of New Directors

The Bank provides an orientation program for new Directors which includes presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Code of Conduct

The Bank adopts a Code of Conduct and other internal policies and guidelines to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct applies to all employees of the Bank as well as to Directors.

Review of Internal Control Processes and Procedures

The Audit Committee assists the Board in fulfilling its oversight responsibility relating to the performance of the internal audit function, which regularly reviews and ensures adherence to internal control processes and procedures.

Board Membership

The Board of Directors' membership term is three years, subject to renewal. Shareholders owning 10% or more of the share capital must nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the Ordinary General Meeting for the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

Membership of the Board of Directors can be terminated in the following cases:

- If a member fails to attend at least 75% of the meetings without a reasonable excuse;
- If he/she tenders his/her resignation in writing;
- If he/she fails to fulfill any related conditions referred to in the Bank's Articles of Association;
- If he/she is appointed or elected in violation of the provisions of the CBB Law and/or Bahrain Commercial Companies Law;
- If he/she abuses his/her membership for carrying on other business that competes with or is detrimental to the Bank's business; or
- If the shareholder who nominates himself/herself applied for his/her removal.

Board Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	11-Feb 20	20-Apr 20	21-May 20	20-Jul 20	25-Oct 20	26-Nov 20
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	✓
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	✓
Mr. Jean-Christophe Durand	✓	✓	✓	✓	✓	✓
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓
Mr. Mohammed Abdulla Al Jalahma	✓	✓	✓	✓	✓	✓
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓
Mr. Yaser Abduljalil Alsharifi	✓	✓	✓	✓	✓	✓
Ms. Dana Abdulla Buheji	✓	✓	✓	✓	✓	✓
Mr. Isa Hasan Maseeh (Elected on April 19th, 2020)	-	✓	✓	✓	✓	✓

✓ Participated via phone/video link

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Board Committees' Members

Board Committee	Members	Objectives
Executive Committee (EC)	**Mr. Jean-Christophe Durand** Chairman Members • Mr. Khalid Yousif Abdul Rahman • Mr. Yaser Abduljalil Alsharifi • Mr. Hassan Amin Jarrar (non-voting member)	The EC assist the Board of Directors in fulfilling their responsibilities with regards to financing and investments activities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the EC is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.
Audit Committee (AC)	**Mr. Khalid Abdulaziz Al Jassim** Chairman Members • Mr. Mohammed Abdulla Al Jalahma • Mr. Isa Hasan Maseeh	The AC oversights the integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of audit findings, provisions, and impairments.
Nomination, Remuneration and Governance Committee (NRGC)	**Dr. Esam Abdulla Fakhro** Chairman Members • Mr. Mohamed Abdulla Nooruddin • Mr. Marwan Khaled Tabbara • Ms. Dana Abdulla Buheji	The NRGC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. It is also entrusted to identify and recommend persons occupying senior positions including Board Members. Furthermore, the committee also oversee Bank's governance related matters.
Board Risk and Compliance Committee (BRCC)	**Mr. Marwan Khaled Tabbara** Chairman Members • Mr. Mohamed Abdulla Nooruddin • Mr. Khalid Abdulaziz Al Jassim • Mr. Isa Hasan Maseeh	The BRCC is formed to assist the Board of Directors in fulfilling their regulatory as well as fiduciary responsibilities towards the stakeholders. Furthermore, the Committee also oversee compliance with legal and regulatory requirements.

Executive Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	01-Apr-20	23-Jun-20	29-Sep-20	22-Nov-20
Mr. Jean-Christophe Durand	✓	✓	✓	✓
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓
Mr. Yaser Abduljalil Alsharifi	✓	✓	✓	✓
Mr. Hassan Amin Jarrar (non-voting member)	✓	✓	✓	✓

✓ Participated via phone/video link

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Audit Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	11-Feb-20	01-Mar-20	09-Mar-20	11-May-20	14-May-20	19-Jul-20	17-Sep-20	22-Oct-20	20-Dec-20
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Mohammed Abdulla Al Jalahma	✓	✓	✓	✓	✓	✓	✓	✓	×
Mr. Marwan Khaled Tabbara*	✓	-	-	-	-	-	-	-	-
Mr. Mohammed Abdulla Nooruddin*	-	✓	✓	-	-	-	-	-	-
Mr. Isa Hasan Maseeh	-	-	-	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

*Due to the end of Mr. Abdulla Ahmed Kamal's membership, Mr. Marwan Khaled Tabbara and Mr. Mohammed Abdulla Nooruddin were temporarily inducted to meet the minimum quorum requirement.

Nomination, Remuneration and Governance Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	11-Feb-20	23-Feb-20	06-Jul-20	09-Nov-20
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓
Ms. Dana Abdulla Buheji (inducted in the 3rd meeting)	-	-	✓	✓

✓ Participated via phone/video link

Board Risk and Compliance Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	23-Jan 20	05-Feb 20	27-Feb 20	30-Mar 20	07-May 20	25-Jun 20	23-Jul 20	16-Aug 20	13-Sep 20	05-Nov 20	10-Dec 20
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Isa Hasan Maseeh	-	-	-	-	✓	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Evaluation of the Board and Each Committee

The NRGC carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board Member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results.

Board of Directors' Remuneration and Sitting Fees

The Board of Directors are paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting. While the amount of the 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. In addition, Directors are paid sitting fees for attending the various subcommittees of the Board of Directors. Non-resident directors are also entitled to travel expenses. Further details on the remunerations paid to Board as well as Senior Management are available under the remuneration disclosures of the annual financial & sustainability report.

Shari'a Supervisory Board

Objective

The main objective of Shari'a Supervisory Board is to advise the Bank on any Shari'a matter and to ensure compliance with the Shari'a tenets and requirements in their operations. The Shari'a Supervisory Board is entrusted with the duty of directing, reviewing, and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and AAOIFI. The profiles of the Shari'a Supervisory Board are available on the Bank's website.

The Shari'a Supervisory Board has established a Shari'a Coordination & Implementation function to assist the Bank in its day to day management of business. The Shari'a Supervisory Board has also established an independent Internal Shari'a Audit function that reports any exceptions to the Shari'a fatwas and guidelines.

Shari'a Supervisory Board Meetings

Members	4-Mar-20	17-Jun-20	14-Sep-20	23-Nov-20	26-Nov-20*
Sh. Dr. Abdul Latif Al Mahmood	✓	✓	✓	✓	✓
Sh. Mohammed Al Juffairi	✓	✓	✓	✓	✓
Sh. Adnan Al Qattan	✓	✓	✓	✓	✓
Sh. Dr. Nedham Yacoubi	✓	✓	✓	✓	✓
Sh. Dr. Essam Al Enizi	✓	✓	✓	✓	✓

* With Board of Directors

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Executive Management

The management structure that clearly defines roles, responsibilities, and reporting lines, is available in the annual financial & sustainability report of the Bank. 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.

Name & Designation	Profession	Experience in years	Qualification
Hassan Amin Jarrar Chief Executive Officer	Banking	More than 30	BSc in Finance from California State University, San Jose, USA.
Wesam A.Aziz Baqer Chief Corporate & Institutional Banking Officer	Banking	More than 19	MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland. BS in Business Administration from the University of Bahrain. Certified Financial Adviser (CeFA).
Dalal Ahmed Al Qais Chief Retail Banking Officer	Banking	More than 18	MBA in Finance from AMA University. BSc in Business Management from the University of Bahrain.
Ameer Abdul Ghani Dairi Chief Financial Officer	Accounting	More than 19	CPA from New Hampshire Board of Accountancy. Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, USA. BSc in Accounting from University of Bahrain.
Fahim Ahmed Shafiqi Chief Risk Officer	Banking	More than 20	Diploma in Islamic Finance (CDIF). MBA from University of Warwick, UK.
Eman Ali Abdulla Ebrahim Head of Central Operations	Banking	More than 23	Associate Diploma in Accounting, University of Bahrain.
Hussain Ebrahim Al Banna Head of Treasury	Banking	More than 15	BSc in Banking & Finance from the University of Bahrain. Treasury and Capital Markets Diploma, BIBF.
Afnan Ahmed Saleh Chief Human Resources Officer	Human Resources	More than 20	SHRM Senior Certified Professional (SHRM-SCP) in 2015. MBA University of Strathclyde in 2006.
Mahmood Qannati Chief Marketing & Corporate Communication Officer (Resigned in November 2020)	Marketing	More than 20	MSc in Computer Based Information Systems from the University of Sunderland. BSc in Marketing from the University of Bahrain.
Osama Ali Nasr Chief Information Officer	Information Technology	More than 20	MSc in Information Systems Management from the University of Liverpool. BSc in Computer Science from Al-Isra University, Jordan.
Mazar Rashed Jalal Chief Compliance & Governance Officer	Banking	More than 18	BSc in Accounting from the University of Bahrain. International Compliance Associate Diploma from UK. Diploma in Islamic Banking and Insurance from UK, Wales.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Executive Management (Cont'd)

Name & Designation	Profession	Experience in years	Qualification
Mohammed Ayada Mattar Money Laundering Reporting Officer	Banking	More than 15	Masters in Finance from AMA International University. Certified Anti-Money Laundering Specialist. Diploma in Governance, Risk & Compliance from International Compliance Association.
Maisa Jawdat Shunnar Chief Strategy Implementation & Transformation Officer	Strategy Implementation & Transformation	More than 20	BSc in Business Administration majoring in Computer Information Systems from University of Houston (Texas, USA). Masters of Business Communication & Leadership, Jones International University, Colorado, USA.
Hamad Farooq Al- Shaikh Head of Shari'a Coordination & Implementation	Banking	More than 15	Masters of Shari'a at ALEmam ALAwzaie University in Lebanon Chartered Islamic Finance Professional Advanced Diploma in Islamic Commercial Jurisprudence Bachelors Degree in law and Shari'a from Qatar University
Eman Mohammed AlBinghadeer Head of Internal Shari'a Audit	Banking	More than 15	Professional Diploma in Shari'a Auditing – CIBAFI. CSIA – Certified Specialist in Islamic Accounting – CIBAFI. CIB – Certified Islamic Banker – CIBAFI. CSAA – Certified Shari'a Adviser and Auditor – AAOIFI. Diploma in Computing and Business Studies – Bournemouth University and Technology Centre – UK.
Khaled Waheeb Al Naser Chief Internal Audit Officer	Auditing & Banking	More than 10	Certified Public Accountant - CPA Certified Internal Auditor - CIA Certified Islamic Professional Accountant - CIPA BSC Managerial Accounting – NYIT CGMA – AICPA/ CIMA COSO Internal Control - COSO

Management Committees

Committee(s)	Members	Objectives
Management Committee (MANCO)	**Hassan Amin Jarrar** Chairman Members • Wesam A. Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Fahim Ahmed Shafiqi • Eman Ali Abdulla Ebrahim • Afnan Ahmed Saleh • Osama Ali Nasr • Mazar Rashed Jalal • Maisa Jawdat Shunnar	MANCO is the highest management body that reviews the Bank's strategy implementation. In addition, the committee also plays a significant role in establishing the policies, procedures and frameworks covering risk management, compliance, retail and corporate banking. The Committee also monitors the performance of business, support and control functions of the Bank.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Management Committees (Cont'd)

Committee(s)	Members	Objectives
Asset & Liability Committee (ALCO)	**Ameer Abdul Ghani Dairi** Chairman Members • Hassan Amin Jarrar • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi • Hussain Ebrahim Al Banna • Wesam A. Aziz Baqer	The purpose of Asset & Liability Committee is to act as a decision-making body and guiding force responsible for balance sheet planning from risk return perspective, including strategic management of yield and liquidity risks.
Credit & Investment Committee (C&IC)	**Hassan Amin Jarrar** Chairman Members • Ameer Abdul Ghani Dairi • Wesam A. Aziz Baqer • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi (Dissenting Vote)	C&IC determines the Credit & Investment Policy of the Bank, identified possible risks assumed by the Bank for different types of transactions. The C&IC has the authority to make a decision on approval or rejection or proposed transactions within its authority as well as to monitor the performance and quality of the Bank's credit & Investment portfolios.
Qard Al Hassan, Donation & Zakah Committee	**Hamad Farooq AlShaikh** Chairman Members • Khaled Waheeb AlNasser • Nada Ishaq Abdul Karim • Hamad Al Bassam	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing Zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Provisioning Committee (PC)	**Fahim Ahmed Shafiqi** Chairman Members • Ameer Abdul Ghani Dairi • Khalid Waheeb AlNasser (Observer) • Saleh Al Mehri	Provisioning Committee reviews the Bank's provisions as well as formulates policies with a view to maintain the strategic risk level objectives.
Operational Risk Committee (ORC)	**Fahim Ahmed Shafiqi** Chairman Members • Sohail Kabeer • Wesam A. Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Eman Ali Abdulla Ebrahim • Afnan Ahmed Saleh • Osama Ali Nasr • Mazar Rashed Jalal	The purpose of the Operational Risk Committee is to: a) Oversee and review the Bank's operational risk framework. b) Assist the management in fulfilling its operational risk management responsibilities as defined by applicable laws and regulations.
Purchasing & Evaluation Committee	**Hamad Mohammed Al Bassam** Chairman Members • Maitha Abdulla Saad Faraj • Aysha Ali AlNasser • Salman Mattar	The Bank has formed a Purchasing & Evaluation Committee that independently oversees the vendor management and procurement process.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Succession Planning

Succession planning in the Bank is driven by our Business strategy and forward-looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's NRGC to ensure availability of a practical and executable succession plan.

Related Party Transactions and Conflict of Interest

Under the Bahrain Commercial Companies Law and the CBB's regulations are required to disclose potential conflicts as well as refrain from participating in any conflicted decisions. 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. In addition, exposures to major shareholder, directors and senior management are governed by the regulations of the CBB.

Related party transactions are approved in compliance with Article 189 of the Commercial Companies Law. All material service providers are selected following a satisfactory tendering process which is governed by the vendor management policy of the Bank. Any director or member of the senior management conflicted is excluded throughout the decision-making process. Details of related party transactions are disclosed in Note 27 of the financial statements.

Material Transactions Requiring Board Approval

The Board has delegated certain authorities to the Executive Management to ensure smooth and effective day to day management however, all material financing transaction, as provided in the delegation of authority matrix of the Bank, are subject to Board approval. Furthermore, major decisions such as change in strategy, changes in the organisation structure, capital expenditures, amending policies and hiring executive management is subject to approval of either Board or relevant Board committees.

Exceptions to CBB's Corporate Governance Regulations

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 to the shareholders and to the CBB.

Exceptions to guidance are explained as follows:

Reference	Explanation
HC-1.3.13	HC-1.3.13 states that no one person should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist. Dr. Esam Abdulla Fakhro, the Chairman of the Board, holds more than three directorships in public companies in the Kingdom of Bahrain. The Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as he provides adequate attention to his responsibilities and there is no conflict of interest between his other directorships and that of the Bank.
HC-1.4.6	HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Dr. Essam Abdulla Fakhro is nominated by the National Bank of Bahrain (NBB) which is a Controller of the Bank. Accordingly, Dr. Fakhro is reported as a Non-Independent Director. The Board is of the view since BisB has no material business transactions with NBB, there exist no conflict of interest and therefore, the chairmanship of Mr. Fakhro is appropriate.
HC-1.8.2	HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the NRGC. The Board is of the view that this does not compromise the high standards of corporate governance as the NRGC has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities.
HC-5.3.2	HC-5.3.2 states that the Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. The Remuneration Committee of the Bank is combined with the Nomination and Governance Committee as allowed under HC-1.8.5. The Chairman of the NRGC, Dr. Essam Abdulla Fakhro, is treated as Non-Independent on the basis that his nomination is through NBB, a Controller of the Bank. The Board is of the view that since the remuneration of the Board is governed by the Bahrain Commercial Company Law, there exists no conflict of interest in Dr. Fakhro being the Chairman of the Board. Furthermore, the Board has also approved the appointment of Ms. Dana Buheji, an Executive Director, as an additional NRGC member due to her extensive experience in HR.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Employments of Relatives

The Bank has a policy in place on employment of relatives to prevent the potential conflict of interest. As a matter of policy, employment of relatives is not allowed however, in case of any exception, the approval of the Board's NRGC is sought.

Remuneration of the External Auditors

KPMG Fakhro was the Bank's external auditors for the financial year ended 31st December 2020. The details of the audit fee paid to the auditors during the year 2020 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

Information on Products & Services & Availability of Financial Information

New product information, announcements and information related to all stakeholders are made available in a timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. In addition, the Consolidated Financial Statements of at least past 5 years in addition to all supplementary disclosures required by CBB regulations, are available on the Bank's website.

Customer Complaints

The Compliance and Governance Department is responsible for managing customer complaints. BisB customers may use the Bank's website or the call center for lodging a complaint. All complaints are logged, monitored, and reported to the CBB. A user-friendly guide is made available to customers by way of a conspicuous notice and Bank's website.

Whistleblowing Policy

The Board has adopted a Whistleblowing Policy which provides all employees an opportunity to raise any observation regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking any adverse action against employees for doing so.

Major Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
National Bank of Bahrain	Bahraini	838,630,728	78.81%	Majority Sovereign
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	Sovereign

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	87.52%	931,246,714
Kingdom of Saudi Arabia	0.76%	8,102,338
Kuwait	8.72%	92,782,018
United Arab Emirates	2.78%	29,624,863
Qatar	0.13%	1,381,185
Others	0.09%	921,469
Total	**100.00%**	**1,064,058,587**

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons

Directors	Shares as of 31st December 2019	Sold During 2020	Acquired During 2020	Shares as of 31st December 2020
Dr. Esam Abdulla Fakhro	352,500	-	-	352,500
Mr. Khaled Yusuf Abdul Rahman	-	-	-	-
Mr. Jean-Christophe Durand	-	-	-	-
Mr. Khalid Abdulaziz Al Jassim	-	-	-	-
Mr. Mohammed Abdulla Al Jalahama	-	-	-	-
Mr. Marwan Khaled Tabbara	-	-	-	-
Mr. Mohammed Abdulla Nooruddin	-	-	-	-
Mr. Yaser Abduljalil Alsharifi	-	-	-	-
Ms. Dana Abdulla Buheji	-	-	-	-
Mr. Isa Hasan Maseeh	-	-	-	-
*Khaled Yusuf Abdul Rahman owns 30.25% of shares in Yousif Abdul Rahman Engineer Holding Co WLL. which owns 536,020 number of shares in BisB				

Shari'a Supervisory Board	Shares as of 31st December 2019	Sold During 2020	Acquired During 2020	Shares as of 31st December 2020
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	174,426	-	-	174,426
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	13,237	-	-	13,237
Shaikh Mohammed Jaffar Al Juffairi	-	-	-	-
Shaikh Adnan Abdulla Al Qattan	-	-	-	-
Shaikh Dr. Essam Khalaf Al Enizi	-	-	-	-

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons (Cont'd)

Approved Persons	Shares as of 31st December 2019	Sold During 2020	Acquired During 2020	Shares as of 31st December 2020
Hassan Amin Jarrar Chief Executive Officer	943,958	943,958	-	-
Wesam A. Aziz Baqer Chief Corporate & Institutional Banking Officer	168,520	-	-	168,520
Dalal Ahmed Al Qais Chief Retail Banking Officer	-	-	-	
Ameer Abdul Ghani Dairi Chief Financial Officer	-	-	-	-
Fahim Ahmed Shafiqi Chief Risk Officer	-	-	-	-
Afnan Ahmed Saleh Chief Human Resources Officer	-	-	-	-
Eman Ali Abdulla Head of Central Operations	-	-	-	-
Hamad Farooq AlShaikh Head of Shari'a Supervisory Department	-	-	-	-
Eman Mohammed AlBinghadeer Head of Shari'a Internal Audit	-	-	-	-
Hussain Ebrahim Al Banna Head of Treasury	-	-	-	-
Osama Ali Nasr Chief Information Officer	12,675	-	-	12,675
Maisa Jawdat Shunnar Chief Strategy Implementation & Transformation Officer	-	-	-	-
Khaled Waheeb AlNasser Chief Internal Audit Officer	-	-	10,565	10,565
Nayef Naser Yusuf Acting Head of Special Assets	14,383	14,383	-	-
Mazar Jalal Chief Compliance & Governance Officer	-	-	-	-
Mohammed Ayada Matar Money Laundering Reporting Officer	-	-	-	-
Hamad Hussain Al Qattan Deputy Money Laundering Reporting Officer	-	-	-	-
Ali Yousif Al Aradi Head of Branches	-	-	-	-
Salman Mazen Matar Head of Internal Control	-	-	-	-

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons (Cont'd)

Approved Persons	Shares as of 31st December 2019	Sold During 2020	Acquired During 2020	Shares as of 31st December 2020
Mohamed Jamal Aish Deputy Money Laundering Reporting Officer	-	-	-	-
Ammar Fuad Alsabah Head of Financial Institution	-	-	-	-
Faisal Al Abdulla Head of Priority Banking	-	-	-	-
Hussain Ali Bahram Head of Wealth Management	-	-	-	-
Mohammed Shawqi Albinmohammed Head of Sales	-	-	-	-
Mohammed A. Rahman Alabbasi Head of Retail Collection	-	-	-	-
Sohail Kabiruddin Head of Operational Risk	-	-	-	-
Siddharth Kumar Head of Corporate & Liquidity Risk	-	-	-	-
Salah Dawood Alansari Head of Credit Admin	-	-	-	-
Saleh Isa Almehri Head of Retail Credit Review	-	-	-	-
Dalal AlRayes Head of Human Resources	-	-	-	-
Mohammed Isa Hammad Head of Information Security	-	-	-	-
Hamad Mohamed Albassam Head of General Services & Properties	-	-	-	-

As of 31st December 2020, the total number of shares held by Board of Directors, Shari'a Supervisory Board members and the Approved Persons of the Bank are 731,923 which represents 0.07% of the total issued shares of the Bank. The shares held by the Approved Persons includes shares granted by the Bank under the Share Incentive Scheme.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Corporate Governance Review

Compliance

Compliance is an independent function that reports to the Board, Risk, and Compliance Committee (BRCC). The Compliance function, guided by the Board approved policies, supports various business and controlled functions of the Bank to ensure alignment with the applicable rules and regulations of the CBB. Given the Bank's digital business strategy, as well as the expanding regulatory scrutiny and enforcement, the Compliance and Governance department keeps up with digital advancements by taking an active role in directly participating in the risk management process.

Due to the pandemic, conducting day-to-day business in the traditional way has been disrupted. With its agile model in place, however, the Bank was able to move several services from traditional to digital channels. This required the compliance function to adapt to the new ways of doing business and adjust procedures to be in-sync with digital platforms.

Despite a challenging year with almost no means of allowing the physical review of documents, the compliance function managed to complete a regulatory review with the Central Bank of Bahrain using virtual communication tools and secured means of sharing information digitally.

Digitalisation of policy and procedure review and approval workflow	
Background	Document preparation and amendment for any governance related paperwork had been carried out manually. Knowing the value of digitalisation, the goal was to transition the process from manual to electronic. In manual processing, documents were prepared by the business, shared with various stakeholders through email to collect their feedback, then reviewed and collated, with suggested changes recirculated for finalization. The process was labour intensive and time consuming, involving many different parties and introducing a high chance of human error. As a result, the idea of digitalizing the process of review and approval was developed, through the Risk Nucleus system used to store all governance related documents.
Approach	Following discussions with the vendor, an initial workflow-based process was built within our existing system. The transition has worked well, and the system has evolved over time to function smoothly. The outcomes have included reduced turnaround times, a clearer system audit trail for documents, expiry reports, automatic alerts and notifications, wider access to documents, enhanced controls, and the introduction of a paperless working environment.

To further strengthen compliance within the Bank, our whistleblowing policy is publicly disclosed, and available on our website. This policy is a key element for safeguarding the Bank's integrity, enhancing the Bank's transparency and underpinning its system for combating practices that might damage its activities and reputation. We ensure that employees can report any violation by having a clear process to follow. Any BisB stakeholder should report their concern in writing by providing minimum details around the issue.

We expect our management to exercise due care in complying with regulatory requirements and avoid any violation. However, system and human errors cannot be fully eliminated while serving a large customer base. Financial penalties paid during the year are disclosed in accordance with CBB requirements. In 2020, financial penalties paid mainly related to technical issues and a customer complaint.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Raising an incident

The following channels are available to report any irregularity/ incident.

- The employee can send an email to the Head of Internal Audit on "whistleblow@BisB.com" which will be used only by the Head of Internal Audit, or the deputized Internal Audit personnel, in the case of his absence.
- A written letter can be delivered by hand at any BisB Branch clearly addressed to the Head of Internal Audit or a letter can be posted to P.O. Box 5240 Manama, addressed to the Head of Internal Audit.
- A whistleblower may also use the dedicated phone hotline # 17511988.

BisB has policies and procedures in place to combat money laundering and other financial crimes. The Bank relies on industry best standards in terms of anti-money laundering/Combatting the Financing of Terrorism (latest Financial Action Task Force (FATF) Recommendations, Basel Committee Publications on 'Customer Due Diligences for Banks', Wolfsberg Standards for Anti Money Laundering (AML)/KYC/Combat Financing of Terrorism (CFT) and the CBB Rulebook Volume 2 under FC Module). The policies and procedures are reviewed annually and approved by the Bank's Board of Directors.

In addition, for high-risk customers, enhanced due diligence measures are adopted with continuous monitoring as stipulated in the CBB Rulebook Volume 2. The Bank does not maintain anonymous accounts, does not conduct business with shell banks, and does not transact or conduct business with correspondent banks which are domiciled in jurisdictions classified as non-cooperative countries or territories by FATF.

The Bank does not tolerate bribery and/or corruption. Our Anti Financial Crimes policy draws up the reporting of material external financial crimes, non-material external financial crimes, and internal/collusion financial crimes incidents, and monitors their implementation by means of the Anti-Financial Crime program. This is designed to oversee the Bank's compliance with the policy, providing training, maintaining Board and Senior Management commitment, and establishing enterprise-wide anti-financial crimes compliance processes and culture.

Any breach of this policy may result in disciplinary action, including dismissal for gross misconduct or other termination of employment.

Systems and Controls

The Bank has an automatic monitoring system and implements a risk-based approach. All types of transactions are mapped and monitored using the AML system by using pre-defined scenario-based transaction monitoring software. The Bank maintains appropriate screening measures to ensure it does not provide financial services to listed terrorists and/or sanctioned names notified by competent authorities.

AML and CFT policies and procedures are subject to independent internal and external audits and CBB inspection. This year, we have not been subject to any investigations, fines or penalties relating to AML and CFT issues.

We have succeeded in implementing our risk-based approach. We continue to strengthen our compliance culture and are committed to enhancing our compliance procedures, policies, and systems by continuously engaging and working with CBB, conducting impact assessments of new regulations on the Bank and reporting, and enhancing our AML system.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOUR (Cont'd)

Designing the compliance framework and obtaining regulatory approvals for digital corporate onboarding	
Background and outcomes	Entrepreneurs in the Kingdom of Bahrain can digitally form Individual Establishments ("IEs" or "Sijili"), Limited Liability Companies("WLLs") using the Ministry of Industry, Commerce and Tourism Sijilat portal (business licensing system). After obtaining commercial registration, however, they would have to wait to open a simple Bank account. At BisB, we looked at this matter and explored options to simplify the onboarding of legal entities, keeping in mind all the mandatory regulatory requirements. In collaboration with the Ministry, integrating Sijilat, enabled SMEs to use BisB digital to open a simple depository relationship with Bank. The service was the first of its kind for legal entities across the MENA region. It has resulted in enhanced customer experience and reduced turnaround times. More than 400 IEs and Sijili were onboarded in the last quarter of 2020, compared to an average of 300+ corporate customers onboarding in a year.

Designing and establishing a compliance framework for updating KYC information through MoICT and CBB	
Background and outcomes	Maintaining valid KYC information ratio is always a challenge for banks. To update customer KYC information, the Bank needs to contact and request them to visit the branch for submitting and updating the required documents. Most customers do not adhere to such requests, resulting in increased ratios of expired KYC information. To improve the KYC information for corporate customers, BisB collaborated with MoICT to tackle the issue. We have become the first Bank in the Kingdom of Bahrain to enter into an agreement with MOICT to connect through APIs for updating corporate KYC information through their digital system Sijilat. The initiative has improved valid KYC ratios, enhanced customer experience, and improved data quality and alignment.

INTERNAL AUDIT

An independent Internal Audit function is established within the Bank, which regularly monitors the system of internal controls. Monitoring includes overseeing the appropriateness and effectiveness of the risk management system through the assessment of risks and controls in each operating unit and matters arising. We work on delivering audit plans while maintaining the agility to take on ad-hoc engagements and the commitment to integrate areas of social and environmental policies in relevant engagement scopes next year.

This year, and despite the challenges faced, the team has succeeded in increasing its productivity. The delivery of the audit plan was made by a fully remote working team that introduced a control maturity rating scale applied in every audit engagement, coupled with internal audit outlook insights on the process audited. A revision of the audit was undertaken upon the COVID-19 surge, prioritizing key information technology areas. The team has formed a temporary continuous monitoring unit to increase surveillance of key controls during the initial months of the pandemic whilst delivering the audit plan.

We have collaborated with Group internal audit on several projects including the Audit Committee charter, the internal audit charter, risk assessment methodology, and annual planning process and documentation. We have introduced enhanced dashboards, checklists, and reports supporting the Audit Committee in fulfillment of their oversight duties. We are committed to increasing data analytics capabilities through tools implementation, and to enhancing the skills of the team (non-IT auditors) in areas of information and system security.

RISK MANAGEMENT

Risk Management Philosophy

The risk management philosophy of BisB is to identify, capture, monitor and manage the various dimensions of risk. The objective is to protect asset values, income streams, and optimize portfolio quality so that the interests of the Bank's stakeholders are safeguarded, while optimizing shareholders' returns, and maintaining risk exposure within the parameters set by the Board.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank has adopted a comprehensive enterprise-wide risk management framework that encompasses the risk limit identification, monitoring, and reporting structures.

The Risk Management Function

At the heart of the Bank's activities is the risk management function, through which the ongoing identification, measurement, monitoring and reporting of all the Bank's inherent risks is conducted; the risks considered are identified in the Bank's risk appetite, alongside corresponding strategies defined for each risk. The Board of Directors, under the guidance of the Board Risk & Compliance Committee, sets the Bank's risk appetite framework. These elements foster a sound risk management culture at the Bank, for which all individuals in the institution are accountable in their area of expertise.

Key Risks

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational and strategic risk, in addition to Shari'a-compliance risk. We manage, control and monitor risks arising from foreign exchange risk, profit rate risk in the banking book, and commercial displacement risk through active portfolio monitoring and limit controls, funding gap and liquidity risk by monitoring key liquidity metrics in line with regulatory requirements, operational risk through periodic bank-wide risk and control self-assessment process as well as key risk indicator monitoring, cybersecurity risk through the development and execution of a strategic information security program.

For reputational and strategic risk, we preserve our shareholders' integrity through the monitoring of the Bank's brand image and rating profile. As an Islamic Bank licensee in the Kingdom of Bahrain, we are required to abide by Islamic jurisprudence and Shari'a principles in customer dealings, in addition to the nature of the products offered and portfolio profile. The Shari'a non-compliance risk is therefore a key operational risk which is at the base of the Bank's ethical risk objective. The Bank is committed to deliver Shari'a compliant products and services, with controls in place to ensure that the Bank does not invest in non-ethical businesses from an Islamic jurisprudence perspective, such as weapons dealing, alcohol and tobacco manufacturers and traders. This is also in line with the broader objective of preserving its reputational risk profile, as mandated by the CBB Rulebook.

Controls

The risk culture is managed through appropriate policies, controls, and risk monitoring systems, and the Board ensures that these are implemented effectively. This framework includes internal limits for the various types of risk to which the Bank may be exposed. Appropriate management information systems are in place to monitor risk exposures, and report to relevant stakeholders. The fundamental objective of the risk framework is to ensure that the risk appetite, and the associated returns, are commensurate with the risks taken, thereby creating and simultaneously preserving shareholder value. In this light, the Bank's risk management framework considers the regulations set forth by the CBB, in addition to the provisions of the Basel Accord and industry best practices.

Board Risk & Compliance Committee

The Board Risk & Compliance Committee is the ultimate governing body responsible for overseeing the Bank's risk management and compliance functions. The committee's role is to institute and supervise an effective risk management framework within the Bank. The committee also monitors the Bank's risk profile and its ongoing and potential exposures to various types of risks, to ensure that all risks are identified, measured, managed, and mitigated.

The Board Risk & Compliance Committee has supported the Board of Directors in effecting turnkey risk deliverables, such as effecting the risk appetite framework (and the associated monitoring mechanism) in addition to overseeing risk governance. Such duties were fulfilled under the supervision and approval of the Board of Directors, who retain ultimate responsibility and authority for all risk matters, including establishing overall policies and procedures.

Credit & Risk Management

Credit risk is the most significant and pervasive risk for the Bank, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Credit and

Risk Management Department which sets parameters and thresholds for the Bank's financing activities.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises several specialist units, including Corporate and Retail Credit Review & Analysis, Operational Risk, Liquidity Risk, Retail Collections and Credit Administration.

The credit risk analysis process ensures that customers meet debt service ratio requirements, have sufficient and stable income sources or alternatively appropriate collaterals. If customers do not meet the Bank's stringent risk criteria, the Bank refrains from financing them. The process includes reviewing the customer's credit history, to ensure that repeat defaulters are not extended any financing. Additionally, it is critical to note that the credit risk analysis division is entirely independent from the Retail & Corporate business, eliminating any conflicts of interest. We manage, monitor, and control credit risk through underwriting exposures while preserving the integrity overall portfolio quality.

The Risk Management umbrella includes other critical functions such as Operational Risk in addition to Market & Liquidity Risk oversight. C&RM also encompasses critical functions in the Bank, such as retail collections. BisB maintains a process for assessing potential risks through the Risk Control Self-Assessment (RCSA) process. In addition, the Bank has a governance forum "Operational Risk Committee" where all Operational Risk incidents are reported for management review and discussion.

C&RM is continuously upgrading its risk management infrastructure following the regulations effected by the Central Bank of Bahrain. The regulations are related to the Basel III accord, and specifically tackle liquidity risk, reputational risk, the Bank's internal capital adequacy and assessment process, in addition to enhancing the existing stress-testing framework. The regulations specifically focus on enterprise-risk management. Additional information on the Bank's risk management framework, policies, processes, and procedures is included in the Notes to the Consolidated Financial Statements, Risk and Capital Management Disclosure sections and Annual Financial & Sustainability Report. A summary of the Bank's operational risk and loss profile is provided to the Board on a quarterly basis.

Next Projects and Commitments:

- Implement and operate privacy centered processes.
- Expand and streamline business continuity processes and enhance organisational resilience.
- Implement behavioural scorecards for retail customers to streamline retail credit application process and data analytics.
- Paperless financing and customer-related credit documentation, with the intent of having them processed in an automated fashion.
- Keep technical vulnerabilities on internet facing infrastructure close to zero.

Data Security and Privacy

We have enabled our business to respond to COVID-19 challenges in an effective way without impacting our productivity and operations, while ensuring the highest levels of protection for our people, customers and other stakeholders. We have been collaborating with regulators, government authorities, regional and international professional organisations in the development of security, privacy and resilience standards, policies, strategies, and initiatives.

As an active participant in all security, privacy and resilience programs and events, in 2020, we represented the financial sector in the development of Bahrain's National Cyber Security strategy, participated in the BCI Award program as professional judges in global programs, and provided feedback on regulatory consultancy rules. We also participated in the largest cyber security conference in the region (GISEC Virtual 2020), as well as other specialized conferences and provided training and awareness sessions to local universities.

We have implemented numerous security and privacy measures to safeguard our customers and facilitate transactions. The Bank's processes are fully aligned to ISO 27001, and certification against the standard is planned as part of the group integration processes. Internal audits on IT, Information Security, Cybersecurity and Business Continuity processes are performed annually to ensure compliance with regulatory requirements.

We have also developed various incident response plans to handle incidents arising from various scenarios, including a cyber security incident. Assessments and simulation exercises have been conducted by independent third parties and our Crisis Management Team (CMT). Collaborative working relations have been established with various stakeholders to share threat information and enable us to respond and recover from incidents, including the Central Bank of Bahrain, National Cyber Security Center, General Directorate of Anti-Corruption & Economic & Electronic Security, Telecommunication Regulatory Authority and the Information and e-Government Authority.

RISK MANAGEMENT (Cont'd)

As part of our efforts to maintain the trust of our customers, we continuously inform them about the collection and the use of their data, and general security threats through a number of social media channels. A privacy by design and security-by-design approach is followed in the development and enhancement process of new services and products. These principles ensure that we always advocate the best customer behaviour in relation to use of digital services and products. During 2020, we had zero data security breaches.

Control of Technical Vulnerabilities	2018	2019	2020
Number of technical vulnerabilities on public assets and websites rated medium, high or critical	-	-	-

Security Breaches Reported Internally	2018	2019	2020
Number of reported security breaches	-	100	-

Team Competency	2018	2019	2020
Number of professional certifications in the information security, continuity and privacy field	21	23	25

Fraud Prevention

The Bank has created a number of processes to orchestrate the handling, management and response to fraudulent activities. The Bank has set a clear process where all such incidents should be reported to the Money Laundering Reporting Officer.

During 2020, the amount of fraudulent transaction activity (total value of account holder transactions refunded to account holders due to fraud) was BD 80,663. The percentage of activity from card-not-present fraud was 77%, while the percentage of activity from card-present and other fraud was 23%.

We want to safeguard our customers, and as such we have implemented fraud prevention actions, which include:

- The first AI driven seamless customer identification and authentication system, using facial recognition, document authenticity and liveness checks that enables customers to open new accounts by verifying their identities through strong customer authentication practices.
- Fraud management Back office continued to serve customers and identify fraudulent card activities through use of global block lists and trends.
- Customers received various educational messages through the mobile app and SMS, along with an extensive social media campaign about fraud prevention and response.
- Coordinated activities with regulators to ensure controls are implemented to protect the financial sector at large.

RISK MANAGEMENT (Cont'd)

Business Continuity Management

We have become the first organisation in Bahrain, and among the first worldwide, to achieve ISO 22301:2019 Business Continuity Management System certification. We have implemented a Business Continuity Management program that allows us to enhance the resilience and continuity of critical services.

This existing BCM framework was built to satisfy core regulatory requirements and was operated and managed through physical documents and files that were difficult to update, maintain and analyze. Our team leveraged internal capabilities and expertise to drive and automate the BCM program. Several exercises were conducted to simulate the response to site unavailability, cyber-attacks, and business disruptions. The organisation procured a cloud-based solution that enabled the team to automate review, analysis, and maintenance processes of BCM plans, documents, critical contacts. As part of the continuous improvement processes, the crisis management plan included scenarios to respond to loss of facilities, people, technology, key supplier(s), and cyber-attacks. Pandemic response plans were part of the continuously updated and reviewed plans.

Before the first COVID-19 case, the first warning was issued to begin pandemic planning by updating and reviewing response plans, and analysis of working locations to implement operational splitting to minimize risks of infections within critical departments. Laptops were procured and enhancements made to remote working facilities for all critical units and vulnerable groups.

The crisis management team continued to observe, respond, and adapt to a changing situation effectively, ensuring the safety of our people, limiting the impact of degraded third parties and critical supplier performance, and ensuring that all activities could be safely resumed and continued throughout the peak of the pandemic.

The Bank was able to prepare for COVID-19 challenges ahead of time. With emergency pandemic plans maintained, reviewed and updated on an ongoing basis, incident response processes were updated, and remote working facilities were established for all critical processes and vulnerable employees.

The implementation of an automated paper free Business Continuity Management cloud-based solution enables us to update plans that are available everywhere, identify processes, technologies and people interdependencies and reach all employees, contractors and third parties through an emergency notification system featuring mass messages, emails, and phone calls with bi-directional response.

The Bank's Head of Information Security won the Best Continuity and Resilience Professional (Private Sector) Award, in the Business Continuity Institute Middle East Award program and reached the top seven finalists in the global award program. Our team also reached the finalist round for Best Continuity and Resilience team for the Middle East.

CEO on achieving ISO 22301:2019

"This achievement of obtaining the ISO 22301:2019 certification reiterates our commitment to the continuous development of our information security systems with the aim of protecting against, preparing for, responding to, reducing the possibility of occurring and recovering from any emergencies if they arise. We consider the development of our business continuity management system a top priority to be able to quickly overcome any emergency that may arise at any given time, the COVID-19 outbreak notwithstanding, to maintain the health and continuity of our business while ensuring a seamless delivery of products and services."

CEO on Winning the BCI Awards Middle East - Best Continuity and Resilience Professional (Private Sector)

"Our sincere congratulations go out to Mr. Mohammed Isa Hammad for leading his team to this remarkable achievement. This award reflects the Bank's continuous efforts to promote a culture of continued learning and innovation, encouraging our people to excel in their roles. It is a testament to our ability as a Bank to adapt rapidly and respond to changing circumstances while ensuring business continuity in light of the challenges posed in 2020."

REMUNERATION DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, sets out the Banks's policy on remuneration for Directors and Senior Management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the Board of Directors and the policy came into effect as of January 2014.

The key features of the proposed remuneration framework are summarised below:-

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the Shareholders of the Bank.

These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share success, and to align employees' incentives with the risk framework and risk outcomes.

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

1. Fixed pay

2. Benefits

3. Annual performance bonus

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

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and / or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarized in the performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term, but also importantly on how it is achieved, as the NRGC believes the latter contributes to the long-term sustainability of the business.

NRGC role and focus

The NRGC has oversight of all reward policies for the Bank's employees. The NRGC 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 NRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRGC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following: -

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- 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.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts, of risk on behalf of the Bank.
- Ensure that for Material Risk-Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

REMUNERATION DISCLOSURES (Cont'd)

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Bahrain Commercial Companies Law, in any financial year. In 2020, MOICT approved exceptional Board remuneration. Board remuneration is subject to approval of the shareholders in the Annual General Meeting as well as Ministry of Commerce, Industry and Tourism. 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.

Variable remuneration for staff

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

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

Key performance metrics at the Bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

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

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

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control 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 to be based on function-specific objectives and is not be determined by the financial performance of the business are as they monitor.

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

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRGC 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.

REMUNERATION DISCLOSURES (Cont'd)

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

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

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

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

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

The NRGC keeps itself abreast of the Bank's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments

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

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

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

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

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

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations.

The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual 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 made by the Bank's Board of Directors.

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

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront Cash:

The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

Deferred Cash:

The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

Upfront shares:

The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.

Deferred shares:

The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 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).

REMUNERATION DISCLOSURES (Cont'd)

Deferred Compensation

The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront share awards	10%	Immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

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

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2020	2019
Sitting fees	*161	*221
Remuneration	**141	**282

*Includes NRGC sitting fees as of 31 December 2020 amounted to BD 14 thousand (2019: BD 12 thousand).

**Subject to AGM and regulatory approval

(b) Shari'a's Supervisory Board

BD 000's	2020	2019
Remuneration, Fees and Expenses	78	66

REMUNERATION DISCLOSURES (Cont'd)

(c) Employee Remuneration

2020

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	10	1,312	-	-	-	-	-	65	53	2	1,432
- Control & Support	23	1,994	-	-	-	-	-	68	29	5	2,096
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	317	7,792	-	-	-	317	-	216	-	-	8,325
Total	350	11,098	-	-	-	317	-	**349	**82	7	*11,853

*Includes end of service compensations & includes staff cost of employees who have left the bank during the year

**NRGC in its meeting on 11 February 2021 approved the bonus of BD 431 thousand for the performance year 2020, subject to certain additional vesting conditions. These vesting conditions will be monitored throughout the year and a formal assessment would be carried out before the end of the year. Accordingly bonus that would have ordinarily been paid upfront as per the variable remuneration policy have been disclosed as part of the deferred variable remuneration. This amounts to BD 123 thousand and BD 6 thousand for cash bonus and bonus shares, respectively.

2019

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	12	1,507	-	-	-	128	-	26	128	3	1,792
- Control & Support	24	2,176	-	-	-	152	14	-	57	7	2,406
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	325	8,069	-	-	-	983	-	-	-	-	9,052
Total	361	11,752	-	-	-	1,263	14	26	185	10	*13,250

*Includes end of service compensations.

REMUNERATION DISCLOSURES (Cont'd)

Deferred awards disclosures

2020

BD 000's	Cash	Shares		Total
		Number**	BD 000's	
Opening balance	88	5,072,049	694	782
Adjustment based on final award price of 2019	-	72,264	-	-
Awarded for the year*	11	916,224	82	93
Paid out / released during the year**	(30)	(1,657,617)	(217)	(247)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	-	-	-
Closing balance	69	4,402,920	559	628

* Number of shares for 2020 deferred share awards has been calculated using the year end share price, as the award share price in accordance with the share plan policy of the Bank will be determined at a later date. Refer to note under the table (c) Employee Remuneration, above.

**As approved by the Central Bank of Bahrain, during the year, 1,354,127 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

2019

BD 000's	Cash	Shares		Total
		Number*	BD 000's	
Opening balance	91	4,957,743	710	801
Adjustment based on final award price of 2018	-	71,457	-	-
Awarded for the year	26	1,662,106	199	225
Paid out / released during the year*	(29)	(1,619,257)	(215)	(244)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	-	-	-
Closing balance	88	5,072,049	694	782

*As approved by the Central Bank of Bahrain, during the year, 987,012 shares were bought back at market price by the Bank as treasury shares, upon completion of vesting period.

SHARI'A SUPERVISORY BOARD REPORT

FOR THE YEAR ENDED ON 31/12/2020

In The Name of Allah, most Gracious, Most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Shari'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Shari'a perspective for the financial year ending on 31st December 2020, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

First: Supervision and Revision of the Bank's Business

In coordination with the Shari'a Coordination and implementation, the Shari'a Supervisory Board has monitored the implementation on the Bank's Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2020 to ensure the Bank's adherence to the provisions and principles of Islamic Shari'a.

The Shari'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Shari'a is the sole responsibility of the Management while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.

Second: Shari'a Audit of the Bank's Business

1) Shari'a Internal Audit

We planned with the Shari'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a and Fatwas and decisions of the Shari'a Board.

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Shari'a Department in conformity with the Plan and methodology approved by the Shari'a Board.

The Shari'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Shari'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Shari'a Board's fatwas and decisions.

The 22 reports submitted by Internal Shari'a Audit Department to the Shari'a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Shari'a Board annual approved audit plan. The Shari'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Shari'a principles and Fatwas and decisions of the Shari'a Board.

2) Independent External Shari'a Compliance Audit

The Shari'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Shari'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

Third: Shari'a Governance

The Shari'a Supervisory Board reviewed the Bank's Management report on Shari'a Compliance and Governance, which shows the proper functioning of the supervision procedures related to compliance structures and Shari'a governance in the Bank, and the Management's assertion on the effectiveness of the mechanism and operation of supervision procedures.

The Shari'a Supervisory Board affirms that it has fulfilled all the requirements of Shari'a Governance issued by the Central Bank of Bahrain with the Shari'a Coordination and Implementation Department and the Internal Shari'a Audit Department.

Fourth: Shari'a Supervisory Board Operations

The Shari'a Board and its Committees held (28) meetings during the year and issued (167) decisions and fatwas, and approved (57) contracts.

Fifth: Financial Statements and Zakah Calculation Methods

The Shari'a Board has reviewed the financial Statements for the year ended on 31st December 2020, the income statement, the attached notes and the zakah calculation methods.

Based on the above, the Shari'a Supervisory Board decides that:

1. All the Financial Statements inspected by the Shari'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI).
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Shari'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Shari'a Supervisory Board and in accordance to Islamic Shari'a.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Shari'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Shari'a, by the net invested assets method. And the shareholders should pay their portion of zakah on their shares as stated in the financial report.
6. The Bank was committed to the provisions and principles of Shari'a as per Shari'a standards issued by the (AAOIFI).

Sixth: National Bank of Bahrain's Acquisition of the Majority of BisB's Shares

The Shari'a Supervisory Board has not found any Shari'a impediment to the National Bank of Bahrain's acquisition of BisB's shares; accordingly, the Shari'a Supervisory Board established the Shari'a terms and regulations and the administrative conditions to regulate the said acquisition and to safeguard the independence of both banks as two separate entities.

The Shari'a Supervisory Board had some administrative observations on the implementation of the acquisition, which were communicated in writing to the Board of Directors of Bahrain Islamic Bank and the Central Bank of Bahrain.

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh. Dr. A. Latif Mahmood Al Mahmood
Chairman

Shaikh. Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh. Adnan Abdulla Al Qattan
Member

Shaikh. Dr. Nedham M. Saleh Yacoubi
Member

Shaikh. Dr. Essam Khalaf Al Onazi
Member

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of income, changes in equity, cash flows, sources and uses of good faith qard fund and sources and uses of Zakah and charity fund for the year then ended, and notes, comprising significant 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 2020, and consolidated results of its operations, changes in owners' equity, its cash flows, sources and uses of good faith qard fund and its sources and uses of Zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain (the "CBB").

In our opinion, the Group has also complied with the Islamic Shari'a Principles and Rules as determined by the Group's Shari'a Supervisory Board during the year ended 31 December 2020.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. 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 AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, 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 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 allowance on financing assets, Ijarah muntahia bittamleek, and Ijarah rental receivables

(refer to accounting policy in note 3 z, use of estimates and judgments in note 3 bb and management of credit risk in note 28 e).

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables representing 65% of total assets; • impairment of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables involves: - 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.	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, 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. **Controls testing** 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 incorporating consideration of the economic disruption caused by COVID-19. Key aspects of our control testing involved the following: • 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 FAS 30 ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates;

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Description	How the matter was addressed in our audit
• 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 weightings 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. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programs and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.	• 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. **Test of details** Key aspects of our testing involved: • 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. **Use of specialists** 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: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: - evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); - on a test check basis, re-performing the calculation 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 weighing 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 including the impact of COVID-19. **Disclosures** Evaluating the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets, Ijarah muntahia bittamleek and Ijarah rental receivables by reference to the requirements of relevant accounting standards.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

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 the board of directors for the consolidated financial statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Group's Shari'a Supervisory Board.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

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 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), 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) except for non-compliance with the Licensing Requirements module – LR-2.5.2.A (maintaining minimum total shareholders' equity of BD 100 million) of Volume 2 of the Rule Book issued by CBB, we are not aware of any other violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, 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

KPMG Fakhro
Partner Registration number 213
15 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 BD'000	2019 BD'000
ASSETS			
Cash and balances with banks and Central Bank	4	**50,362**	61,629
Placements with financial institutions	5	**44,442**	76,068
Financing assets	6	**571,513**	574,851
Investment securities	7	**276,608**	246,213
Ijarah Muntahia Bittamleek	9	**191,365**	179,857
Ijarah rental receivables	9	**20,677**	24,546
Investment in associates	8	**19,024**	18,750
Investment in real estate	11	**16,226**	18,756
Property and equipment	10	**14,047**	13,591
Other assets	12	**7,317**	9,299
TOTAL ASSETS		**1,211,581**	1,223,560
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**147,893**	126,964
Placements from non-financial institutions and individuals		**261,002**	213,420
Borrowings from financial institutions	13	**-**	29,566
Customers' current accounts		**188,742**	181,692
Other liabilities	14	**23,642**	21,516
Total Liabilities		**621,279**	573,158
Equity of Investment Accountholders			
Financial institutions		**33,986**	61,587
Non-financial institutions and individuals		**460,274**	467,892
Total Equity of Investment Accountholders	15	**494,260**	529,479
Owners' Equity			
Share capital	16	**106,406**	106,406
Treasury shares	16	**(892)**	(892)
Shares under employee share incentive scheme		**(257)**	(281)
Share premium		**206**	180
Reserves		**(9,421)**	15,510
Total Owners' Equity		**96,042**	120,923
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,211,581**	1,223,560

The consolidated financial statements were approved by the Board of Directors on 15 February 2021 and signed on its behalf by:

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	**2020 BD'000**	2019 BD'000
INCOME			
Income from financing	19	**40,506**	45,464
Income from investment in Sukuk		**12,663**	11,932
Total income from jointly financed assets		**53,169**	57,396
Return on equity of investment accountholders		**(16,551)**	(35,686)
Group's share as Mudarib		**12,476**	23,001
Net return on equity of investment accountholders	15.5	**(4,075)**	(12,685)
Group's share of income from jointly financed assets (both as mudarib and investor)		**49,094**	44,711
Expense on placements from financial institutions		**(4,977)**	(2,957)
Expense on placements from non-financial institutions and individuals		**(9,533)**	(4,687)
Expense on borrowings from financial institutions		**(178)**	(2,386)
Fee and commission income, net		**4,379**	5,929
Income from investment securities	20	**925**	613
Income from investment in real estate, net	21	**(2,423)**	(274)
Share of results of associates, net	8	**(235)**	(133)
Other income, net	22	**1,948**	1,491
Total income		**39,000**	42,307
EXPENSES			
Staff costs		**12,257**	14,119
Depreciation	10	**1,381**	1,353
Other expenses	23	**9,763**	9,623
Total expenses		**23,401**	25,095
Profit before impairment allowances		**15,599**	17,212
Impairment allowance, net	24	**(28,162)**	(10,998)
(LOSS) / PROFIT FOR THE YEAR		**(12,563)**	6,214
BASIC AND DILUTED EARNINGS PER SHARE (fils)	26	**(11.94)**	5.91

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 BD'000	2019 BD'000
OPERATING ACTIVITIES			
(Loss) / Profit for the year		**(12,563)**	6,214
Adjustments for non-cash items:			
Depreciation	10	**1,381**	1,353
Impairment allowance, net	24	**28,162**	10,998
Fair value movement in investment in real estate	21	**2,476**	484
Loss / (Gain) on sale of investment in real estate	21	**34**	(63)
Loss / (Gain) on foreign exchange revaluation		**95**	(5)
Gain on sale of investment securities	20	**(836)**	–
Share of results of associates, net	8	**235**	133
Operating profit before changes in operating assets and liabilities		**18,984**	19,114
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**11,803**	(410)
Financing assets		**(22,531)**	(2,061)
Ijarah Muntahia Bittamleek		**(24,338)**	(18,780)
Other assets		**873**	1,565
Customers' current accounts		**7,050**	48,448
Other liabilities		**3,571**	(3,744)
Placements from financial institutions		**20,929**	75,960
Placements from non-financial institutions and individuals		**47,582**	217,376
Equity of investment accountholders		**(35,219)**	(329,310)
Net cash from operating activities		**28,704**	8,158
INVESTING ACTIVITIES			
Disposal of investment in real estate		**130**	2,308
Redemption of investment in associates		**3,155**	887
Purchase of investment securities		**(63,857)**	(36,059)
Purchase of property and equipment		**(1,837)**	(1,303)
Proceeds from disposal of investment securities		**32,322**	29,511
Net cash used in investing activities		**(30,087)**	(4,656)
FINANCING ACTIVITIES			
Purchase of treasury shares		**(149)**	(121)
Repayment of borrowings from financial institutions		**(29,287)**	(66,820)
Dividends paid		**(271)**	(7)
Net cash used in financing activities		**(29,707)**	(66,948)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(31,090)**	(63,446)
Cash and cash equivalents at 1 January		**99,670**	163,116
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**68,580**	99,670
Cash and cash equivalents comprise of:			
Cash on hand	4	**15,820**	16,221
Balances with CBB, excluding mandatory reserve deposits	4	**74**	465
Balances with banks and other financial institutions excluding restricted balances	4	**8,244**	6,916
Placements with financial institutions with original maturities less than 90 days	5	**44,442**	76,068
		68,580	99,670

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

					Reserves					
2020	**Share capital BD'000**	**Treasury shares BD'000**	**Shares under employee share incentive scheme BD'000**	**Share premium BD'000**	**Statutory reserve BD'000**	**Real estate fair value reserve BD'000**	**Investment securities fair value reserve BD'000**	**(Accumulated losses)/ Retained earnings BD'000**	**Total reserves BD'000**	**Total owners' equity BD'000**
Balance at 1 January 2020	**106,406**	**(892)**	**(281)**	**180**	**4,736**	**2,049**	**718**	**8,007**	**15,510**	**120,923**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,563)**	**(12,563)**	**(12,563)**
Zakah approved	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(328)**	**(328)**	**(328**
Donations approved	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(250)**	**(250)**	**(250)**
Government subsidy (note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,814**	**1,814**	**1,814**
Modification loss (note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,711)**	**(14,711)**	**(14,711)**
Shares allocated to staff during the year	**–**	**–**	**173**	**26**	**–**	**–**	**–**	**–**	**–**	**199**
Purchase of treasury shares	**–**	**(149)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(149)**
Transfer to shares under employee share incentive scheme	**–**	**149**	**(149)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net movement in investment securities fair value reserve	**–**	**–**	**–**	**–**	**–**	**–**	**978**	**–**	**978**	**978**
Net movement in real estate fair value reserve	**–**	**–**	**–**	**–**	**–**	**129**	**–**	**–**	**129**	**129**
Balance at 31 December 2020	**106,406**	**(892)**	**(257)**	**206**	**4,736**	**2,178**	**1,696**	**(18,031)**	**(9,421)**	**96,042**
2019										
Balance at 1 January 2019	106,406	(892)	(391)	120	4,115	4,830	718	2,843	12,506	117,749
Profit for the year	–	–	–	–	–	–	–	6,214	6,214	6,214
Zakah approved	–	–	–	–	–	–	–	(179)	(179)	(179)
Donations approved	–	–	–	–	–	–	–	(250)	(250)	(250)
Shares allocated to staff during the year	–	–	231	60	–	–	–	–	–	291
Purchase of treasury shares	–	(121)	–	–	–	–	–	–	–	(121)
Transfer to shares under employee share incentive scheme	–	121	(121)	–	–	–	–	–	–	–
Net movement in real estate fair value reserve	–	–	–	–	–	(2,781)	–	–	(2,781)	(2,781)
Transfer to statutory reserve	–	–	–	–	621	–	–	(621)	–	–
Balance at 31 December 2019	106,406	(892)	(281)	180	4,736	2,049	718	8,007	15,510	120,923

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

FOR THE YEAR ENDED 31 DECEMBER 2020

	Qard Hasan receivables BD'000	Funds available for Qard Hasan BD'000	Total BD'000
Balance at 1 January 2020	**57**	**160**	**217**
Sources of Qard Fund			
Repayments	**(23)**	**23**	**–**
Total sources during the year	**(23)**	**23**	**–**
Uses of Qard fund			
Marriage	**12**	**(12)**	**–**
Others (Waqf)	**33**	**(33)**	**–**
Total uses during the year	**45**	**(45)**	**–**
Balance at 31 December 2020	**79**	**138**	**217**
Balance at 1 January 2019	71	57	128
Sources of Qard Fund			
Non-Islamic income	–	89	89
Repayments	(37)	37	–
Total sources during the year	(37)	126	89
Uses of Qard fund			
Marriage	14	(14)	–
Others (Waqf)	9	(9)	–
Total uses during the year	23	(23)	–
Balance at 31 December 2019	57	160	217

	2020 BD'000	2019 BD'000
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Non-Islamic income	**89**	89
	217	217

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 BD'000	2019 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**401**	314
Non-Islamic income / late payment fee	**255**	580
Contributions by the Bank for zakah	**328**	192
Contributions by the Bank for donations	**250**	250
Others	**10**	–
Total sources of zakah and charity funds during the year	**1,244**	1,336
Uses of zakah and charity funds		
Philanthropic societies	**264**	334
Aid to needy families	**350**	527
Others	**387**	74
Total uses of funds during the year	**1,001**	935
Undistributed zakah and charity funds at the end of the year	**243**	401

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

During 2019, one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse. The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank, NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2019: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate W.L.L.

Abaad Real Estate W.L.L ("Abaad")

Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issuance in accordance with a resolution of the Board of Directors issued on 15 February 2021.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investments in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note (3 (bb)).

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

b. Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets is recognised in accordance with the requirements of applicable FAS. Please refer to note (2) for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meet the government grant requirement, in equity, instead of the profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note (2) for further details.

1. REPORTING ENTITY (Continued)

b. Statement of Compliance (Continued)

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

The modification to accounting policies has been applied retrospectively and did not result in any change to the comparatives.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2. COVID-19 IMPACT

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 December 2020, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2020, the Group's NSFR ratio was 126%.

Following are some of the significant concessionary measures which were announced by CBB:

- For assessment of SICR from stage 1 to stage 2 Increase in number of days from 30 to 74 days
- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

During the second quarter, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 554,875 thousand as part of its support to impacted customers.

In September 2020 and December 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020 and June 2021 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect significant modification loss as a result of the extension.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. COVID-19 IMPACT (Continued)

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

As per the regulatory directive, financial assistance amounting to BD 1,814 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as described in Note 1 "Statement of Compliance" and those arising from the adoption of the following standards and amendments to Standards early adopted by the Group.

a. New standards, amendments, and interpretations

i) New standards, amendments, and interpretations issued but not yet effective

A. Early adoption of standards

(i) FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) is effective from annual financial periods beginning on 1 January 2021. The Group has early adopted FAS 31 as issued by AAOIFI effective 1 January 2020. The Group uses wakala structure to raise funds from interbank market and from customers, these were reported under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019.

After adopting FAS 31, all new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested. Wakala pool is reported in equity of investment account holders and the profit paid on these contracts is reported in return on equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However, the Bank has decided to apply the standard on all transactions outstanding as of the year end and the corresponding previous year end. The adoption of this standard has resulted in additional disclosures (refer to note 15).

(ii) FAS 33 Investment in Sukuks, shares and similar instruments

FAS 33 Investment in Sukuks, shares and similar instruments is effective from annual financial periods beginning on 1 January 2021. The Group has early adopted FAS 33 as issued by AAOIFI effective 1 January 2020. The standard is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the consolidated financial statements for the year ended 31 December 2020. Set out below are the details of the specific FAS 33 accounting policies applied in the current year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. New standards, amendments, and interpretations (Continued)

(ii) FAS 33 Investment in Sukuks, shares and similar instruments (Continued)

1) Changes in accounting policies

Categorization and classification

FAS 33 contains a classification and measurement approach for investments in Sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as investment in:

(a) equity-type instruments;

(b) debt-type instruments, including:

  (i) monetary debt-type instruments; and

  (ii) non-monetary debt-type instruments; and

(c) other investment instruments

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost (except for equity-type instruments), (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

(a) the Bank's business model for managing the investments; and

(b) the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

2) Changes to significant estimates and judgements

a) Investment classification

Assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

b) Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

3) Classification and measurement of investment securities

The Bank has performed a detailed analysis of its business models for the investment securities as well performed an analysis of their cash flow characteristics. There is no change in the classification of investment securities.

B. New standards not yet adopted

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2021 with an option to early adopt. However, the Bank has not early adopted any of these standards.

(i) FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is to set out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments to be in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of adopting this standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. New standards, amendments, and interpretations (Continued)

B. *New standards not yet adopted* (Continued)

(ii) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'a compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

b) "product Wa'ad and Khiyar" which is used as a stand-alone Shari'a compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

The Group is currently evaluating the impact of adopting this standard.

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, income, expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions excluding restricted balances and placements with financial institutions with original maturities less than 90 days when acquired.

d. Placements with and borrowings from financial institutions

i) Placements with financial institutions

Placements with financial institutions comprise of commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

ii) Borrowings from financial institutions

Borrowings from financial institutions comprise of borrowings obtained through a murabaha contract recognized on the origination date and carried at amortized cost.

e. Financing assets

Financing assets comprise of Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka contracts. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

f. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing is a sale on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

h. Investment securities

Investment securities comprise of debt type instruments carried at amortised cost and equity type instruments carried at fair value through equity.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

i) Debt type instruments carried at amortised cost

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated statement of income when the instruments are de-recognised or impaired.

ii) Equity type instruments carried at fair value through equity

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of an entity after reducing all its liabilities. On initial recognition, equity-type instruments that are not designated to fair value through consolidated statement of income are classified as investments at fair value through equity.

Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. Upon derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

i. Measurement principles

i) Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

ii) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Investment in associates

Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from the changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

k. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of the lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including ijarah rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated statement of income.

l. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Equity of investment accountholders

Equity of investment accountholders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to the investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group's share of income as a Mudarib. 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 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. Only profits earned from the pool of assets funded by the equity of investment accountholders are allocated between the owners' equity and equity of investment accountholders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

p. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

q. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

s. Dividends

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t. Derecognition of financial assets and liabilities

i) Financial assets

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 right to receive cash flows from the asset has expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

ii) Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expired.

u. Treasury shares

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue, or cancellation of own equity instruments.

v. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

w. Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported in the consolidated statement of financial position, when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

x. Income recognition

i) Murabaha and Wakala

Income from Murabaha and Wakala contracts is recognised on a time-apportioned basis over the period of the contract using effective profit rate method.

ii) Musharaka

Profit or losses in respect of the Group's share in a Musharaka financing transaction that commence and end during a single financial period is recognised in the consolidated statement of income at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with the profit sharing ratio stipulated in the Musharaka agreement.

iii) Sukuk

Income from Sukuk is recognised using effective profit rate over the term of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

x. Income recognition (Continued)

iv) Placements with financial institutions

Income on placements with financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

v) Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

vi) Dividend income

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

vii) Fees and commission income

Fees and commission income that is integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

y. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek & ijarah rental receivables;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

z. Impairment of exposures subject to credit risk (Continued)

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured at 12-month ECL:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, 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 informed credit assessment including forward-looking information.

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Exposures migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that arise from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognised. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

z. Impairment of exposures subject to credit risk (Continued)

i) Measurement of ECL

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

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iii) Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the exposures have occurred.

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default;
- The restructuring of a financing facility by the Group on terms that the Group would not consider otherwise; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

v) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

Financing asset exposures are either fully or partially written off when there is no expectation for further recovery. Indicators that there is no reasonable expectation of recovery include (i) borrower is insolvent or (ii) all possible recovery options have been exhausted.

aa. Equity investments classified at Fair Value Through Equity (FVTE)

For equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements. The most significant use of judgements and estimates are as follows:

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note (3 (z)) and note (28).
- Impairment on ijarah rental receivables: key assumptions used in estimating recoverable cash flows is set out in note (3 (z)).
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note (3 (z)) and note (28).

ii) Going concern

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

iii) Impairment of equity investments

The Group determines that equity investments carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment.

In case of equity investments, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

cc. Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

dd. Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group. At the end of the accounting period, the accounts are measured at their book value.

ee. Employees' benefits

i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus as 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.

ii) Post-employment benefits

Pension and other benefits for Bahraini employees are covered by the Social Insurance Organisation Scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed percentage of salaries basis. Contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under Bahraini labour law, based on the length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

These benefits are in the nature of "defined benefits scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ee. Employees' benefits (Continued)

ii) Post-employment benefits (Continued)

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by the bank. The scheme is in the nature of defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

iii) Share based employee incentive scheme

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

ff. 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 specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

gg. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure of financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount or fair value less costs to sell and reported within 'other assets'.

hh. Statutory reserve

The Commercial Companies Law requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

ii. URIA protection scheme

Investment accounts held within the Group's Bahrain operations are covered by the regulation protecting URIA 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 Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

4. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2020 BD'000	2019 BD'000
Cash on hand	**15,820**	16,221
Balances with CBB, excluding mandatory reserve deposits	**74**	465
Balances with banks and other financial institutions	**10,756**	9,428
	26,650	26,114
Mandatory reserve with CBB	**23,712**	35,515
	50,362	61,629

The mandatory reserve with CBB is not available for use in the day-to-day operations.

Balances with banks and other financial institutions include an amount of BD 2,512 thousand (2019: BD 2,512 thousand) which is not available for use in the day-to-day operations.

5. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2020 BD'000	2019 BD'000
Commodity Murabaha	**16,219**	51,147
Deferred profits	**(1)**	(5)
	16,218	51,142
Wakala	**28,225**	24,929
	44,443	76,071
Impairment allowance	**(1)**	(3)
	44,442	76,068

6. FINANCING ASSETS

	2020 BD'000	2019 BD'000
Murabaha (note 6.1)	**482,274**	481,429
Musharaka (note 6.2)	**89,239**	93,422
	571,513	574,851

6.1 Murabaha

	2020 BD'000	2019 BD'000
Tasheel	**284,822**	243,190
Tawarooq	**179,547**	196,291
Altamweel Almaren	**68,490**	86,701
Letters of credit refinance	**17,008**	23,925
Motor vehicles Murabaha	**3,678**	5,904
Credit cards	**17,151**	20,191
Others	**30**	36
	570,726	576,238
Qard fund	**79**	57
Gross receivables	**570,805**	576,295
Deferred profits	**(66,492)**	(68,288)
Impairment allowance	**(22,039)**	(26,578)
	482,274	481,429

Non-performing Murabaha financing outstanding as of 31 December 2020 amounted to BD 43,302 thousand (2019: BD 91,180 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

6. FINANCING ASSETS (Continued)

6.1 Murabaha (Continued)

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2020 BD'000	2019 BD'000
Commercial	**94,680**	133,671
Financial institutions	**11,679**	22,895
Others including retail	**397,954**	351,441
	504,313	508,007

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

6.2 Musharaka

	2020 BD'000	2019 BD'000
Musharaka in real estate	**93,239**	96,314
Provision for impairment	**(4,000)**	(2,892)
	89,239	93,422

Non-performing Musharaka financing outstanding as of 31 December 2020 amounted to BD 9,308 thousand (2019: BD 6,530 thousand).

6.3 The movement on impairment allowances is as follows:

2020	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
At 1 January 2020	**1,615**	**1,557**	**26,298**	**29,470**
Net movement between stages	**434**	**(164)**	**(270)**	**-**
Net charge for the year	**578**	**3,659**	**11,376**	**15,613**
Write-off	**-**	**-**	**(19,044)**	**(19,044)**
At 31 December 2020	**2,627**	**5,052**	**18,360**	**26,039**

2019	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2019	2,157	3,146	24,536	29,839
Net movement between stages	205	(286)	81	–
Net charge for the year	(747)	(1,303)	9,465	7,415
Write-off	–	–	(7,784)	(7,784)
At 31 December 2019	1,615	1,557	26,298	29,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7. INVESTMENT SECURITIES

a. Debt type instruments*

	2020 BD'000	2019 BD'000
Quoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**190,473**	160,727
Acquisitions	**60,059**	35,999
Disposals and redemptions	**(21,343)**	(6,253)
Gross balance at the end of the year	**229,189**	190,473
Impairment allowance	**(236)**	(7)
Net balance at the end of the year	**228,953**	190,466
Unquoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**35,534**	58,725
Acquisitions	**3,798**	60
Disposals and redemptions	**(3,822)**	(23,258)
Foreign currency translation changes	**(15)**	7
Gross balance at the end of the year	**35,495**	35,534
Impairment allowance	**(12,564)**	(12,187)
Net balance at the end of the year	**22,931**	23,347

b. Equity type instruments

Unquoted shares	**24,288**	28,178
Unquoted managed funds	**436**	4,222
Total net investment securities	**276,608**	246,213

* As of 31 December 2020, debt type instruments includes Sukuk of BD Nil thousand (2019: BD 38,800 thousand) pledged against borrowings from financial institutions of BD Nil thousand (2019: BD 29,566 thousand) (note 13).

7. INVESTMENT SECURITIES (Continued)

The movement of impairment allowances on debt type instruments (Sukuk) is as follows:

2020	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
At 1 January 2020	**20**	**-**	**12,174**	**12,194**
Net charge for the year	**231**	**-**	**390**	**621**
Foreign exchange movement	**-**	**-**	**(15)**	**(15)**
At 31 December 2020	**251**	**-**	**12,549**	**12,800**

2019	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2019	52	-	12,167	12,219
Net charge for the year	(32)	-	-	(32)
Foreign exchange movement	-	-	7	7
At 31 December 2019	20	-	12,174	12,194

During the year impairment of BD 2,024 thousand (2019: BD 419 thousand) was provided on equity type instruments.

8. INVESTMENT IN ASSOCIATES

	2020 BD'000	2019 BD'000
At 1 January	**18,750**	21,643
Additions	**5,449**	-
Share of results of associates, net	**(235)**	(133)
Redemption / disposal of investment in associates	**(2,845)**	(887)
Foreign currency translation changes	**(95)**	4
Impairment allowance	**(2,000)**	(1,877)
At 31 December	**19,024**	18,750

Additions include settlement of financing assets amounting to BD 5,449 thousand during the year.

Summarised financial information of associates that have been equity accounted for in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2020 BD'000	2019 BD'000
Total assets	**160,063**	163,932
Total liabilities	**47,781**	46,183
Total revenues	**3,432**	3,186
Total net loss	**(2,517)**	(2,555)

8. INVESTMENT IN ASSOCIATES (Continued)

Investment in associates comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) 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.
Arabian C Real Estate Company	19.00%	Kuwait	Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region The Group has disposed off its shares in this associate during the year ended 31 December 2020.
LS Real Estate Company W.L.L.	37.00%	Bahrain	LS Real Estate Company W.L.L. 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.
Al Dur Energy Investment Company	29.41%	Bahrain	Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.

9. IJARAH MUNTAHIA BITTAMLEEK

	2020			2019		
	Properties BD'000	**Aviation related assets BD'000**	**Total BD'000**	Properties BD'000	Aviation related assets BD'000	Total BD'000
Cost:						
At 1 January	**241,971**	**7,540**	**249,511**	217,412	7,540	224,952
Additions	**75,251**	**-**	**75,251**	64,202	-	64,202
Settlements / adjustments	**(82,801)**	**-**	**(82,801)**	(39,643)	-	(39,643)
At 31 December	**234,421**	**7,540**	**241,961**	241,971	7,540	249,511
Accumulated depreciation:						
At 1 January	**66,767**	**2,887**	**69,654**	57,222	2,000	59,222
Charge for the year	**12,550**	**840**	**13,390**	24,787	887	25,674
Settlements / adjustments	**(32,286)**	**(162)**	**(32,448)**	(15,242)	-	(15,242)
At 31 December	**47,031**	**3,565**	**50,596**	66,767	2,887	69,654
Net Book Value	**187,390**	**3,975**	**191,365**	175,204	4,653	179,857

Ijarah Muntahia Bittamleek of BD 191,365 and Ijarah rental receivables of BD 20,677 thousand (2019: BD 179,857 thousand and BD 24,546 thousand) is net of impairment allowance of BD 2,343 thousand (2019: BD 14,791 thousand) refer note (28 (e)). During the year, an impairment charge of BD 6,716 thousand (2019: BD 1,248 thousand) was provided on Ijarah rental receivable (refer note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. PROPERTY AND EQUIPMENT

	2020						
	Lands BD'000	**Buildings BD'000**	**Fixture and fitting BD'000**	**Equipment BD'000**	**Furniture BD'000**	**Work in progress BD'000**	**Total BD'000**
Cost:							
At 1 January	**5,521**	**7,651**	**4,190**	**13,253**	**900**	**516**	**32,031**
Additions / Transfers	**-**	**-**	**11**	**1,231**	**-**	**595**	**1,837**
Disposals	**-**	**-**	**-**	**(738)**	**-**	**-**	**(738)**
At 31 December	**5,521**	**7,651**	**4,201**	**13,746**	**900**	**1,111**	**33,130**
Depreciation:							
At 1 January	**–**	**2,737**	**3,760**	**11,068**	**875**	**–**	**18,440**
Charge for the year	**–**	**254**	**159**	**956**	**12**	**–**	**1,381**
Relating to disposed assets	**–**	**–**	**–**	**(738)**	**–**	**–**	**(738)**
At 31 December	**–**	**2,991**	**3,919**	**11,286**	**887**	**–**	**19,083**
Net Book Value	**5,521**	**4,660**	**282**	**2,460**	**13**	**1,111**	**14,047**

	2019						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	5,521	7,651	4,164	12,312	894	186	30,728
Additions / Transfers	–	–	26	941	6	330	1,303
At 31 December	5,521	7,651	4,190	13,253	900	516	32,031
Depreciation:							
At 1 January	–	2,483	3,547	10,210	847	–	17,087
Charge for the year	–	254	213	858	28	–	1,353
At 31 December	–	2,737	3,760	11,068	875	–	18,440
Net Book Value	5,521	4,914	430	2,185	25	516	13,591

11. INVESTMENT IN REAL ESTATE

	2020 BD'000	2019 BD'000
Land	**16,226**	18,675
Buildings	**-**	81
	16,226	18,756

	2020 BD'000	2019 BD'000
Movement in investment in real estate:		
At 1 January	**18,756**	24,284
Disposal	**(182)**	(2,263)
Fair value changes	**(2,348)**	(3,265)
At 31 December	**16,226**	18,756

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuators who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

12. OTHER ASSETS

	2020 BD'000	2019 BD'000
Repossessed assets*	**3,992**	5,103
Receivables**	**632**	1,453
Staff advances	**1,550**	1,697
Prepaid expenses	**485**	486
Other	**658**	560
	7,317	9,299

*Repossessed assets are net of impairment allowance of BD 1,697 thousand (2019: BD 585 thousand).

**Impairment on receivables includes Stage 3 BD Nil thousand (2019: Stage 3 BD 333 thousand). During the year, impairment charge of BD Nil thousand was provided (2019: BD 202 thousand) representing release / charge of BD Nil thousand (2019: release of BD 5 thousand (stage 1), and charge of BD 207 thousand (stage 3).

13. BORROWINGS FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD Nil thousand (2019: BD 29,566 thousand maturing within 1 month from year end) secured by pledge over Sukuk of BD Nil thousand (2019: BD 38,800 thousand). The average rate of borrowings is 2.53% (2019: 3.49%) (note 7).

14. OTHER LIABILITIES

	2020 BD'000	2019 BD'000
Managers' cheques	**8,761**	4,382
Payable to vendors	**3,647**	6,846
Accrued expenses	**3,886**	3,792
Dividends payable*	**28**	921
Zakah and charity fund	**243**	401
Other	**7,077**	5,174
	23,642	21,516

* In accordance with the resolution No. 3 of 2020 dated 29 April 2020, the Group has transferred unclaimed dividends up to the year 2019 amounting to BD 270 thousand along with the liability to settle the unclaimed dividends. The funds were transferred to the Unclaimed Cash Dividends Fund with Bahrain Clear B.S.C. (c).

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

15.1 Equity of investment accountholders balances

	2020 BD'000	2019 BD'000
Type of Equity of Investment Accountholders:		
Placements and borrowings from financial institutions – Wakala	**33,986**	61,587
Placements from non-financial institutions and individuals – Wakala	**53,259**	40,190
Mudharaba	**407,015**	427,702
	494,260	529,479
Mudharaba-based customer investment accounts		
Balances on demand	**333,661**	295,096
Contractual basis	**73,354**	132,606
	407,015	427,702

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

15.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

	2020 BD'000	2019 BD'000
Asset		
Cash and balances with banks and Central Bank	**23,786**	28,922
Placements with financial institutions	**26,022**	–
Financing assets, net	**245,317**	289,755
Ijarah Muntahia Bittamleek and ijarah rental receivables, net	**91,016**	103,029
Investment securities, net	**108,119**	107,773
	494,260	529,479

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 17,677 thousand of ECL (2019: ECL of BD 23,089 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

15.3 Profit distribution by account type

The following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

	2020			2019		
	Utilization	**Mudarib Share**	**Profit to IAH**	Utilization	Mudarib Share	Profit to IAH
Account type						
Tejoori	**90%**	**97.29%**	**2.71%**	90%	97.88%	2.12%
Savings	**90%**	**97.28%**	**2.72%**	90%	97.87%	2.13%
Vevo	**90%**	**97.20%**	**2.80%**	90%	97.89%	2.11%
IQRA	**100%**	**64.65%**	**35.35%**	100%	77.46%	22.54%
Time deposits	**100%**	**40.95%**	**59.05%**	100%	50.18%	49.82%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

15.4 Equity of Investment Accountholders Reserves

	2020 BD'000	Movement BD'000	2019 BD'000
Profit equalisation reserve	**1,310**	65	1,245
Investment risk reserve	**-**	–	–

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

15.5 Return on equity of investment accountholders

	2020 BD'000	2019 BD'000
Gross return to equity of investment accountholders	**16,616**	34,509
Group's share as a Mudarib	**(12,476)**	(23,001)
Allocation to profit equalization reserve	**(65)**	-
Utilisation of investment risk reserve	**-**	1,177
Net return on equity of investment accountholders	**4,075**	12,685

16 OWNERS' EQUITY

a. Share capital

	2020 BD'000	2019 BD'000
i. Authorised		
2,000,000,000 shares (2019: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
ii. Issued and fully paid up		
1,064,058,587 shares (2019: 1,064,058,587 shares) of BD 0.100 each	**106,406**	106,406

b. Treasury Shares

	2020		2019
	Number of Shares	**BD'000**	BD'000
At 31 December	**5,855,358**	**892**	892

	2020 BD'000
Cost of treasury shares, excluding shares under employee share incentive scheme	**892**
Market value of treasury shares	**521**

The treasury shares as a percentage of total shares in issue is 0.55%

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

c. Reserves

i) Statutory reserve

During the year the Bank has appropriated BD Nil thousand (2019: BD 621 thousand) to the statutory reserve representing 10% of the profit for the year of BD Nil thousand (2019: BD 6,214 thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

16. OWNERS' EQUITY (Continued)

c. Reserves (Continued)

ii) General reserve

The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating the statutory reserve.

iii) Real estate fair value reserve

This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

iv) Investment fair value reserve

This represents the net unrealised gains or losses on equity investments.

d. Additional information on shareholding pattern

i. Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

		2020		2019	
Names	Nationality	Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	838,630,728	78.81%	309,206,266	29.06%
Social Insurance Organisation	Bahraini	–	0.00%	154,604,585	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	–	0.00%	154,604,587	14.53%
Islamic Development Bank	Saudi	135,736	0.01%	153,423,081	14.42%
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	76,366,321	7.18%

ii. The Group has only one class of shares and the holders of these shares have equal voting rights.

iii. Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2020			2019		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	86,303,690	2,745	6.84%	123,447,266	3,226	11.60%
1% and less than 5%	62,757,848	3	7.17%	92,406,481	5	8.68%
5% and less than 10%	76,366,321	1	7.18%	76,366,321	1	7.18%
10% and more	838,630,728	1	78.81%	771,838,519	4	72.54%
	1,064,058,587	2,750	100.00%	1,064,058,587	3,236	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2020		2019	
	Number of shares	Number of directors	Number of shares	Number of directors
Less than 1%	352,500	1	493,443	2

16. OWNERS' EQUITY (Continued)

d. Additional information on shareholding pattern (Continued)

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2020		2019	
	Number of shares	**Percentage of Shareholding**	Number of shares	Percentage of Shareholding
Directors	**352,500**	**0.033%**	493,443	0.046%
Shari'a supervisory members	**187,663**	**0.018%**	187,663	0.018%
Senior management	**191,760**	**0.018%**	1,125,153	0.106%
	731,923	**0.069%**	1,806,259	0.170%

e. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 122 thousand in 2020 (2019: BD 328 thousand), charitable donations of BD 250 thousand in 2020 (2019: BD 250 thousand) and dividends amounting to BD Nil thousand (2019: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2020 BD'000	2019 BD'000
Letters of credit and acceptances	**4,792**	7,448
Guarantees	**44,431**	63,324
Credit cards	**37,041**	34,638
Altamweel Almaren	**28,447**	23,113
Operating lease commitments*	**217**	268
Commitments to finance	**31,826**	39,202
	146,754	167,993

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2020 BD'000	2019 BD'000
Within one year	**159**	171
After one year but not more than five years	**58**	97
	217	268

18. CAPITAL ADEQUACY

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

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. As at 31 December 2020, the Group's total shareholders' equity has fallen below BD 100 million, which is the minimum requirement stipulated under LR-2.5.2A of the CBB's Rule Book. The Group is in discussions with its Parent to review the available options to bring the total shareholders'equity above the regulatory threshold.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET 1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Group has applied CBB concessionary measures relating to adjustment of modification loss and incremental ECL provisions for the purpose of computation of capital adequacy ratio for the year ended 31 December 2020 (refer to note 2).

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2020 BD'000	2019 BD'000
CET 1 Capital before regulatory adjustments	**111,019**	118,874
Less: regulatory adjustments	**-**	-
CET 1 Capital after regulatory adjustments	**111,019**	118,874
T 2 Capital adjustments	**10,165**	8,294
Regulatory Capital	**121,184**	127,168

18. CAPITAL ADEQUACY (Continued)

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2020 BD'000	2019 BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**638,995**	741,068
Total Market Risk Weighted Assets	**536**	1,263
Total Operational Risk Weighted Assets	**120,448**	114,095
Total Regulatory Risk Weighted Assets	**759,979**	856,426
Investment risk reserve (30% only)	**-**	-
Profit equalization reserve (30% only)	**393**	374
Total Adjusted Risk Weighted Exposures	**759,586**	856,052
Minimum requirement	**12.5%**	12.5%
Tier 1 Capital Adequacy Ratio	**14.62%**	13.89%
Capital Adequacy Ratio	**15.95%**	14.86%

19. INCOME FROM FINANCING

	2020 BD'000	2019 BD'000
Income from Murabaha financing	**24,688**	27,135
Income from Ijarah Muntahia Bittamleek	**10,319**	10,770
Income from Musharaka financing	**4,845**	5,312
Income from placements with financial institutions	**654**	2,247
	40,506	45,464

20. INCOME FROM INVESTMENT SECURITIES

	2020 BD'000	2019 BD'000
Gain on sale of investment in unquoted shares - at fair value through equity	**836**	-
Dividend income	**89**	613
	925	613

21. INCOME FROM INVESTMENT IN REAL ESTATE

	2020 BD'000	2019 BD'000
(Loss) / Gain on sale	**(34)**	63
Rental income	**87**	147
Impairment charge	**(2,476)**	(484)
	(2,423)	(274)

22. OTHER INCOME

	2020 BD'000	2019 BD'000
Recoveries from previously written off financing	**891**	651
Foreign exchange gain	**636**	138
Others	**421**	702
	1,948	1,491

23. OTHER EXPENSES

	2020 BD'000	2019 BD'000
Marketing and advertisement expenses	**1,157**	1,369
Professional services	**1,477**	2,175
Information technology related expenses	**1,269**	1,138
Card Centre expenses	**1,169**	1,142
Premises and equipment expenses	**817**	857
Communication expenses	**801**	573
Board remuneration	**260**	79
Board of directors sitting fees	**161**	221
Shari'a committee fees & expenses	**78**	66
Others	**2,574**	2,003
	9,763	9,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

24. IMPAIRMENT ALLOWANCE, NET

	2020 BD'000	2019 BD'000
Financing assets (note 6.3)	**15,613**	7,415
Ijarah rental receivables (note 9)	**6,716**	1,248
Investments in Sukuk (note 7)	**621**	(32)
Investments at fair value through equity (note 7)	**2,024**	419
Investment in associates (note 8)	**2,000**	1,877
Placements with financial institutions	**(2)**	(2)
Other assets	**1,111**	202
Commitments	**79**	(129)
	28,162	10,998

25. ZAKAH

The total Zakah payable as of 31 December 2020 amounted to BD 1,523 thousand (2019: BD 2,207 thousand) of which the Bank has BD 122 thousand Zakah payable (2019: BD 328 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2021. The Zakah balance amounting to BD 1,401 thousand or 1.3 fils per share (2019: BD 1,878 thousand or 1.8 fils per share) is due and payable by the shareholders.

26. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2020	2019
(Loss) / Profit for the year in BD'000	**(12,563)**	6,214
Weighted average number of shares	**1,052,592**	1,052,254
Basic and diluted earnings per share (fils)	**(11.94)**	5.91

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

27. RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

During the year, the Group sold certain assets with a carrying value of BD 43,871 thousand to Parent for a consideration of BD 43,871 thousand. The assets sold comprise, financing assets of BD 36,159 thousand, investment in equity and funds of BD 5,000 thousand and investment in associate of BD 2,712 thousand. This transaction was done at agreed commercial terms. The Bank will continue to service these assets on behalf of the Parent until these assets have been realized.

The significant balances and transactions with related parties at 31 December were as follows:

	2020				
	Shareholders BD'000	**Associates and joint ventures BD'000**	**Directors and related entities BD'000**	**Senior management BD'000**	**Total BD'000**
Assets					
Financing assets	**-**	**-**	**905**	**681**	**1,586**
Ijarah Muntahia Bittamleek and Ijarah rental receivables			**689**	**146**	**835**
Investment in associates	**-**	**19,024**	**-**	**-**	**19,024**
Other assets	**-**	**-**	**-**	**500**	**500**
Liabilities and Equity of investment accountholders					
Customers' current accounts	**-**	**2,748**	**697**	**407**	**3,852**
Other liabilities	**801**	**-**	**320**	**-**	**1,121**
Equity of investment accountholders	**-**	**-**	**635**	**2,289**	**2,924**
Placements from non-financial institutions and individuals	**-**	**-**	**1,054**	**999**	**2,054**
Income					
Income from financing	**-**	**-**	**115**	**30**	**145**
Share of results of associates, net	**-**	**(235)**	**-**	**-**	**(235)**
Return on equity of investment accountholders	**-**	**-**	**-**	**(82)**	**(82)**
Expense on placements from non-financial institutions and individuals	**-**	**-**	**(29)**	**(43)**	**(72)**
Expenses					
Other expenses	**-**	**-**	**(499)**	**-**	**(499)**
Staff costs	**-**	**-**	**-**	**(1,773)**	**(1,773)**

27. RELATED PARTY TRANSACTIONS (Continued)

	2019				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Financing assets	–	–	1,261	546	1,807
Investment in associates	–	18,750	–	–	18,750
Other assets	–	–	–	266	266
Liabilities and Equity of investment accountholders					
Placements from non-financial institutions and individuals	44,930	–	50	–	44,980
Customers' current accounts	–	1,857	390	109	2,356
Other liabilities	–	–	297	–	297
Equity of investment accountholders	–	–	959	1,159	2,118
Income					
Income from financing	–	–	103	32	135
Income from investment in real estate	–	–	–	(72)	(72)
Share of results of associates, net	–	(133)	–	–	(133)
Return on equity of investment accountholders	(1,113)	–	(1)	(51)	(1,165)
Expense on placements from non-financial institutions and individuals	(470)	–	–	–	(470)
Expenses					
Other expenses	–	–	(366)	–	(366)
Staff costs	–	–	–	(1,552)	(1,552)

Compensation of the key management personnel is as follows:

	2020 BD'000	2019 BD'000
Short term employee benefits	**1,406**	1,244
Other long term benefits	**367**	308
	1,773	1,552

Key management personnel includes staff at the grade of assistant general manager or above and part of management committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. RISK MANAGEMENT

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Shari'a-compliance risk.

b. Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

c. Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

i. Establishing overall policies and procedures; and

ii. Delegating authority to the Board Risk & Compliance Committee, the Executive Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk & Compliance Committee is responsible for overseeing the Bank's risk management governance, specificially in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Executive Committee comprises of four designated members of the Board of Directors. The Board Executive Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quailty of the bank's credit and investment portfolio. The purpose of CIC is to assist managment in fulfilling its oversight responsibiliites relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, and credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

d. Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

28. RISK MANAGEMENT (Continued)

e. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit.

Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

i) ECL – Significant increase in credit risk (SICR)

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

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviewing the movement in internal rating.

For the Retail portfolio, the Group's assessment for SICR is done at a facility level using days past due as the primary criteria.

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

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macro economic factors used in this analysis are shortlisted from the list given below:

(i) Gross domestic product, constant prices;

(ii) Total investments;

(iii) Gross national savings;

(iv) Inflation, average consumer prices;

(v) Volume of imports of goods and services;

(vi) Volume of exports of goods and services (including oil);

(vii) General government revenue;

(viii) General government total expenditure;

(ix) General government net lending / borrowing; and

(x) General government net debt.

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

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

ii) Generating the term structure of Probability of Default (PD) *(Continued)*

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:

(i) Auto finance;

(ii) Mortgage finance;

(iii) Tasheel Finance and Others; and

(iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (DPD) bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

iii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. For the year ended 31 December 2020, the Group has adopted 74 days as a backstop in line with the CBB concessionary measures (refer note 2). Days past due are determined by counting 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 monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all exposures categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as Stage 3.

iv) Definition of 'Default'

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

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

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data for eleven variables from the International Monetary Fund (IMF) database for Bahrain.

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

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure At Default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

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

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

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

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

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

vii) Modified exposures subject to credit risk

The contractual terms of exposures subject to credit risk 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.

When the terms of an exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates exposures to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of exposures is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments, and amending the terms of financing covenants. Both retail and corporate financing exposures are subject to the forbearance policy.

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. For the year ended 31 December 2020, the Bank has adopted 3 months instead of 12 months of consistent payment behaviour in line with the CBB concessionary measures (refer note 2).

viii) Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

Personal guarantees of the partners/promoters/directors of the borrowing entity may be obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

viii) Credit Risk Mitigation *(Continued)*

Collateral coverage by type of credit exposure:

2020	Properties BD'000	Others BD'000	Total BD'000
Financing assets	413,347	85,832	499,179
Ijarah Muntahia Bittamleek & ijarah rental receivables	284,800	5,956	290,756
	698,147	91,788	789,935

2019	Properties BD'000	Others BD'000	Total BD'000
Financing assets	533,564	28,011	561,575
Ijarah Muntahia Bittamleek & ijarah rental receivables	273,044	27,690	300,734
	806,608	55,701	862,309

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2020 amounts to BD 88,130 thousand (31 December 2019: BD 148,855 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

ix) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

	2020 BD'000	2019 BD'000
Balances with banks and Central Bank	34,542	45,408
Placements with financial institutions	44,442	76,068
Financing assets	571,513	574,851
Ijarah Muntahia Bittamleek and ijarah rental receivables	212,042	204,403
Debt type investment instruments	251,884	213,813
	1,114,423	1,114,543
Letters of credit, guarantees and acceptances	49,223	70,772

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

x) Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2020 BD'000	31 December 2019 BD'000	**31 December 2020 BD'000**	31 December 2019 BD'000	**31 December 2020 BD'000**	31 December 2019 BD'000
Geographical region						
Middle East	**1,205,164**	1,209,632	**1,113,563**	1,099,707	**146,754**	167,993
North America	**6,237**	4,591	**1,541**	2,128	**-**	-
Europe	**165**	9,315	**425**	165	**-**	-
Other	**15**	22	**10**	637	**-**	-
	1,211,581	1,223,560	**1,115,539**	1,102,637	**146,754**	167,993
Industry sector						
Trading and Manufacturing	**82,868**	126,011	**48,080**	27,384	**19,432**	27,363
Aviation	**-**	-	**170**	143	**-**	-
Real Estate	**335,885**	154,318	**107,931**	70,571	**27,603**	37,470
Banks and Financial Institutions	**89,829**	128,343	**96,313**	154,377	**2,028**	2,060
Personal / Consumer Finance	**342,078**	456,862	**637,704**	548,970	**37,847**	35,004
Governmental Organizations	**302,219**	299,387	**102,780**	143,835	**46,963**	51,930
Others	**58,702**	58,639	**122,561**	157,357	**12,881**	14,166
	1,211,581	1,223,560	**1,115,539**	1,102,637	**146,754**	167,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk

(i) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2020			
	Stage 1 BD'000	**Stage 2 BD'000**	**Stage 3* BD'000**	**Total BD'000**
Financing assets (Funded exposure)				
Low risks	413,273	7,874	–	421,147
Acceptable risks	76,689	41,556	–	118,245
Watch list	1,520	4,030	–	5,550
Non performing	–	–	52,610	52,610
Gross exposure	**491,482**	**53,460**	**52,610**	**597,552**
Less: ECL	(2,627)	(5,052)	(18,360)	(26,039)
Financing assets carrying amount	**488,855**	**48,408**	**34,250**	**571,513**
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	190,548	663	–	191,211
Acceptable risks	4,382	13,455	–	17,837
Watch list	1,084	596	–	1,680
Non performing	–	–	3,657	3,657
Gross exposure	**196,014**	**14,714**	**3,657**	**214,385**
Less: ECL	(467)	(601)	(1,275)	(2,343)
Ijarah Muntahia Bittamleek & Ijara rental receivables carrying amount	**195,547**	**14,113**	**2,382**	**212,042**
Investment in Sukuk				
Low risks	246,826	–	–	246,826
Acceptable risks	5,309	–	–	5,309
Watch list	–	–	–	–
Non performing	–	–	12,549	12,549
Gross exposure	**252,135**	**–**	**12,549**	**264,684**
Less: ECL	(251)	–	(12,549)	(12,800)
Investment in Sukuk carrying amount	**251,884**	**–**	**–**	**251,884**
Placements with financial institutions				
Low risks	44,443	–	–	44,443
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	**44,443**	**–**	**–**	**44,443**
Less: ECL	(1)	–	–	(1)
Placements with financial institutions carrying amount	**44,442**	**–**	**–**	**44,442**

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

***xi) Credit quality of exposures subject to credit risk** (Continued)*

	31 December 2020			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Balances with Banks				
Low risks	10,830	–	–	10,830
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	**10,830**	**–**	**–**	**10,830**
Less: ECL	–	–	–	–
Balances with Banks carrying amount	**10,830**	**–**	**–**	**10,830**
Total funded exposures subject to credit risk carrying amount	**991,558**	**62,521**	**36,632**	**1,090,711**
Commitments				
Gross exposure	**35,910**	**1,236**	**88**	**37,234**
Less: ECL	(67)	(69)	–	(136)
Commitments carrying amount	**35,843**	**1,167**	**88**	**37,098**

*This includes BD 39,599 thousand of gross on-balance sheet exposures in the cooling off period.

(ii) The following table shows the movement in ECL in various stages:

	31 December 2020			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2020	**1,902**	**4,344**	**50,602**	**56,848**
Transfer to Stage 1	**873**	**(443)**	**(430)**	**-**
Transfer to Stage 2	**(143)**	**731**	**(588)**	**-**
Transfer to Stage 3	**(171)**	**(2,801)**	**2,972**	**-**
Net movement between stages	**559**	**(2,513)**	**1,954**	**-**
Charge for the year (net)	**952**	**3,891**	**18,184**	**23,027**
Write-off	**-**	**-**	**(38,541)**	**(38,541)**
Foreign exchange movement	**-**	**-**	**(15)**	**(15)**
At 31 December 2020	**3,413**	**5,722**	**32,184**	**41,319**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk *(Continued)*

(iii) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	394,602	6,010	–	400,612
Acceptable risks	78,756	23,295	–	102,051
Watch list	235	3,713	–	3,948
Non performing	–	–	97,710	97,710
Gross exposure	473,593	33,018	97,710	604,321
Less: ECL	(1,615)	(1,557)	(26,298)	(29,470)
Financing assets carrying amount	471,978	31,461	71,412	574,851
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	162,208	2,023	–	164,231
Acceptable risks	5,791	9,426	–	15,217
Watch list	–	9,384	–	9,384
Non performing	–	–	30,362	30,362
Gross exposure	167,999	20,833	30,362	219,194
Less: ECL	(208)	(2,786)	(11,797)	(14,791)
Ijarah Muntahia Bittamleek & Ijara rental receivables carrying amount	167,791	18,047	18,565	204,403
Investment in Sukuk				
Low risks	204,351	–	–	204,351
Acceptable risks	9,093	–	–	9,093
Watch list	–	–	–	–
Non performing	–	–	12,563	12,563
Gross exposure	213,444	–	12,563	226,007
Less: ECL	(20)	–	(12,174)	(12,194)
Investment in Sukuk carrying amount	213,424	–	389	213,813
Placements with financial institutions				
Low risks	76,071	–	–	76,071
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	76,071	–	–	76,071
Less: ECL	(3)	–	–	(3)
Placements with financial institutions carrying amount	76,068	–	–	76,068

28. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk *(Continued)*

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Balances with Banks				
Low risks	9,893	–	–	9,893
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	9,893	–	–	9,893
Less: ECL	–	–	–	–
Balances with Banks carrying amount	9,893	–	–	9,893
Other Receivables				
Low risks	–	–	–	–
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	1,666	1,666
Gross exposure	–	–	1,666	1,666
Less: ECL	–	–	(333)	(333)
Other Receivables carrying amount	–	–	1,333	1,333
Total funded exposures subject to credit risk carrying amount	939,154	49,508	91,699	1,080,361
Commitments				
Gross exposure	45,882	194	1,228	47,304
Less: ECL	(56)	(1)	–	(57)
Commitments carrying amount	45,826	193	1,228	47,247

*This includes BD 35,265 thousand of gross on-balance sheet exposures in the cooling off period.

(iv) The following table shows the movement in ECL in various stages:

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2019	2,789	5,596	47,639	56,024
Transfer to Stage 1	503	(268)	(235)	–
Transfer to Stage 2	(277)	1,314	(1,037)	–
Transfer to Stage 3	(119)	(1,315)	1,434	–
Net movement between stages	107	(269)	162	–
Charge for the year (net)	(994)	(983)	10,679	8,702
Write-off	–	–	(7,885)	(7,885)
Foreign exchange movement	–	–	7	7
At 31 December 2019	1,902	4,344	50,602	56,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. RISK MANAGEMENT (Continued)

f. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and high-quality sukuk.

i) Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2020 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	26,650	-	-	-	-	-	23,712	50,362
Placements with financial institutions	44,442	-	-	-	-	-	-	44,442
Financing assets	28,466	49,800	37,748	63,108	158,678	233,713	-	571,513
Ijarah Muntahia Bittamleek and ijarah rental receivables	1,637	2,329	3,376	6,159	28,980	169,561	-	212,042
Investment securities	9,538	-	3,783	20,135	867	217,561	24,724	276,608
Investment in associates	-	-	-	-	-	-	19,024	19,024
Investment in real estate	-	-	-	-	-	-	16,226	16,226
Property and equipment	-	-	-	-	-	-	14,047	14,047
Other assets	55	665	773	89	479	1,264	3,992	7,317
TOTAL ASSETS	**110,788**	**52,794**	**45,680**	**89,491**	**189,004**	**622,099**	**101,725**	**1,211,581**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	49,221	49,356	17,395	22,091	9,830	-	-	147,893
Placements from non-financial institutions and individuals	66,662	60,855	75,220	58,265	-	-	-	261,002
Borrowings from financial institutions	-	-	-	-	-	-	-	-
Customers' current accounts	188,742	-	-	-	-	-	-	188,742
Other liabilities	23,642	-	-	-	-	-	-	23,642
Equity of investment accountholders	360,415	26,396	32,983	28,887	44,263	1,316	-	494,260
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS	**688,682**	**136,607**	**125,598**	**109,243**	**54,093**	**1,316**	**-**	**1,115,539**
Liquidity gap	**(577,894)**	**(83,813)**	**(79,918)**	**(19,752)**	**134,911**	**620,783**	**101,725**	**96,042**
Cumulative liquidity gap	**(577,894)**	**(661,707)**	**(741,625)**	**(761,377)**	**(626,466)**	**(5,683)**	**96,042**	**-**

28. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2019 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	26,114	–	–	–	–	–	35,515	61,629
Placements with financial institutions	76,068	–	–	–	–	–	–	76,068
Financing assets	32,808	20,362	31,917	42,826	183,732	263,206	–	574,851
Ijarah Muntahia Bittamleek and ijarah rental receivables	10,102	1,681	2,242	5,219	23,478	161,681	–	204,403
Investments securities	–	–	11,647	13,377	29,961	158,828	32,400	246,213
Investment in associates	–	–	–	–	–	–	18,750	18,750
Investment in real estate	–	–	–	–	–	–	18,756	18,756
Property and equipment	–	–	–	–	–	–	13,591	13,591
Other assets	102	748	692	173	539	514	6,531	9,299
TOTAL ASSETS	145,194	22,791	46,498	61,595	237,710	584,229	125,543	1,223,560
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	43,107	35,054	18,125	21,528	9,150	–	–	126,964
Placements from non-financial institutions and individuals	33,758	70,612	61,486	45,504	2,060	–	–	213,420
Borrowings from financial institutions	29,566	–	–	–	–	–	–	29,566
Customers' current accounts	36,338	–	–	–	–	145,354	–	181,692
Other liabilities	21,516	–	–	–	–	–	–	21,516
Equity of investment accountholders	160,195	53,490	29,524	24,706	24,969	236,595	–	529,479
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS	324,480	159,156	109,135	91,738	36,179	381,949	–	1,102,637
Liquidity gap	(179,286)	(136,365)	(62,637)	(30,143)	201,531	202,280	125,543	120,923
Cumulative liquidity gap	(179,286)	(315,651)	(378,288)	(408,431)	(206,900)	(4,620)	120,923	–

28. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019, the Bank is required to maintain LCR greater than 100%.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items and promotes funding stability. For the year ended 31 December 2020 CBB has announced various concessionary measures to improve liquidity. One of these measures is reducing the required ratio of LCR & NSFR from 100% to 80% (refer note 2).

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2020 the Group had NSFR ratio of 126%.

g. Market Risk

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on and off balance sheet positions arising from movements in market prices".

i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark InterBank Offered Rates (IBORs) with alternative rates.

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The Bank will have to assess the impact. As at 31 December 2020, the Bank is in the process of assessing the impact on its financial instruments which are maturing after the expected end date for IBOR.

28. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

ii) Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 48 million (31 December 2019: BD 56 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent long (short)	Equivalent long (short)
	2020 BD'000	2019 BD'000
Currency		
Pound Sterling	**131**	98
Euro	**56**	140
Kuwaiti Dinars	**326**	(1,257)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

iv) Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors.

h. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

29. SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling debt and equity investments in local and international markets and investment in real estate.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2020			
	Corporate BD'000	**Retail BD'000**	**Investment BD'000**	**Total BD'000**
Total income	**7,133**	**20,811**	**11,056**	**39,000**
Total expenses	**(5,078)**	**(15,946)**	**(2,377)**	**(23,401)**
Provision for impairment	**(18,526)**	**(3,882)**	**(5,754)**	**(28,162)**
Profit / (Loss) for the year	**(16,471)**	**983**	**2,925**	**(12,563)**
Other information				
Segment assets	**264,426**	**573,484**	**373,671**	**1,211,581**
Segment liabilities and equity	**419,075**	**634,873**	**157,633**	**1,211,581**

	31 December 2019			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	10,297	21,265	10,745	42,307
Total expenses	(5,929)	(17,205)	(1,961)	(25,095)
Provision for impairment	(7,356)	(1,179)	(2,463)	(10,998)
Profit for the year	(2,988)	2,881	6,321	6,214
Other information				
Segment assets	334,932	510,689	377,939	1,223,560
Segment liabilities and equity	417,266	564,368	241,926	1,223,560

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

30. FINANCIAL INSTRUMENTS

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Unquoted shares and unquoted managed funds of BD 24,724 thousand (31 December 2019: BD 32,400 thousand) are treated as Level 3 investments. During the year fair value movement of BD 2,024 thousand (31 December 2019: BD 419 thousand) was charged to income statement and BD 978 thousand (31 December 2019: BD Nil thousand) was charged to the fair value reserve. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

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

2020	**Level 1 BD'000**	**Level 2 BD'000**	**Level 3 BD'000**	**Total BD'000**
Unquoted shares	**-**	**-**	**24,288**	**24,288**
Unquoted managed funds	**-**	**-**	**436**	**436**
Total	**-**	**-**	**24,724**	**24,724**

2019	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
Unquoted shares	-	-	28,178	28,178
Unquoted managed funds	-	-	4,222	4,222
Total	-	-	32,400	32,400

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2020 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

31. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in the consolidated statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

32. SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of five Islamic scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

33. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

34. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit for the year or total owners' equity.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The Central Bank of Bahrain (CBB) announced various measures to combat the effects of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification.
- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group's equity.
- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.
- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.
- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the year, financing assets bookings were 18% lower than the same period of the previous year.
- Decreased consumer spending caused by the economic slow-down resulted in an increase in balances on demand held by the Group, whereas, time deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payment holiday.
- The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

A summary of the financial impact of the above effects is as follows:

	Net impact on the Group's consolidated income statement BD'000	Net impact on the Group's consolidated financial position BD'000	Net impact on the Group's consolidated owners' equity BD'000
Average reduction of cash reserve	–	14,798	–
Concessionary repo at 0%		40,741	–
Modification loss	–	–	(14,711)
Government grants	–	–	1,814
Stressed liquidity	(412)	–	–
Credit card income	(841)	–	–
ECL attributable to COVID-19	(4,258)	(4,258)	–
	(5,512)	**51,281**	**(12,897)**

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as an indication of the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which could result in this information being superseded. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

1. Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume 2 for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory Scope of Consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

Table – 1. Statement of Financial Position (PD- 1.3.14)

	Statement of Financial position as per published financial statements 31 December 2020 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2020 BD'000	Reference
ASSETS			
Cash and balances with banks and Central Bank	**50,362**	**50,362**	
Gross placements with financial institutions	44,443	44,443	
Less: Expected credit loss (stage 3)	-	-	
Less: Expected credit loss (stage 1 and stage 2)	(1)	-	
Net placements with financial institutions	**44,442**	**44,443**	
Gross financing assets	597,552	597,552	
Less: Expected credit loss (stage 3)	(18,360)	(18,360)	
Less: Expected credit loss (stage 1 and stage 2)	(7,679)	-	
Net financing assets	**571,513**	**579,192**	
Gross investment securities	299,356	299,356	
Less: Expected credit loss (stage 3)	(22,497)	(22,497)	
Less: Expected credit loss (stage 1 and stage 2)	(251)	-	
Net investment securities	**276,608**	**276,859**	
Ijarah Muntahia Bittamleek	**191,365**	**191,365**	
Gross ijarah rental receivables	23,020	23,020	
Less: Expected credit loss (stage 3)	(1,275)	(1,275)	
Less: Expected credit loss (stage 1 and stage 2)	(1,068)	-	
Net ijarah rental receivables	**20,677**	**21,745**	
Investment in associates	**19,024**	**19,024**	
Investment in real estate	**16,226**	**16,226**	
Property and equipment	**14,047**	**14,047**	
Other assets	**7,317**	**7,317**	
TOTAL ASSETS	**1,211,581**	**1,220,580**	

2. Statement of Financial Position Under the Regulatory Scope of Consolidation (Continued)

Table – 1. Statement of Financial Position (PD- 1.3.14) (Continued)

	Statement of Financial position as per published financial statements 31 December 2020 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2020 BD'000	Reference
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions	**147,893**	**147,893**	
Placements from non-financial institutions and individuals	**261,002**	**261,002**	
Borrowings from financial institutions	**-**	**-**	
Customers' current accounts	**188,742**	**188,742**	
Other liabilities	**23,642**	**23,506**	
of which: Expected credit loss - Off balance sheet exposures (stage 3)	-	-	
of which: Expected credit loss - Off balance sheet exposures (stage 1 and stage 2)	136	-	
of which: Other liabilities	23,506	23,506	
Total Liabilities	**621,279**	**621,143**	
Total Equity of Investment Accountholders	**494,260**	**494,260**	
Owners' Equity			
Share capital	**106,406**	**106,406**	**a**
Treasury shares	**(892)**	**(892)**	**b**
Shares under employee share incentive scheme	**(257)**	**(257)**	**c**
Share premium	**206**	**206**	**d**
Statutory reserve	**4,736**	**4,736**	**e**
Real estate fair value reserve	**2,178**	**2,178**	**f**
Investment securities fair value reserve	**1,696**	**1,696**	**g**
Expected credit loss	**-**	**9,135**	**h**
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	-	7,987	**i**
of which: amount ineligible for Tier 2 capital	-	1,148	**j**
Loss for the year	**(12,563)**	**(12,563)**	**k**
Retained earnings brought forward	**(5,468)**	**(5,468)**	**l**
of which: Retained earnings as of 1 January 2020	8,007	8,007	
of which: Modification loss and Governement subsidy, net	(12,897)	(12,897)	
of which: Zakah and Donations approved	(578)	(578)	
Total Owners' Equity	**96,042**	**105,177**	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**1,211,581**	**1,220,580**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Capital Adequacy

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue sukuk etc.

The Group's capital structure is primarily made up of its paid-up capital, and including reserves. From a regulatory perspective, the significant amount of the Group's capital is in Tier 1 form as defined by the CBB, i.e., most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. Allocation of assets between equity shareholders and profit sharing investment accounts are based on the profit distribution on equity investment accountholders policy approved by the Board.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance, every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

3. Capital Adequacy (Continued)

Table – 2. Capital Structure (PD-1.3.13 and 1.3.14)

The following table summarises the eligible capital as of 31 December 2020 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	T2 BD'000	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	**106,406**	**-**	**a**
General reserves	**-**	**-**	
Legal / statutory reserves	**4,736**	**-**	**e**
Share premium	**206**	**-**	**d**
Retained earnings brought forward	**(5,468)**	**-**	**l**
COVID-19 concessionary measures adjustments*:			
Modification loss and Governement subsidy, net	**12,897**		
Aggregate ECL provision relating to stage 1 and 2 exposures	**4,258**		
Current year losses	**(12,563)**		**k**
Unrealized gains and losses on available for sale financial instruments	**1,696**	**-**	**g**
Less:			
Employee stock incentive program funded by the bank (outstanding)	**257**	**-**	**c**
Treasury shares	**892**	**-**	**b**
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	**111,019**	**-**	
Assets revaluation reserve - property, plant, and equipment		**2,178**	**f**
Expected credit loss (ECL) - stages 1 & 2		**7,987**	**i**
Total Available AT1 & T2 Capital		**10,165**	
Total Capital		**121,184**	

*As per CBB circular 06/226/2020 issued on 21 June 2020 on Regulatory concessionary measures, aggregate of modification loss and incremental ECL provision for stage 1 and 2 from March to December 2020 added back to Tier 1 capital.

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	**638,995**
Total Market Risk Weighted Assets	**536**
Total Operational Risk Weighted Assets	**120,448**
Total Regulatory Risk Weighted Assets	**759,979**
Investment risk reserve (30% only)	**-**
Equalization reserve (30% only)	**393**
Total Adjusted Risk Weighted Exposures	**759,586**
TOTAL CAPITAL ADEQUACY RATIO	**15.95%**
Minimum requirements:	
CET 1 ratio	**9.0%**
Tier 1 ratio	**10.5%**
Total Capital ratio	**12.5%**
Amounts below the thresholds for deduction:	
i) Non-significant investment in capital of financial entities	3,621
ii) Significant investment in capital of financial entities	4,337
	7,958

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Capital Adequacy (Continued)

Table – 3. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2020 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH(3) BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	26,576	23,786	50,362	5,413	-	5,413	677	-	677
Murabaha and Wakala receivables - interbank	18,421	26,022	44,443	3,298	1,398	4,696	412	175	587
Murabaha receivables*	279,522	210,215	489,737	210,008	47,381	257,389	26,251	5,923	32,174
Musharaka receivables*	51,057	38,398	89,455	43,481	9,810	53,291	5,435	1,226	6,661
Investment in Sukuk	143,908	108,227	252,135	6,060	1,367	7,427	758	171	929
Investment in equity and funds	24,724	-	24,724	88,753	-	88,753	11,094	-	11,094
Ijarah Muntahia Bittamleek and rental receivables*	121,634	91,476	213,110	78,868	17,794	96,662	9,859	2,224	12,083
Investment in associates	19,024	-	19,024	46,497	-	46,497	5,812	-	5,812
Investment in real estate	16,226	-	16,226	32,452	-	32,452	4,057	-	4,057
Property and equipment	14,047	-	14,047	14,047	-	14,047	1,756	-	1,756
Other assets	7,317	-	7,317	11,309	-	11,309	1,414	-	1,414
	722,456	498,124	1,220,580	540,186	77,750	617,936	67,525	9,719	77,244
Unfunded									
Commitments and contingent liabilities	146,754	-	146,754	21,059	-	21,059	2,632	-	2,632
Total Credit Risk Weighted Assets	869,210	498,124	1,367,334	561,245	77,750	638,995	70,157	9,719	79,876
Total Market Risk Weighted Assets	536	-	536	536	-	536	67	-	67
Total Operational Risk Weighted Assets	120,448	-	120,448	120,448	-	120,448	15,056	-	15,056
Total Risk Weighted Assets	**990,194(1)**	**498,124(2)**	**1,488,318**	**682,229**	**77,750**	**759,979**	**85,280**	**9,719**	**94,999**

* The risk weighted assets are net of credit risk mitigant.

(1) The exposure is gross of expected credit loss Stages 1 & 2 of BD 5,135 thousand.

(2) The exposure is gross of expected credit loss Stages 1 & 2 of BD 3,863 thousand.

(3) For assets funded through IAH only 30% of exposure is considered.

3. Capital Adequacy (Continued)

Table – 4. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2020 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	**43**
Total of Market Risk - Standardised Approach	**43**
Multiplier	**12.5**
Risk Weighted Exposures for CAR Calculation (BD'000)	**536**
Total Market Risk Exposures (BD'000)	**536**
Total Market Risk Exposures - Capital Requirement (BD'000)	**67**

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2020 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	**64,239**
Multiplier	**12.5**
	802,989
Eligible Portion for the purpose of the calculation	**15%**
Total Operational Risk Exposure (BD'000)	**120,448**
Total Operational Risk Exposures - Capital Requirement (BD'000)	**15,056**

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2020 for total capital and CET 1 capital:

	Total capital ratio	**CET 1 capital ratio**
Top consolidated level	**15.95%**	**14.62%**

4. Risk Management

4.1 Group-wide Risk Management Objectives

The risk management philosophy of the Group is to identify, capture, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return and maintaining it's risk exposure within self-imposed parameters.

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business.

The Group reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Group adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

4. Risk Management (Continued)

4.2 Strategies, Processes and Internal Controls

4.2.1 Group's risk strategy

The Group maintains a risk appetite and strategy document that is reviewed on an annual basis. It also maintains a comprehensive Risk Management Framework that is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The Risk Management Framework identifies risk objectives, policies, strategies, and risk governance both at the Board and management level.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

There are appropriate internal controls in place to ensure that the integrity of the risk management identification, monitoring and reporting systems. This is conducted through periodic internal audit, in addition to external validation, when required.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it, in addition to ongoing review of existing credit risk exposures The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group periodically carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its trading portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2020, the group does not maintain any trading portfolio.

4.2.4 Operational risk

The Group has carried out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions. Key operational risk reports are delivered to all relevant stakeholders in the Bank on a periodic basis.

The Group has a mechanism to review the policies and procedures in effect.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. Currently, acquiring additional equity investments are off-strategy.

4.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to investment accountholders is based on profit sharing agreements.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with market rates.

4.2.7 Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with competitors rates.

The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market returns.

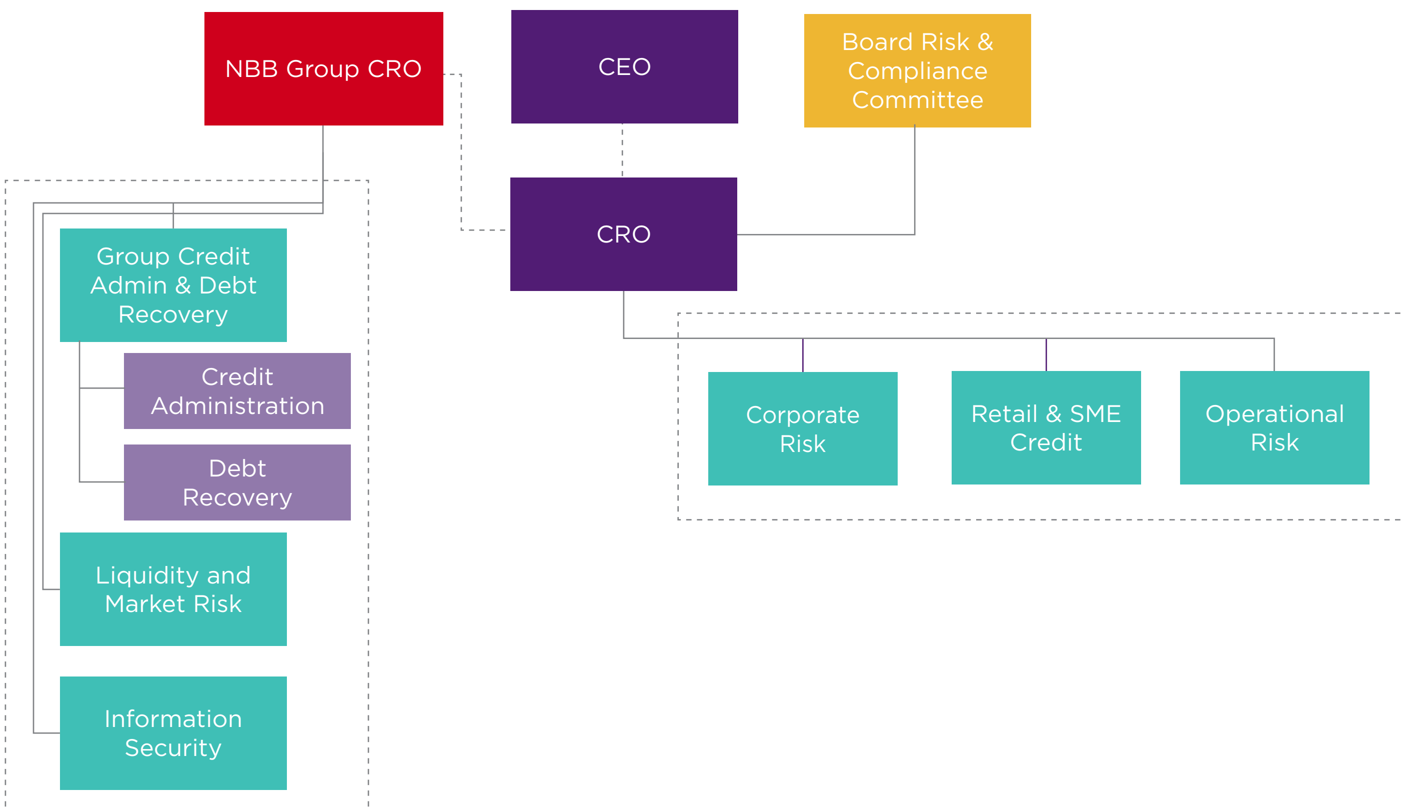
The Group manages its DCR as outlined in the Group's Profit Distribution On Equity of Investment Accountholders Policy. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

4. Risk Management (Continued)

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk & Compliance Committee, in addition to the NBB Group reporting), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



The board retains ultimate responsibility and authority for all risk matters, including:

a Establishing overall policies and procedures; and

b. Delegating authority to Board Risk and Compliance Committee, Board Executive Committee, Credit and Investment Committee, the Chief Executive Officer and further delegation to management to approve and review.

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

4. Risk Management (Continued)

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are secured by suitable tangible collateral whereever deemed necessary.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate counterparties are regularly assesed by the use of a credit risk classification system. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review Unit ("CRU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. This has further strengthened the approval process. The credit approval decision is made based on such ratings and terms and conditions are decided.

Retail credit is assessed by the Retail Credit Unit prior to booking as against the Bank's approved retail financing credit criteria.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/ facilities are reviewed on an annual basis by CRU, or more frequently based on the client's credit condition.

4.5.2 Types of credit risk

Exposures subject to credit risk comprise of due from banks and financial institutions, murabaha receivables, musharaka, sukuk, commitments to finance and financial instruments resulting in contingencies (guarantees and letter of credit) and other assets.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured either by the object of the Murabaha contract (in case of real estate finance) or by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Credit impaired exposures

The Group defines facilities as credit impaired facilities which are overdue for a period of 90 days or more, any exposure against which specific impairment provision is held irrespective of whether the customer is currently in arrears or not, and customers which are classified in stage 3 and are in cooling off period in line with CBB guidelines. It is a Group policy to classify all facilities of a counterparty as credit impaired if one or more facilities meets the conditions for credit impaired facilities.

As a policy, the Group places any facility where there is reasonable doubt about the collectability of the receivable on a non-accrual basis, irrespective of whether the customer concerned is currently in arrears or not. In such cases, income is recognised to the extent that it is actually received.

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.3 Credit impaired exposures (Continued)

For general and specific impairment assessments, The Group classifies its credit exposures into Stage 1, Stage 2 and Stage 3, based on impairment methodology followed, as described below:

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1 with the exception of Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the group recognises an allowance for the lifetime ECL for all exposures classified in this stage based on the actual / expected maturity profile including restructured or rescheduled exposures.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures, the group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as Stage 3.

Measurement of ECL

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

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure At Default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD is calculated based at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

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

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

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the internal ratings used by the Group and the corresponding internal rating is allocated to the exposure accordingly to transfer it in the Group's banking book.

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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

4.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-compliance with credit contracts, through sale of collaterals, netting agreements, and guarantees. The Group uses on-balance sheet netting as a credit risk mitigation technique only if there is a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable, and is able to determine at any time those assets and liabilities with the same counterparty that are subject to the netting agreement.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or as per the suitable valuation methodology as outlined in the Bank's Credit Risk Mitigation Policy. The value of such security is considered only to the extent of the outstanding exposure of relevant credit facilities.

Financing to value percentage of securities and list of acceptable securities to the bank are governed through Board approved policies.

The majority of the Group's current credit portfolio is secured through mortgage of real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

4.5.7.1 General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;

b. Such assets should be easily convertible into cash, if required (liquidity);

c. There should be a reasonable market for the assets (marketability); and

d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. Valuation of shares and financial securities: The Group performs in-house valuation on the following types of securities:

- For shares listed in active markets, quoted bid prices are utilized;
- For unquoted shares and stakes in collective investment undertakings (CIUs), valuation is determined based on (i) present value of future cashflows and/or (ii) net asset value as and when financials are available; and
- For sukuk, collateral value is based on net realizable value.

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation (Continued)

4.5.7.1 General policy guidelines of collateral management (Continued)

b. Valuation of real estate and others: Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers:

- Real Estate;
- Equipment and machinery; and

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators. In the case of real estate, re-evaluations are conducted at least annually.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities should be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

4.5.7.2 Guarantees

In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrevocable, and should be in line with internal policies. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3 Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodians approved by the Group. Adequate systems and controls exist to confirm the assets held with each custodian.

The release of collateral without full repayment of all related financial obligations can be done only if the approved level of security coverage is maintained post the release otherwise it requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

4.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

4.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

4.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

4.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over the other(s).

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk (Continued)

4.5.8.4 Connected counterparties

Connected counterparties' includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any unconnected counterparty (single/group) exposure exceeds 15% of Group's Capital Base;

b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed based on commercial terms.

The Group shall not assume any exposure to its external auditors.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements for the year ended 31 December 2020. All related party transactions have been made on commercial terms.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure (before deducting credit risk mitigant) as of 31 December 2020 and average gross funded and unfunded exposures over the year ended 31 December 2020:

	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded		
Cash and balances with banks and Central Bank	50,362	50,593
Placements with financial institutions	44,442	95,042
Financing assets	571,513	558,295
Investment in Sukuk	251,884	245,052
Investment in equity and funds	24,724	24,935
Ijarah Muntahia Bittamleek and rental receivables	212,042	218,130
Investment in associates	19,024	17,919
Investment in real estate	16,226	17,718
Property and equipment	14,047	13,958
Other assets	7,317	8,194
Total	**1,211,581**	**1,249,836**
Unfunded		
Commitments and contingent liabilities	146,754	160,905
Total	**1,358,335**	**1,410,741**

*Average balances are computed based on quarter end balances.

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2020, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Other BD'000	Total BD'000
Cash and balances with banks and Central Bank	**6,230**	**165**	**43,952**	**15**	**50,362**
Placements with financial institutions	**-**	**-**	**44,442**	**-**	**44,442**
Financing assets	**-**	**-**	**571,513**	**-**	**571,513**
Investment in Sukuk	**-**	**-**	**251,884**	**-**	**251,884**
Investment in equity and funds	**-**	**-**	**24,724**	**-**	**24,724**
Ijarah Muntahia Bittamleek and rental receivables	**-**	**-**	**212,042**	**-**	**212,042**
Investment in associates	**-**	**-**	**19,024**	**-**	**19,024**
Investment in real estate	**-**	**-**	**16,226**	**-**	**16,226**
Property and equipment	**-**	**-**	**14,047**	**-**	**14,047**
Other assets	**8**	**-**	**7,309**	**-**	**7,317**
Total	**6,238**	**165**	**1,205,163**	**15**	**1,211,581**
Unfunded					
Commitments and contingent liabilities	**-**	**-**	**146,754**	**-**	**146,754**
Total	**6,238**	**165**	**1,351,917**	**15**	**1,358,335**

*Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2020 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	-	26,576	-	-	23,786	-	50,362
Placements with financial institutions	-	44,442	-	-	-	-	44,442
Financing assets	82,826	11,361	85,049	340,558	19,193	32,526	571,513
Investment in Sukuk	-	-	5,292	-	246,592	-	251,884
Investment in equity and funds	-	3,000	20,667	-	-	1,057	24,724
Ijarah Muntahia Bittamleek and rental receivables	43	-	199,210	-	12,648	141	212,042
Investment in associates	-	4,337	5,449	-	-	9,238	19,024
Investment in real estate	-	-	16,226	-	-	-	16,226
Property and equipment	-	-	-	-	-	14,047	14,047
Other assets	-	113	3,992	1,519	-	1,693	7,317
Total	82,869	89,829	335,885	342,077	302,219	58,702	1,211,581
Unfunded							
Commitments and contingent liabilities	19,432	2,028	27,603	37,847	46,963	12,881	146,754
Total	102,301	91,857	363,488	379,924	349,182	71,583	1,358,335

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2020:

	Gross BD'000	Stage 3 ECL BD'000	Net* BD'000
Counterparties			
Counterparty # 1	10,250	-	10,250
Counterparty # 2	6,618	551	6,067
Counterparty # 3	5,986	4,489	1,497
	22,854	5,040	17,814

*Gross of expected credit loss stage 1 and 2 of BD 382 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has the following exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2020:

	Gross BD'000	Stage 3 ECL BD'000	Net** BD'000
Counterparties			
Counterparty # 1*	217,253	-	217,253
Counterparty # 2*	42,586	-	42,586
Counterparty # 3	31,671	-	31,671
Counterparty # 4	30,197	-	30,197
Counterparty # 5*	19,447	-	19,447
	341,154	-	341,154

*Represents exempted large exposures.

**Gross of expected credit loss stage 1 and 2 of BD 340 thousand.

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2020. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
ASSETS											
Cash and balances with banks and Central Bank	26,650	-	-	-	-	-	-	-	-	23,712	50,362
Placements with financial institutions	44,442	-	-	-	-	-	-	-	-	-	44,442
Financing assets	28,466	49,800	37,748	63,108	158,678	128,240	75,048	26,595	3,830	-	571,513
Investment in Sukuk	9,538	-	3,783	20,135	867	164,009	53,552	-	-	-	251,884
Investment in equity and funds	-	-	-	-	-	-	-	-	-	24,724	24,724
Ijarah Muntahia Bittamleek and rental receivables	1,637	2,329	3,376	6,159	28,980	29,212	52,697	72,083	15,569	-	212,042
Investment in associates	-	-	-	-	-	-	-	-	-	19,024	19,024
Investment real estate	-	-	-	-	-	-	-	-	-	16,226	16,226
Property and equipment	-	-	-	-	-	-	-	-	-	14,047	14,047
Other assets	55	665	773	89	479	683	-	-	581	3,992	7,317
TOTAL ASSETS	**110,788**	**52,794**	**45,680**	**89,491**	**189,004**	**322,144**	**181,297**	**98,678**	**19,980**	**101,725**	**1,211,581**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 13. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances disclosed by major industry sector as of 31 December 2020:

		Aging of credit impaired or past due Islamic financing contracts				Stage 3 ECL				**Stage 1 & 2 ECL		
	Credit impaired or past due Islamic financing contracts* BD'000	Less than 3 months BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charge for the year (net) BD'000	Write-offs during the year* BD'000	Balance at the the end of year BD'000	Balance at the beginning of the year BD'000	Charge for the year (net) BD'000	Balance at the the end of year BD'000
Trading and Manufacturing	39,575	35,772	435	3,368	-	9,312	6,965	5,501	10,776	752	2,184	2,936
Real Estate	28,426	26,361	974	1,091	-	12,194	7,647	18,459	1,382	3,390	(1,269)	2,121
Banks and Financial Institutions	45	45	-	-	-	1,495	(8)	1,455	32	50	237	287
Personal / Consumer Finance	22,765	15,406	3,100	4,024	235	10,743	4,947	9,072	6,618	1,498	60	1,558
Others	7,936	7,635	201	100	-	4,351	197	3,721	827	476	1,369	1,845
Total	**98,747**	**85,219**	**4,710**	**8,583**	**235**	**38,095**	**19,748**	**38,208**	**19,635**	**6,166**	**2,581**	**8,747**

*Gross of expected credit loss of BD 21,921 thousand.

**Net of transfers between stages.

Table – 14. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances (by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances by geographical area as of 31 December 2020:

	Credit impaired or past due or impaired Islamic financing contracts BD'000	Stage 3 ECL BD'000	Stage 1 & 2 ECL BD'000
Middle East	98,747	19,635	8,747

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured corporate financing facilities during the year as of 31 December 2020:

	Gross Outstanding BD'000	Stage 3 ECL BD'000	Net BD'000
Total Islamic financing [1]	811,937	19,635	792,302
Restructured financing facilities* [2]	55,733	2,388	53,345
Percentage	**6.86%**	**12.16%**	**6.73%**

*Excludes facilities restructured during the year amounting to BD 5,693 thousand which are past due as of 31 December 2020. The nature of the concessions include alignment of the payment terms with the clients' expected cash flows.

[1] Gross of expected credit loss Stages 1 and 2 of BD 8,747 thousand.

[2] Gross of expected credit loss Stages 1 and 2 of BD 2,337 thousand.

Deferrals due to CBB COVID-19 concessionary measures:

During the second quarter of the year ended 31 December 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 554,875 thousand as part of its support to impacted customers.

In September 2020 and December 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020 and June 2021 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect significant modification loss as a result of the extension. The Group has provided payment holidays on financing exposures amounting to BD 200,435 thousand for the second deferral (September 2020) and BD 218,446 for the third deferral (December 2020).

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2020 by type of Islamic financing contract covered by Shari'a-compliant collateral eligible as per CA module of volume 2 of the CBB Rule Book:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	Others BD'000
Financing assets	5,596	119,741
Ijarah Muntahia Bittamleek and rental receivables	-	28,979
Total	**5,596**	**148,720**

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 17. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2020:

	Financing assets BD'000	Ijarah Muntahia Bittamleek and rental receivables BD'000	Total BD'000
Exposures:			
Secured*	**125,337**	**28,979**	**154,316**
Unsecured*	**446,176**	**183,063**	**629,239**
Total	**571,513**	**212,042**	**783,555**
Collateral held:			
- Cash	**45,211**	**452**	**45,663**
- Guarantees	**2,011**	**-**	**2,011**
- Shares	**3,219**	**-**	**3,219**
- Real Estate	**4,311**	**19,042**	**23,353**
Total	**54,752**	**19,494**	**74,246**
Collateral as a percentage of secured exposure	**43.68%**	**67.27%**	**48.11%**

A haircut of 30% is applied on the Real Estate collateral.

*The financing assets and Ijarah Muntahia Bittamleek exposures are net of ECL.

4.6 Market Risk

4.6.1 Introduction

The Group has accepted the definition of market risk as defined by CBB as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

4.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements.

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum stop-loss limits and position limits. As at 31 December 2020, the group does not have any trading portfolio. Currently, any new equity investments are off-strategy.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.2 Sources of market risk (Continued)

Commodity risk is defined as inherent risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring, and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

a. The Group will proactively measure and continually monitor the market risk in its portfolio;

b. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;

c. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, and maximum/stop loss limits;

d. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions; and

e. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;

b. Stop loss limits;

c. Stress Testing; and

d. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The CRMD proposes through the Board Risk and Compliance Committee (BRCC) and Board the tolerance for market risk. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

4.6.7 Breach of limits

In case a limit is breached, the escalation and approval process will follow the Board-approved delegated authority limits. The limits are revised at least annually or when deemed required.

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by the ALCO or BRCC, as per the delegated authorities approved by the Board.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.9 Reporting

Risk Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

4.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates and foreign exchange rates. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

4.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	67
Minimum value capital requirement	43

4.7 Operational Risk

4.7.1 Introduction

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Insurance risk transfer is also a tool through which certain operational risks are mitigated. With respect to the management oversight process, operational risk appetite thresholds are set to control and monitor enterprise-wide operational loss.

4.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories:

a. People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

b. Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting;

c. Systems (Technology) risk which arises due to integrity of information - lacking in timeliness of information, omission and duplication of data, hardware failures due to power surge, obsolescence or low quality;

d. External risk which arises due to natural or non-natural (man made) disaster; and

e. Legal risk which arises due to contractual obligations.

The Group has not encountered any issues to be individually significant that impacted its operational risk profile.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments (“RCSA”), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;

b. regularly monitor operational risk profiles and material exposures to losses / loss events;

c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks;

d. Monitor and report of operational risk through the Operational Risk Management Forum (ORMF), a management-level committee responsible for monitoring and discussing the operational risks emanating from the group’s activities; and

e. Effect appropriate contingency and business continuity planning that takes into account the operational risks facing the Group, and providing BCP and operational risk training at a Bank-wide level on the same to ensure that this is fostered across the organization.

4.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management to highlight operational risks through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The Group has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the group on a dayto day basis. The department also liaises with external lawyers for legal cases filed by the group against delinquent accounts for recovery orany legal cases filed against the Group.

4.7.5 Operational risk mitigation and control

For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. The group deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

As of 31 December 2020, the Group does not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.5 Operational risk mitigation and control (Continued)

Table - 19. Operational Risk Exposure (PD-1.3.30 (a) & (b))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2019 BD'000	2018 BD'000	2017 BD'000
Total Gross Income	**68,242**	**65,752**	**58,723**
Indicators of operational risk			
Average Gross income (BD'000)			**64,239**
Multiplier			**12.5**
			802,989
Eligible Portion for the purpose of the calculation			**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			**120,448**

4.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. To date, the Bank does not carry significant equity position risk in its banking book.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2020. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))

The following table summarises the amount of total and average gross exposure of equity investments and funds as of 31 December 2020:

	Total gross exposure [1] BD'000	Average gross exposure [2] BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Equity investments	34,236	33,162	-	34,236	88,099	11,012
Funds	436	392	-	436	654	82
Total	**34,672**	**33,554**	**-**	**34,672**	**88,753**	**11,094**

[1] Balances are gross of provision of BD 9,948 thousand.
[2] Average balances are computed based on quarter end balances.

4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains or (losses) during the period ended 31 December 2020:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting year	-
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	-
Unrealised gains included in CET 1 Capital	**1,696**
Unrealised gains included in Tier 2 Capital	-

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase loses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds; however, the Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contracts. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year, the Group waived 23% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

After adopting FAS 31, all new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

These accounts are made available to customers through Retail Banking (to include the Thuraya Banking segment), in addition to the Group's Corporate and Institutional Banking division. The Group has designed a Customer Experience and Process Governance Unit to address customer dissatisfaction which reports to Chief Retail Banking. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal. This is made available to both retail and corporate customers.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group has written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the comingled pool. The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH account holders can withdraw funds on a premature basis by paying a nominal amount of fees / penalty; such penalties are offered for charity.

Additional disclosures such as the below are disclosed in the Bank's website:

a. Characteristics of investors for whom investment account may be appropriate;

b. Purchase redemption and distribution procedures; and

c. Product information and the manner in which the products are made available to investors.

Governance of IAH

a. Shari'a review of allocation of assets and resultant income;

b. Disclosure of profit rates on deposit products and mudaraba fees either in the branch or website; and

c. ALCO discusses the profit rate to be offered to URIA accounts. Any exceptional profit rates offered to customers are subject to approval by the relevant authority.

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2020:

	BD'000
Banks and financial institutions	33,986
Individuals and non-financial institutions	460,274
Total	**494,260**

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2020:

Profit Paid on Average IAH Assets*	0.82%
Mudarib Fee to Total income from jointly financed assets	23.46%

*Average assets funded by IAH have been calculated using month end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2020:

	Average declared rate of return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including VEVO)	**0.06%**	**2.58%**	**32.36%**
Defined accounts - 1 month	**0.59%**	**0.55%**	**0.72%**
Defined accounts - 3 months	**0.59%**	**0.20%**	**0.26%**
Defined accounts - 6 months	**0.64%**	**0.31%**	**0.38%**
Defined accounts - 9 months	**0.74%**	**0.01%**	**0.01%**
Defined accounts - 1 year	**0.79%**	**2.32%**	**2.32%**
Investment certificates	**3.22%**	**0.00%**	**0.00%**
IQRA	**1.23%**	**1.50%**	**0.97%**
Tejoori	**0.06%**	**2.58%**	**32.02%**
Customer special deposits	**1.67%**	**34.17%**	**10.47%**
Wakala - financial institutions	**0.73%**	**15.38%**	**9.27%**
Wakala - non-financial institutions and individuals	**3.63%**	**40.39%**	**11.21%**
		100%	**100%**

The calculation and distribution of profits was based on quarterly average balances.

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2020:

	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	**279,522**	**57.08%**	**210,215**	**42.92%**	**489,737**	**100.00%**
Corporate	135,613	57.08%	101,988	42.92%	237,601	100.00%
Retail	143,909	57.08%	108,227	42.92%	252,136	100.00%
Musharakah	**51,057**	**57.08%**	**38,398**	**42.92%**	**89,455**	**100.00%**
Corporate	2,177	57.08%	1,637	42.92%	3,814	100.00%
Retail	48,880	57.08%	36,761	42.92%	85,641	100.00%
Total	**330,579**	**57.08%**	**248,613**	**42.92%**	**579,192**	**100.00%**
Gross Ijarah Muntahia Bittamleek and rental receivables**						
Corporate	15,524	57.08%	11,675	42.92%	27,199	100.00%
Retail	106,110	57.08%	79,801	42.92%	185,911	100.00%
Total	**121,634**	**57.08%**	**91,476**	**42.92%**	**213,110**	**100.00%**
ECL stage 1 and 2	**(4,993)**	**57.08%**	**(3,754)**	**42.92%**	**(8,747)**	**100.00%**
Total	**447,220**	**57.08%**	**336,335**	**42.92%**	**783,555**	**100.00%**

*Net of expected credit loss (stage 3) of BD 18,360 thousand.

**Net of expected credit loss (stage 3) of BD 1,275 thousand.

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (d) (l) (m) & (n))

	Gross return on equity of IAH BD'000	Transfer to equalization reserve BD'000	Average mudaraba %	Mudarib fees BD'000	Release from IRR BD'000	Profit paid to IAH BD'000	Ratio of PER to IAH %
Account Type	**A**	**B**		**C**	**D**	**(A-B-C+D)**	
Tejoori	5,034	33	97.29%	4,897	-	104	0.92%
Saving	4,423	29	97.28%	4,303	-	91	1.04%
Vevo	554	4	97.20%	539	-	11	8.32%
IQRA Deposits	170	-	64.65%	110	-	60	27.12%
Defined deposit	2,551	-	40.95%	1,045	-	1,506	1.81%
Wakala	3,819	-	41.43%	1,582	-	2,237	1.21%
	16,551	**66**		**12,476**	**-**	**4,009**	

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2020:

Share of profit allocated to IAH before transfer to/from reserves - BD '000	16,551
Percentage share of profit earned by IAH before transfer to/from reserves	3.35%
Net return on equity of IAH - BD '000	4,075
Share of profit paid to IAH after transfer to/from reserves - BD '000	4,009
Percentage share of profit paid to IAH after transfer to/from reserves	0.81%
Share of profit paid to Bank as mudarib - BD '000	12,476

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2020:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to IAH	1.39%	1.44%	1.48%	3.27%

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2020:

	As of 30 June 20 BD'000	Movement during the year BD'000	As of 31 December 20 BD'000
Cash and balances with banks and Central Bank	**23,984**	**(198)**	**23,786**
Murabaha and Wakala receivables - interbank	**32,586**	**(6,564)**	**26,022**
Gross financing assets*	**258,280**	**(9,667)**	**248,613**
Gross Ijarah Muntahia Bittamleek and rental receivables*	**104,395**	**(12,919)**	**91,476**
Investment securities	**113,779**	**(5,552)**	**108,227**
Expected credit loss (stage 1 and 2)	**(2,911)**	**(953)**	**(3,864)**
Total	**530,113**	**(35,853)**	**494,260**

* Net of ECL stage 3.

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD'000	%	BD'000	%
2020	**53,169**	**4.92%**	**4,075**	**1.00%**
2019	57,396	5.37%	12,685	2.97%
2018	53,939	4.86%	13,939	1.77%
2017	47,315	4.51%	11,364	1.43%
2016	38,977	4.51%	8,356	0.97%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and Central Bank	23,786	-	-	-
Murabaha and Wakala receivables - interbank	26,022	4,660	1,398	175
Financing assets (1)	248,613	190,636	57,191	7,149
Investment in Sukuk (2)	108,227	4,557	1,367	171
Ijarah Muntahia Bittamleek and rental receivables (1)	91,476	59,313	17,794	2,224
	498,124	**259,166**	**77,750**	**9,719**

(1) The exposure is gross of ECL stage 1 and 2 of BD 3,755 thousand.
(2) The exposure is gross of ECL stage 1 and 2 of BD 108 thousand.

4. Risk Management (Continued)

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. Call risk is the risk of crystallisation of a contingent liability; and

c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Liquidity Risk Management Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

4.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over various time buckets to include short term, medium term, and long-term buckets. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy, the Group maintains a large customer base and good customer relationships.

The Risk Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the BRCC and the Board for approval.

The Group manages funding requirements through the following sources: Current accounts, savings accounts, other URIA accounts, interbank lines, and borrowing by leverage of Sukuk portfolio. Appropriate thresholds are set for attaining funding from each source in the Group's Risk Appetite Framework.

In fulfilment of Basel III and regulatory requirements, the Group reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a monthly and quarterly basis, respectively. In efforts to maintain both metrics above the regulatory and internal limits, the Bank adopts the following strategies:

LCR: The Bank intends on maintaining its LCR within the prescribed regulatory and internal limits through the gradual build up of its customer deposit base and uncumbered High Quality Liquid Assets ("HQLA"), predominantly through sovereign bonds and high grade fixed income assets.

NSFR: The Bank intends on building a stable funding profile by maintaining a balanced trade-off between available and required stable funding, specifically focusing on building its retail deposit base and build up of capital, with particular focus on stable funding to build its longer-term liquidity.

4.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO.

4.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAH accounts.

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits; and

b. Liquidity Ratio limits.

4.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

4.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2020	2019	2018	2017	2016
Due from banks and financial institutions / Total Assets	**3.67%**	6.22%	10.74%	6.58%	6.12%
Islamic Financing / Customer Deposits (1)	**75.81%**	80.92%	83.31%	80.04%	85.13%
Customer Deposits (1) / Total Assets	**85.30%**	78.71%	71.85%	75.32%	77.43%
Short term assets (2) / Short term liabilities (3)	**8.94%**	16.59%	22.97%	20.35%	18.53%
Liquid Assets (4) / Total Assets	**5.66%**	8.15%	13.11%	9.38%	8.95%
Growth in Customer Deposits	**7.29%**	3.00%	(0.67%)	17.62%	6.64%
Leverage ratio	**12.02%**	12.00%	14.30%	15.91%	17.63%

(1) Customer deposits include customer current accounts, commodity murabaha deposits from financial institutions, placements from non-financial institutions and individuals and IAH.

(2) Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

(3) Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

(4) Liquid assets includes cash and balances with banks and Central Bank (excluding CBB reserve) and placements with financial institutions (maturing in a year).

4.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The transition impact assessment was conducted in line with regulatory requirements.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;

b. Wakala transactions;

c. Ijarah Muntahia Bittamleek;

d. Sukuk; and

e. Musharaka investments.

The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

4.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;

b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;

c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and

d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy

The Group is subject to profit rate risk on its financial assets and financial liabilities. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;

b. has established a structure to monitor and control the profit rate risk of the Group;

c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and

d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

4.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and

b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

Table – 33. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the profit rate gap position as of 31 December 2020:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	44,442	-	-	-	-	44,442
Financing assets	78,266	37,748	63,108	158,678	233,713	571,513
Ijara Muntahia Bittamleek and rental receivables	3,966	3,376	6,159	28,980	169,561	212,042
Investment in Sukuk	9,538	3,783	20,135	867	217,561	251,884
Total profit rate sensitive assets	**136,212**	**44,907**	**89,402**	**188,525**	**620,835**	**1,079,881**
Liabilities And Equity Of Investment Accountholders						
Placements from financial institutions*	98,577	17,395	22,091	9,830	-	147,893
Placements from non-financial institutions and individuals	127,517	75,220	58,265	-	-	261,002
Borrowings from financial institutions	-	-	-	-	-	-
Equity of investment accountholders**	386,811	32,983	28,887	44,263	1,316	494,260
Total profit rate sensitive liabilities and IAH	**612,905**	**125,598**	**109,243**	**54,093**	**1,316**	**903,155**
Profit rate gap	**(476,693)**	**(80,691)**	**(19,841)**	**134,432**	**619,519**	**176,726**

*Placements from financial institutions excludes frozen accounts of BD 9,763 thousand.

**The Bank uses expected withdrawal pattern to classify its saving accounts into different maturity buckets. The remaining IAH balances are disclosed on a contractual basis.

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2020:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks	(3,984)	13,487	9,503
Downward rate shocks	3,984	(13,487)	(9,503)

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Table – 34. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2020	2019	2018	2017	2016
Return on average equity	**(11.58%)**	5.21%	9.48%	8.50%	7.45%
Return on average assets	**(1.03%)**	0.50%	0.91%	0.90%	0.83%
Cost to Income Ratio	**60.00%**	59.30%	55.47%	61.92%	56.44%

Table – 35. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts (PSIA) for the last five years:

	2020	2019	2018	2017	2016
Allocated income to IAH	**16,551**	35,686	41,162	36,010	29,301
Distributed profit	**4,075**	12,685	13,939	11,364	7,131
Mudarib fees	**12,476**	23,001	27,223	24,646	22,170

	2020	2019	2018	2017	2016
Balances (BD '000s):					
Profit Equalization Reserve (PER)	**1,310**	1,245	1,245	1,245	1,245
Investment Risk Reserve (IRR)	**-**	-	1,177	1,177	757
PER Movement	**65**	-	-	-	250
IRR Movement	**-**	(1,177)	-	420	530
Ratios (%):					
Income allocated to IAH / Mudarabah assets %	**1.53%**	3.34%	3.71%	3.43%	3.39%
Mudarabah fees / Mudarabah assets %	**1.16%**	2.15%	2.45%	2.35%	2.57%
Distributed profit / Mudarabah assets %	**0.38%**	1.19%	1.26%	1.08%	0.83%
Rate of Return on average IAH %	**0.98%**	1.70%	1.76%	1.57%	1.15%
Profit Equalization Reserve / IAH %	**0.32%**	0.29%	0.16%	0.16%	0.19%
Investment Risk Reserve / IAH %	**-**	-	0.15%	0.15%	0.12%

4.12 CBB Penalties (PD 1.3.44)

During the year, the CBB imposed financial penalties of BD 20,000 on the Bank for not maintaining proper records of communication with a customer and authorities and BD 26,630 regarding CBB Directives on EFTS.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
BRCC	Board Risk and Compliance Committee
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee
ECL	Expected Credit Losses

GRI CONTENT INDEX

This report has been prepared in accordance with the Global Reporting Initiative (GRI) standards: core option.

The references for the GRI content in the report can be found in pages 178 - 182

CONTENTS

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)
GRI 101: Foundation 2016		
General Disclosures		
GRI 102: General Disclosures 2016	**Organizational profile**	
	102-1 Name of the organization	2
	102-2 Activities, brands, products, and services	2, 34-38
	102-3 Location of headquarters	2, 89
	102-4 Location of operations	2, 89
	102-5 Ownership and legal form	2, 89
	102-6 Markets served	2
	102-7 Scale of the organization	2
	102-8 Information on employees and other workers	39
	102-9 Supply chain	28-29, 44
	102-10 Significant changes to the organization and its supply chain	28-29, 44
	102-11 Precautionary Principle or approach	67-70
	102-12 External initiatives	43-44
	102-13 Membership of associations	32
	Strategy	
	102-14 Statement from senior decision-maker	10-11, 20-21
	Ethics and integrity	
	102-16 Values, principles, standards, and norms of behavior	41-42, 46, 50-62, 64
	102-17 Mechanisms for advice and concerns about ethics	40, 46, 63-65
	Governance	
	102-18 Governance structure	46, 47-49, 52
	102-19 Delegating authority	46, 50
	102-20 Executive-level responsibility for economic, environmental, and social topics	56, 57
	102-22 Composition of the highest governance body and its committees	50, 52
	102-23 Chair of the highest governance body	50
	102-24 Nominating and selecting the highest governance body	50
	102-25 Conflicts of interest	58
	102-26 Role of highest governance body in setting purpose, values, and strategy	46, 50
	102-27 Collective knowledge of highest governance body	11, 41
	102-28 Evaluating the highest governance body's performance	54
	102-29 Identifying and managing economic, environmental, and social impacts	11, 21
	102-30 Effectiveness of risk management processes	67-70
	102-31 Review of economic, environmental, and social topics	30

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)
GRI 101: Foundation 2016		
General Disclosures		
GRI 102: General Disclosures 2016	102-32 Highest governance body's role in sustainability reporting	11, 21
	102-33 Communicating critical concerns	63-65
	102-34 Nature and total number of critical concerns	64
	102-35 Remuneration policies	71-76
	102-36 Process for determining remuneration	71
	102-37 Stakeholders' involvement in remuneration	71
	Stakeholder engagement	
	102-40 List of stakeholder groups	28-29
	102-41 Collective bargaining agreements	Not applicable
	102-42 Identifying and selecting stakeholders	28-29
	102-43 Approach to stakeholder engagement	28-29
	102-44 Key topics and concerns raised	28-29
	Reporting practice	
	102-45 Entities included in the consolidated financial statements	89
	102-46 Defining report content and topic Boundaries	30
	102-47 List of material topics	30
	102-48 Restatements of information	None
	102-49 Changes in reporting	None
	102-50 Reporting period	2020
	102-51 Date of most recent report	April 2020
	102-52 Reporting cycle	Annual
	102-53 Contact point for questions regarding the report	1
	102-54 Claims of reporting in accordance with the GRI Standards	177
	102-55 GRI content index	177-182
	102-56 External assurance	No external assurance for this report

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)
Material Topics		
200 series (Economic topics)		
Economic Performance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30
	103-2 The management approach and its components	79-140
	103-3 Evaluation of the management approach	79-140
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	7, 83-88
	201-3 Defined benefit plan obligations and other retirement plans	40, 101-102, 120
	201-4 Financial assistance received from government	89-91, 139
Market Presence		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4-6, 30, 40
	103-2 The management approach and its components	4-6, 30, 40
	103-3 Evaluation of the management approach	4-6, 30, 40
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	40
Indirect Economic Impacts		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30
	103-2 The management approach and its components	28-31, 32, 33-34, 43-44
	103-3 Evaluation of the management approach	28-31, 32, 33-34, 43-44
GRI 203: Indirect Economic Impacts 2016	203-2 Significant indirect economic impacts	28-31, 32, 33-34, 43-44
Procurement Practices		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	29, 30, 44
	103-2 The management approach and its components	29, 44
	103-3 Evaluation of the management approach	29, 44
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	44
Anti-corruption		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30
	103-2 The management approach and its components	63-65, 67-70
	103-3 Evaluation of the management approach	63-65, 67-70
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	63-65, 67-70
	205-2 Communication and training about anti-corruption policies and procedures	63-65, 67-70
	205-3 Confirmed incidents of corruption and actions taken	63-65, 67-70

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)
Material Topics		
300 series (Environmental topics)		
Energy		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 45
	103-2 The management approach and its components	45
	103-3 Evaluation of the management approach	45
GRI 302: Energy 2016	302-1 Energy consumption within the organization	45
	302-3 Energy intensity	45
	302-4 Reduction of energy consumption	45
Water and Effluents		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 45
	103-2 The management approach and its components	45
	103-3 Evaluation of the management approach	45
GRI 303: Water and Effluents 2018	303-5 Water consumption	45
Waste		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 45
	103-2 The management approach and its components	45
	103-3 Evaluation of the management approach	45
GRI 306: Waste 2020	306-4 Waste diverted from disposal	45
400 series (Social topics)		
Employment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 39
	103-2 The management approach and its components	39-42
	103-3 Evaluation of the management approach	39-42
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	39
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	40-42
	401-3 Parental leave	40
Occupational Health and Safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 41
	103-2 The management approach and its components	41
	103-3 Evaluation of the management approach	41
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	41
	403-3 Occupational health services	41
	403-4 Worker participation, consultation, and communication on occupational health and safety	41
	403-5 Worker training on occupational health and safety	41-42
	403-6 Promotion of worker health	41-42
	403-9 Work-related injuries	41

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)
Material Topics		
400 series (Social topics)		
Training and Education		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 41
	103-2 The management approach and its components	41-42
	103-3 Evaluation of the management approach	41-42
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	41
	404-2 Programs for upgrading employee skills and transition assistance programs	40-43
	404-3 Percentage of employees receiving regular performance and career development reviews	40
Diversity and Equal Opportunity		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 40
	103-2 The management approach and its components	40
	103-3 Evaluation of the management approach	40
GRI 401: Employment 2016	405-1 Diversity of governance bodies and employees	40
	405-2 Ratio of basic salary and remuneration of women to men	40
Non-discrimination		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 41
	103-2 The management approach and its components	40-41
	103-3 Evaluation of the management approach	40-41
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	40-41
Local Communities		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	29-30, 43-44
	103-2 The management approach and its components	29-30, 43-44
	103-3 Evaluation of the management approach	29-30, 43-44
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	29-30, 43-44
Customer Privacy		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	30, 37
	103-2 The management approach and its components	37-38, 68-69
	103-3 Evaluation of the management approach	37-38, 68-69
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	37-38, 68-69

Bahrain Islamic Bank B.S.C.
Diplomatic Area
P.O. Box 5240, Manama, Kingdom of Bahrain
Tel: (+973) 17 515 151
Fax: (+973) 17 535 808
Email: corporate.communications@bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain