# BAHRAIN ISLAMIC BANK B.S.C.

# CONSOLIDATED FINANCIAL STATEMENTS

# 31 DECEMBER 2021

| | | |
|---|---|---|
| Commercial registration | : | 9900 (registered with Central Bank of Bahrain as a retail Islamic bank) |
| Board of directors | : | Dr. Esam Abdulla Fakhro, *Chairman*<br>Khalid Yousif Abdul Rahman, *Vice Chairman*<br>Jean Christophe Durand, *Vice Chairman*<br>Mohamed Abdulla Nooruddin<br>Khalid Abdulaziz Al Jassim<br>Marwan Khaled Tabbara<br>Mohammed Abdulla Al Jalahma<br>Yaser Abduljalil Al Sharifi<br>Dana Abdulla Buheji<br>Isa Hasan Maseeh |
| Office | : | Salam Tower, Diplomatic Area<br>PO Box 5240<br>Manama, Kingdom of Bahrain<br>Telephone 17515151, Telefax 17535808 |
| Auditors | : | KPMG Fakhro |

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## BOARD OF DIRECTORS REPORT

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

I am delighted to present Bahrain Islamic Bank (BisB) annual report and consolidated financial statements for the year 2021.

Despite hopes that the challenges created by the coronavirus pandemic would ease, the personal, economic, and social conditions everyone has faced have continued to place difficult demands on every one of us. Covid-19 continues to remind us of the ties that bind us together and the connections that underpin a healthy and safe society.

Even though we have faced continuing challenges from coronavirus in 2021, the bank's financial performance remained strong. We increased our revenues, reduced operating costs, and in the market, we increased the total financing portfolio.

We further improved the health of our financing portfolio in 2021. The proportion of non-yielding assets was reduced to approximately 4%, and the NPF ratio was reduced to approximately 6.2%. These figures are significantly better than they were five years ago. A larger portion of the bank's assets is now income-generating, which has contributed to improved performance on our key indicators. Through these improvements, coupled with efficient cost control, we have made a significant improvement in our cost to income ratio, which reduced to approximately 47% in 2021.

This performance is underpinned by robust risk management, governance and compliance policies and practices. We keep these under constant review and ensure we are aligned with regulatory requirements and attuned to the ever-changing risk environment in which we operate.

Our duty to protect shareholder investment and to support customer well-being extends far beyond the management of financial risk. Environmental, social and governance (ESG) matters are of vital importance in our own management approach as well being a key issue for our clients. As an Islamic bank, good practice relating to ESG is firmly in line with our beliefs and operating principles. This extends beyond the support we give to philanthropic and charitable efforts and lies at the core of how we behave as an organization – in our interaction with customers, through our financing decisions, and in the way we develop and market our products.

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The theme of our annual report this year, **"Stronger Together"**, is a true reflection of the positive impact of the strong partnership recently forged with the National bank of Bahrain. The financial support by the National Bank of Bahrain through its majority acquisition of shareholding of BisB was a much-needed catalyst to strengthen our financial position. This partnership also opens the possibilities to more cooperation on many fronts between both entities with the aim of achieving better synergies trough improving efficiencies, increasing revenues, lowering cost and providing better and more diverse career paths for employees.

On behalf of our 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 guidance and support, throughout this difficult period. We are also thankful for the guidance and counsel we have received from the bank's Shari'a Supervisory Board throughout the year.

As chairman of BisB, I am extremely proud of the remarkable resilience we have shown over the past two years. We have maintained strong performance, improved our ways of working, and enhanced our interaction with customers. None of this would have been possible without the extraordinary efforts of our people, and I would like to take this opportunity to thank them for all they do for BisB.

Similarly, the Kingdom of Bahrain has shown its strength and capacity to withstand profound economic and social challenges. By continuing to work in a spirit of partnership and in alignment with national goals, we can continue to make the future bright for our own business, and for society at large.

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As part of the Bank's obligation to maintain utmost transparency with our valued shareholders, we are pleased to attach the table below that shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31st December 2021.

## First: Board of directors' remuneration details:

| Name | Fixed remunerations | | | | | Variable remunerations | | | | | End-of-service award | Aggregate amount (Does not include expense allowance) | Expenses Allowance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Remunerations of the chairman and BOD* | Total allowance for attending Board and committee meetings | Salaries | Others*** | Total | Remunerations of the chairman and BOD | Bonus | Incentive plans | Others**** | Total | | | |
| **First: Independent Directors:** | | | | | | | | | | | | | |
| 1- Khalid Abdulaziz Al Jassim | 26,857 | 24,000 | - | 539 | 51,396 | - | - | - | - | - | - | 51,396 | - |
| 2- Marwan Khaled Tabbara | 26,857 | 21,000 | - | 792 | 48,649 | - | - | - | - | - | - | 48,649 | - |
| 3- Mohammed Abdulla Al Jalahma | 26,857 | 15,874 | - | 614 | 43,345 | - | - | - | - | - | - | 43,345 | - |
| 4- Mohamed Abdulla Nooruddin | 26,857 | 21,000 | - | 626 | 48,483 | - | - | - | - | - | - | 48,483 | - |
| **Second: Non-Executive Directors:** | | | | | | | | | | | | | |
| 1- Dr. Esam Abdulla Fakhro | 40,287 | 10,000 | - | 488 | 50,775 | - | - | - | - | - | - | 50,775 | - |
| 2- Khalid Yousif Abdul Rahman | 26,857 | 11,000 | - | 574 | 38,431 | - | - | - | - | - | - | 38,431 | - |

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بنك البحرين الإسلامي
BisB

| Name | Fixed remunerations | | | | | Variable remunerations | | | | | End-of-service award | Aggregate amount (Does not include expense allowance) | Expenses Allowance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Remunerations of the chairman and BOD* | Total allowance for attending Board and committee meetings | Salaries | Others*** | Total | Remunerations of the chairman and BOD | Bonus | Incentive plans | Others**** | Total | | | |
| **Third: Executive Directors:** | | | | | | | | | | | | | |
| 1- Jean Christophe Durand | 26,857** | 11,000 | - | - | 37,857 | - | - | - | - | - | - | 37,857 | - |
| 2- Yaser Abduljalil Al Sharifi | 26,857** | 11,000 | - | 626 | 38,483 | - | - | - | - | - | - | 38,483 | - |
| 3- Dana Abdulla Buheji | 26,857** | 10,000 | - | - | 36,857 | - | - | - | - | - | - | 36,857 | - |
| 4- Isa Hasan Maseeh | 26,857** | 24,000 | - | 817 | 51,674 | - | - | - | - | - | - | 51,674 | - |
| **Total** | **282,000** | **158,874** | **-** | **5,076** | **445,950** | **-** | **-** | **-** | **-** | **-** | **-** | **445,950** | **-** |

Note: All amounts stated in Bahraini Dinars.
*Subject to AGM and regulatory approval.
**Remuneration is paid to the entity (shareholder) represented by these board members.

Other remunerations:
*** It includes in-kind benefits – specific amount – remuneration for technical, administrative and advisory works (if any).
**** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

## Second: Executive management remuneration details:

| Executive management | Total paid salaries and allowances | Total paid remuneration (Bonus) | Any other cash/ in kind remuneration for 2021 | Aggregate Amount |
|---|---|---|---|---|
| Top 6 remunerations for executives, including CEO* and Senior Financial Officer** | 1,239,504 | 137,813 | - | 1,377,317 |

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).
** The company's highest financial officer (CFO, Finance Director, ...etc)

Dr. Esam Abdulla Fakhro
Chairman

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15 Feb 2022

**Sharia'a Supervisory Board report**

**For the year ended on 31/12/2021**

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 Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2021, 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 Sharia Coordination and implementation, the Sharia 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 2021 to ensure the Bank's adherence to the provisions and principles of Islamic Sharia'a.

It also reviewed the Sharia'a compliance report issued by the Sharia'a Coordination and Implementation Department on the Sharia'a reviewed and supervision work on the bank's business in accordance with the identified Sharia'a risks.

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

**Second: Sharia'a Audit of the Bank's Business**

**1) Sharia'a Internal Audit**

We planned with the Sharia'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 Sharia'a and Fatwas and decisions of the Sharia'a Board.

| | | | |
|---|---|---|---|
| Shaikh Dr. A.Latif Mahmood Al Mahmood<br>Chairman | Shaikh Mohammed Jaffar Al Juffairi<br>Vice Chairman | Shaikh Adnan Abdullah Al Qattan<br>Member | Shaikh Dr. Nedham M. Saleh Yacoubi<br>Member |

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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 Sharia'a Department in conformity with the Plan and methodology approved by the Sharia'a Board.

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

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

**2) Independent External Shari'a Compliance Audit**

The Sharia'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 Sharia'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: Sharia Governance**

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

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

| | | | |
|---|---|---|---|
| Shaikh Dr. A.Latif Mahmood Al Mahmood<br>Chairman | Shaikh Mohammed Jaffar Al Juffairi<br>Vice Chairman | Shaikh Adnan Abdullah Al Qattan<br>Member | Shaikh Dr. Nedham M. Saleh Yacoubi<br>Member |

**Forth: Sharia Supervisory Board Operations**

The Sharia Board and its Committees held (23) meetings during the year and issued (86) decisions and fatwas, and approved (73) contracts.

**Fifth: Financial Statements and Zakat Calculation Methods**

The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2021, the income statement, the attached notes and the Zakat calculation methods.

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

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization 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 Sharia'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 Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'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 Sharia'a as per Sharia'a standards issued by the (AAOIFI).

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<br>Chairman | Shaikh Mohammed Jaffar Al Juffairi<br>Vice Chairman | Shaikh Adnan Abdullah Al Qattan<br>Member | Shaikh Dr. Nedham M. Saleh Yacoubi<br>Member |
|---|---|---|---|

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# Independent auditors' report

## To the Shareholders of

**Bahrain Islamic Bank B.S.C**
PO Box 5240
Manama
Kingdom of Bahrain

## Opinion

We have audited the 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 2021, 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 2021, 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 Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2021.

## 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 and Ijarah muntahia bittamleek

Refer to accounting policy in note 3 (z), use of estimates and judgments in note 3 bb (i) and management of credit risk in note 30 (e).

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| We focused on this area because:<br>• of the significance of financing assets and Ijarah muntahia bittamleek representing 65% of total assets;<br>• impairment of financing assets and Ijarah muntahia bittamleek involves:<br>  ○ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;<br>  ○ 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<br>  ○ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.<br>• 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<br>• Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, including the potential impact of COVID-19. 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. | Our audit procedures, amongst others, to address significant risks associated with impairment included:<br>• Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice.<br>• Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development.<br><br>**Controls testing**<br>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:<br>• Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;<br>• 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;<br>• Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates;<br>• Testing controls over the modelling process, including governance over model monitoring, validation and approval;<br>• Testing key controls relating to selection and implementation of material economic variables; and<br>• 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.<br><br>**Test of details**<br>Key aspects of our testing involved:<br>• Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;<br>• 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;<br>• Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and |

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| | • 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.<br><br>**Use of specialists**<br>For the relevant portfolios examined, we have involved our 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:<br>• 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;<br>• We involved our credit risk specialists in:<br>  ○ evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);<br>  ○ on a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);<br>  ○ evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and<br>  ○ evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and reflective of underlying credit quality and macroeconomic trends including the impact of COVID-19.<br><br>**Disclosures**<br>We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets and Ijarah muntahia bittamleek by reference to the requirements of relevant accounting standards. |

## Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

## Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Shariah Rules and Principles as determined by the Group's Shariah 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 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) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book Volume 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 2022

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

| | Note | **2021 BD'000** | 2020 BD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks and Central Bank | 4 | **45,591** | 50,362 |
| Placements with financial institutions | 5 | **86,894** | 44,442 |
| Financing assets | 6 | **609,468** | 571,513 |
| Investment securities | 7 | **274,624** | 276,608 |
| Ijarah Muntahia Bittamleek | 9 | **257,382** | 212,042 |
| Investment in associates | 8 | **9,314** | 19,024 |
| Investment in real estate | 11 | **14,680** | 16,226 |
| Property and equipment | 10 | **13,491** | 14,047 |
| Other assets | 12 | **13,092** | 7,317 |
| **TOTAL ASSETS** | | **1,324,536** | 1,211,581 |
| **LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY** | | | |
| **Liabilities** | | | |
| Placements from financial institutions | | **133,346** | 147,893 |
| Placements from non-financial institutions and individuals | | **212,418** | 261,002 |
| Financing from financial institutions | 13 | **56,919** | - |
| Customers' current accounts | | **249,749** | 188,742 |
| Other liabilities | 14 | **30,114** | 23,642 |
| **Total Liabilities** | | **682,546** | 621,279 |
| **Equity of Investment Accountholders** | | | |
| Financial institutions | | **42,239** | 33,986 |
| Non-financial institutions and individuals | | **473,991** | 460,274 |
| **Total Equity of Investment Accountholders** | 15 | **516,230** | 494,260 |
| **Owners' Equity** | | | |
| Share capital | 16 | **106,406** | 106,406 |
| Subordinated Mudaraba (AT1) | 16 | **25,000** | - |
| Treasury shares | 16 | **(892)** | (892) |
| Shares under employee share incentive scheme | | **(289)** | (257) |
| Share premium | | **206** | 206 |
| Reserves | | **(4,671)** | (9,421) |
| **Total Owners' Equity** | | **125,760** | 96,042 |
| **TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY** | | **1,324,536** | 1,211,581 |

The consolidated financial statements were approved by the Board of Directors on 15 February 2022 and signed on its behalf by:

| | | |
|---|---|---|
| Dr. Esam Abdulla Fakhro<br>Chairman | Khalid Yousif Abdul Rahman<br>Vice Chairman | Hassan Amin Jarrar<br>Chief Executive Officer |

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

| | Note | 2021 BD'000 | 2020 BD'000 |
|---|---|---|---|
| **INCOME** | | | |
| Income from financing | 19 | **42,439** | 40,506 |
| Income from investment in Sukuk | 20 | **13,395** | 12,663 |
| **Total income from jointly financed assets** | | **55,834** | 53,169 |
| Return on equity of investment accountholders | | **(23,979)** | (16,551) |
| Group's share as Mudarib | | **20,388** | 12,476 |
| Net return on equity of investment accountholders | 15.5 | **(3,591)** | (4,075) |
| **Group's share of income from jointly financed assets (both as mudarib and investor)** | | **52,243** | 49,094 |
| Expense on placements from financial institutions | | **(2,766)** | (4,977) |
| Expense on placements from non-financial institutions and individuals | | **(7,110)** | (9,533) |
| Expense on financing from financial institutions | | **(212)** | (178) |
| Fee and commission income, net | | **5,335** | 4,379 |
| Income from investment securities | 21 | **72** | 925 |
| Income from investment in real estate, net | 22 | **(793)** | (2,423) |
| Share of results of associates, net | 8 | **(272)** | (235) |
| Other income, net | 23 | **1,402** | 1,948 |
| **Total income** | | **47,899** | 39,000 |
| **EXPENSES** | | | |
| Staff costs | | **11,297** | 12,257 |
| Depreciation and amortization | 10, 12.1 | **1,576** | 1,381 |
| Other expenses | 24 | **9,686** | 9,763 |
| **Total expenses** | | **22,559** | 23,401 |
| **Profit before impairment allowances and other provisions** | | **25,340** | 15,599 |
| Impairment allowance and other provisions, net | 25 | **(19,209)** | (28,162) |
| **PROFIT / (LOSS) FOR THE YEAR** | | **6,131** | (12,563) |
| **BASIC AND DILUTED EARNINGS PER SHARE (fils)** | 28 | **5.82** | (11.94) |

| | | |
|---|---|---|
| Dr. Esam Abdulla Fakhro | Khalid Yousif Abdul Rahman | Hassan Amin Jarrar |
| Chairman | Vice Chairman | Chief Executive Officer |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Note | 2021 BD'000 | 2020 BD'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit / (loss) for the year | | **6,131** | (12,563) |
| Adjustments for non-cash items: | | | |
| Depreciation | 10 | **1,251** | 1,381 |
| Impairment allowance and other provisions, net | 25 | **19,209** | 28,162 |
| Amortization of right-of-use asset | 12.1 | **325** | - |
| Fair value movement in investment in real estate | 22 | **913** | 2,476 |
| (Gain) / Loss on sale of investment in real estate | 22 | **(19)** | 34 |
| Loss on foreign exchange revaluation | 8 | - | 95 |
| Gain on sale of investment in associates | 21 | **(49)** | - |
| Gain on sale of investment securities | 21 | **(1,009)** | (836) |
| Share of results of associates, net | 8 | **272** | 235 |
| **Operating profit before changes in operating assets and liabilities** | | **27,024** | 18,984 |
| Working capital adjustments: | | | |
| Mandatory reserve with Central Bank of Bahrain | | **732** | 11,803 |
| Financing assets | | **(49,539)** | (22,531) |
| Ijarah Muntahia Bittamleek | | **(45,346)** | (24,338) |
| Other assets | | **(6,100)** | 873 |
| Customers' current accounts | | **61,007** | 7,050 |
| Other liabilities | | **6,555** | 3,571 |
| Placements from financial institutions | | **(18,550)** | 20,929 |
| Placements from non-financial institutions and individuals | | **(48,584)** | 47,582 |
| Equity of investment accountholders | | **21,970** | (35,219) |
| **Net cash (used in) / from operating activities** | | **(50,831)** | 28,704 |
| **INVESTING ACTIVITIES** | | | |
| Disposal of investment in real estate | | - | 130 |
| Redemption of investment in associates | | **9,287** | 3,155 |
| Purchase of investment securities | | **(66,087)** | (63,857) |
| Purchase of property and equipment | | **(695)** | (1,837) |
| Proceeds from disposal of investment securities | | **65,431** | 32,322 |
| **Net cash from / (used in) investing activities** | | **7,936** | (30,087) |
| **FINANCING ACTIVITIES** | | | |
| Purchase of treasury shares | | **(114)** | (149) |
| Proceeds from AT1 Capital | | **24,542** | - |
| Proceeds from / (Repayment of) financing from financial institutions | | **56,919** | (29,287) |
| Lease liability paid | | **(354)** | - |
| Dividends paid | | - | (271) |
| **Net cash from / (used in) financing activities** | | **80,993** | (29,707) |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **38,098** | (31,090) |
| Cash and cash equivalents at 1 January | | **68,580** | 99,670 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **106,678** | 68,580 |
| Cash and cash equivalents comprise of: | | | |
| Cash on hand | 4 | **12,214** | 15,820 |
| Balances with CBB, excluding mandatory reserve deposits | 4 | **366** | 74 |
| Balances with banks and other financial institutions excluding restricted balances | 4 | **7,204** | 8,244 |
| Placements with financial institutions with original maturities less than 90 days | 5 | **86,894** | 44,442 |
| | | **106,678** | 68,580 |

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

| | Share capital BD'000 | Sub-ordinated mudaraba (AT1) BD'000 | Treasury shares BD'000 | Shares under employee share incentive scheme BD'000 | Share premium BD'000 | Reserves: Statutory reserve BD'000 | Reserves: Real estate fair value reserve BD'000 | Reserves: Investment securities fair value reserve BD'000 | Reserves: (Accumulated losses) / Retained earnings BD'000 | Reserves: Total reserves BD'000 | Total owners' equity BD'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2021** | **106,406** | **-** | **(892)** | **(257)** | **206** | **4,736** | **2,178** | **1,696** | **(18,031)** | **(9,421)** | **96,042** |
| Profit for the year | - | - | - | - | - | - | - | - | 6,131 | 6,131 | 6,131 |
| Zakah approved | - | - | - | - | - | - | - | - | (122) | (122) | (122) |
| Donations approved | - | - | - | - | - | - | - | - | (250) | (250) | (250) |
| Issuance of AT1 | - | 25,000 | - | - | - | - | - | - | - | - | 25,000 |
| Issuance costs of AT1 | - | - | - | - | - | - | - | - | (458) | (458) | (458) |
| Shares allocated to staff during the year | - | - | - | 82 | - | - | - | - | - | - | 82 |
| Purchase of treasury shares | - | - | (114) | - | - | - | - | - | - | - | (114) |
| Transfer to shares under employee share incentive scheme | - | - | 114 | (114) | - | - | - | - | - | - | - |
| Net movement in investment securities fair value reserve | - | - | - | - | - | - | - | 82 | - | 82 | 82 |
| Net movement in real estate fair value reserve | - | - | - | - | - | - | (633) | - | - | (633) | (633) |
| Transfer to statutory reserve | - | | - | - | - | 613 | - | - | (613) | - | - |
| **Balance at 31 December 2021** | **106,406** | **25,000** | **(892)** | **(289)** | **206** | **5,349** | **1,545** | **1,778** | **(13,343)** | **(4,671)** | **125,760** |
| 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 | - | - | - | - | - | - | - | - | 1,814 | 1,814 | 1,814 |
| Modification loss | - | - | - | - | - | - | - | - | (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 |

The attached notes 1 to 36 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 2021

| | *Qard Hasan receivables BD'000* | *Funds available for Qard Hasan BD'000* | *Total BD'000* |
|---|---|---|---|
| **Balance at 1 January 2021** | **79** | **138** | **217** |
| Sources of Qard Fund | | | |
| Repayments | **(27)** | **27** | **-** |
| **Total sources during the year** | **(27)** | **27** | **-** |
| Uses of Qard fund | | | |
| Marriage | **14** | **(14)** | **-** |
| Others (Waqf) | **28** | **(28)** | **-** |
| **Total uses during the year** | **42** | **(42)** | **-** |
| **Balance at 31 December 2021** | **94** | **123** | **217** |
| 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 |

| | ***2021* BD'000** | *2020 BD'000* |
|---|---|---|
| **Sources of Qard fund** | | |
| Contribution by the Bank | **125** | 125 |
| Donation | **3** | 3 |
| Non-Islamic income | **89** | 89 |
| | **217** | 217 |

# CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2021

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Sources of zakah and charity funds** | | |
| Undistributed zakah and charity funds at the beginning of the year | **243** | 401 |
| Non-Islamic income / late payment fee | **104** | 255 |
| Contributions by the Bank for zakah | **122** | 328 |
| Contributions by the Bank for donations | **250** | 250 |
| Others | **43** | 10 |
| **Total sources of zakah and charity funds during the year** | **762** | 1,244 |
| **Uses of zakah and charity funds** | | |
| Philanthropic societies | **79** | 264 |
| Aid to needy families | **264** | 350 |
| Others | **66** | 387 |
| **Total uses of funds during the year** | **409** | 1,001 |
| **Undistributed zakah and charity funds at the end of the year** | **353** | 243 |

## 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.

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

The Bank has nine branches (2020: 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).

National Bank of Bahrain (NBB) owns 78.81% of shares. Hence, NBB is considered as Parent of the Bank for financial reporting purposes.

### 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 and repossessed assets that have been measured at lower of carrying value or fair value less cost to sell.

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.

**1 REPORTING ENTITY (continued)**

**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.

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 2021, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR).

**2 COVID-19 IMPACT (continued)**

Following are some of the significant concessionary measures which were announced by CBB in 2020:

- For assessment of SICR from stage 1 to stage 2 Increase in number of days from 30 to 74 days
- Payment holiday without profit 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.

**Modification of financial assets**

During the second quarter of 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 (first deferral - March 2020 to September 2020) as part of its support to impacted customers.

**Concessionary measures**

In September 2020, December 2020 and May 2021, the CBB issued another regulatory directive to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020, June 2021 and December 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 to December 2020), BD 218,446 thousand for the third deferral (January 2021 to June 2021) and BD 220,774 thousand for the fourth deferral (July 2021 to December 2021).

On 23 December 2021, the CBB announced fifth deferral from 1 January 2022 to 30 June 2022 and the concessionary measures have been extended until 30 June 2022.

**Financial assistance**

As per the regulatory directive during 2020, 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, was 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 and effective for annual periods beginning on or after 1 January 2021*

**(i) FAS 32 Ijarah**

AAOIFI issued FAS 32 "Ijarah" in 2020, this standard is effective for financial periods beginning on or after 1 January 2021. The standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

FAS 32 sets 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.

The Group has applied FAS 32 "Ijarah" from 1 January 2021. The impact of adoption of this standard is disclosed in (b) below.

*(a) Change in accounting policy*

*Identifying an Ijarah*

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Bank accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

*Measurement*

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Bank allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net ijarah liability.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a. New standards, amendments, and interpretations (continued)**

*i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (continued)*

*(i) FAS 32 Ijarah (continued)*

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:
- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortization and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Bank amortizes the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Bank determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:
• Extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
• Termination options if it is reasonably certain that the Bank will not exercise that option.

The Bank carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments".

ii) Net ijarah liability

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability are initially recognized as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:
• Fixed Ijarah rentals less any incentives receivable;
• Variable Ijarah rentals including supplementary rentals; and
• Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted-off with the gross Ijarah liability.

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 December 2021, the Bank did not have any contracts with variable or supplementary rentals.

After the commencement date, the Bank measures the net Ijarah liability by:
• Increasing the net carrying amount to reflect return on the Ijarah liability (amortization of deferred Ijarah cost);
• Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
• Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a. New standards, amendments, and interpretations (continued)**

*i) New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (continued)*

*(i) FAS 32 Ijarah (continued)*

The deferred Ijarah cost is amortized to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognizes the following in the income statement:
• Amortization of deferred Ijarah cost; and
• Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur.

*Ijarah contract modifications*

After the commencement date, the Bank accounts for Ijarah contract modifications as follows:
• Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
• Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognizes a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognize the existing Ijarah transaction and balances.

*Expenses relating to underlying asset*

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognized by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

*Recognition exemptions and simplified accounting for the lessee*

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and net Ijarah liability for the following:
• Short-term Ijarah; and
• Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption is applied on a whole class of underlying assets which have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset/ Ijarah transaction, and not on group/ combination basis.

*(b) Impact on adoption of FAS 32*

The management of the Bank has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by BD 503 thousand. The lease contracts comprise of ATM sites, branches and car parks.

| | Total Assets BD'000 | Total Liabilities BD'000 |
|---|---|---|
| Closing balance (31 December 2020) | **1,211,581** | **621,279** |
| Impact on adoption: | | |
| Right-of-use asset | **503** | **-** |
| Net Ijarah liability | **-** | **503** |
| **Opening balance under FAS 32 on date of initial application of 1 January 2021** | **1,212,084** | **621,782** |

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a. New standards, amendments, and interpretations (continued)**

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

The following new standards and amendments to standards are effective for financial years beginning on or after 1 January 2022 with an option to early adopt. However, the Bank has not early adopted any of these standards.

**(i) 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 shariah 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 with an option to early adopt.

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 Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

The Group does not expect any significant impact on adoption this standard.

**(ii) FAS 39 Financial Reporting for Zakah**

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Group, this standard shall be applicable on all consolidated and separate / standalone financial statements of an institution.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

The Group is assessing the impact of adoption of this standard.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a. New standards, amendments, and interpretations (continued)**

*ii) New standards, amendments, and interpretations issued but not yet effective (continued)*

**(iii) FAS 1 General Presentation and Disclosures in the Financial Statements**

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:
a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity have been relocated to the notes;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;
k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

**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 financing 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) Financing from financial institutions*

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

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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 investments in equity securities and investments in debt-type securities, sukuk.

**(i) Classification**

The Group segregates its investment into following categories:

*i) Equity-type instruments:*

Instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in line with the requirements of FAS 29 "Sukuk in the books of the originator".

*ii) Debt-type instruments:*

Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

*iii) Other investment instruments:*

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVIS").

*Amortised cost*

An investment shall be measured at amortised cost if both of the following conditions are met:

a) The investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and

b) The investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

*Fair value through equity*

An investment shall be measured at fair value through equity if both of the following conditions are met:

a) The investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and

b) The investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h. Investment securities (continued)**

*Irrevocable classification at initial recognition*

On initial recognition, an institution may make an irrevocable election to designate a particular investment, at initial recognition, being:

a) An equity-type instrument that would otherwise be measured at fair value through income statement – to present subsequent changes in fair value in equity.

b) A non-monetary debt-type instrument or other investment instrument – as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or quasi-equity or recognizing the gains and losses on them on different bases. This shall, however, be subject to the Shari'a requirements with regard to the attribution of, and distribution of such gains to the respective stakeholders.

*Fair value through income statement*

All other investments are measured at FVTIS.

*Business model assessment*

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining practical profit rate profile and realising cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Group's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Investments that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTIS.

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTIS investments, transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### i. Measurement principles

*i) Fair value measurement*
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active or there is no market, the Group establishes fair value using well-recognised valuation techniques that may include recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flows or market multiples for similar instruments.

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair value estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

In determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

*ii) Amortised cost measurement*
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.

### 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern which is reflective of the expected pattern of economic benefits arising from these assets. 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 and the estimated recoverable amount. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the customers in addition to other factors. 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 |

**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. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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) Mudarbah financing*
Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, where as losses are charged to income on declaration by the mudarib.

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

*v) 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.

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

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

*viii) 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;
- Investment in Sukuk - debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

**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
- 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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 (30).
- Impairment on ijarah: 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 (30).

*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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Cash on hand | **12,214** | 15,820 |
| Balances with CBB, excluding mandatory reserve deposits | **366** | 74 |
| Balances with banks and other financial institutions | **10,031** | 10,756 |
| | **22,611** | 26,650 |
| Mandatory reserve with CBB | **22,980** | 23,712 |
| | **45,591** | 50,362 |

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 2,827 thousand (2020: BD 2,512 thousand) which is not available for use in the day-to-day operations.

## 5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Commodity Murabaha | **84,853** | 16,219 |
| Deferred profits | **(3)** | (1) |
| | **84,850** | 16,218 |
| Wakala | **5,734** | 28,225 |
| | **90,584** | 44,443 |
| Impairment allowance | **(3,690)** | (1) |
| | **86,894** | 44,442 |

## 6 FINANCING ASSETS

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Murabaha (note 6.1) | **519,943** | 482,274 |
| Musharaka (note 6.2) | **85,973** | 89,239 |
| Mudaraba (note 6.3) | **3,552** | - |
| | **609,468** | 571,513 |

### 6.1 Murabaha

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Tasheel | **356,594** | 284,822 |
| Tawarooq | **162,324** | 179,547 |
| Altamweel Almaren | **75,902** | 68,490 |
| Letters of credit refinance | **9,053** | 17,008 |
| Motor vehicles Murabaha | **2,723** | 3,678 |
| Credit cards | **18,672** | 17,151 |
| Others | **19** | 30 |
| | **625,287** | 570,726 |
| Qard fund | **94** | 79 |
| **Gross receivables** | **625,381** | 570,805 |
| Deferred profits | **(79,100)** | (66,492) |
| Impairment allowance | **(26,338)** | (22,039) |
| | **519,943** | 482,274 |

Non-performing Murabaha financing outstanding as of 31 December 2021 amounted to BD 44,401 thousand (2020: BD 43,302 thousand).

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

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

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Commercial | **96,600** | 94,680 |
| Financial institutions | **12,649** | 11,679 |
| Others including retail | **437,032** | 397,954 |
| | **546,281** | 504,313 |

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

### 6.2 Musharaka

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Musharaka in real estate | **90,238** | 93,239 |
| Impairment allowance | **(4,265)** | (4,000) |
| | **85,973** | 89,239 |

Non-performing Musharaka financing outstanding as of 31 December 2021 amounted to BD 8,521 thousand (2020: BD 9,308 thousand).

### 6.3 Mudaraba

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Mudaraba | **3,565** | - |
| Impairment allowance | **(13)** | - |
| | **3,552** | - |

**6 FINANCING ASSETS (continued)**

**6.4 The movement on impairment allowances is as follows:**

| **2021** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| At 1 January 2021 | **2,627** | **5,052** | **18,360** | **26,039** |
| Net movement between stages | **(58)** | **(34)** | **92** | **-** |
| Net charge for the year | **567** | **4,191** | **463** | **5,221** |
| Write-off | **-** | **-** | **(644)** | **(644)** |
| **At 31 December 2021** | **3,136** | **9,209** | **18,271** | **30,616** |

| 2020 | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| 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 |

**7 INVESTMENT SECURITIES**

| | ***2021*** ***BD'000*** | *2020* *BD'000* |
|---|---|---|
| ***a. Debt type instruments**** | | |
| *Quoted Sukuk - carried at amortised cost* | | |
| Gross balance at beginning of the year | **229,189** | 190,473 |
| Acquisitions | **43,214** | 60,059 |
| Disposals and redemptions | **(41,475)** | (21,343) |
| **Gross balance at the end of the year** | **230,928** | 229,189 |
| Impairment allowance | **(130)** | (236) |
| **Net balance at the end of the year** | **230,798** | 228,953 |
| *Unquoted Sukuk - carried at amortised cost* | | |
| Gross balance at beginning of the year | **35,495** | 35,534 |
| Acquisitions | **22,873** | 3,798 |
| Disposals and redemptions | **(22,947)** | (3,822) |
| Foreign currency translation changes | **21** | (15) |
| **Gross balance at the end of the year** | **35,442** | 35,495 |
| Impairment allowance | **(12,601)** | (12,564) |
| **Net balance at the end of the year** | **22,841** | 22,931 |
| ***b. Equity type instruments*** | | |
| *Unquoted shares - at fair value through equity* | | |
| Balance at beginning of the year | **24,288** | 28,178 |
| Disposals and redemptions | **-** | (3,299) |
| Fair value movement - net** | **(3,739)** | (591) |
| Balance at the end of the year | **20,549** | 24,288 |
| Unquoted managed funds | **436** | 436 |
| **Total net investment securities** | **274,624** | 276,608 |

*As of 31 December 2021, debt type instruments includes Sukuk of BD 64,533 thousand (2020: BD Nil thousand) pledged against financing from financial institutions of BD 56,919 thousand (2020: BD Nil thousand) (note 13).

**Includes BD 82 thousand (2020: BD 1,433 thousand) transferred to investment securities fair value reserve.

**7 INVESTMENT SECURITIES (continued)**

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

| **2021** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| At 1 January 2021 | **251** | - | **12,549** | **12,800** |
| Net charge for the year | **(90)** | - | - | **(90)** |
| Foreign exchange movement | - | - | **21** | **21** |
| **At 31 December 2021** | **161** | - | **12,570** | **12,731** |

| 2020 | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| 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 |

During the year impairment of BD 3,821 thousand (2020: BD 2,024 thousand) was provided on equity type instruments.

## 8 INVESTMENT IN ASSOCIATES

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| At 1 January | **19,024** | 18,750 |
| Acquisition* | **-** | 5,449 |
| Share of results of associates, net | **(272)** | (235) |
| Redemption / disposal of investment in associates | **(9,238)** | (2,845) |
| Foreign currency translation changes | **-** | (95) |
| Impairment allowance | **(200)** | (2,000) |
| **At 31 December** | **9,314** | 19,024 |

*Acquisition represents settlement of financing assets amounting to BD Nil thousand (2020: 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:

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Total assets | **17,196** | 160,063 |
| Total liabilities | **556** | 47,781 |
| Total revenues | **1,096** | 3,432 |
| Total net profit / (loss) | **684** | (2,517) |

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. |
| LS Real Estate Company W.L.L. | 36.75% | 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. The Group has disposed off its shares in this associate for a gain of BD 49 thousand during the year ended 31 December 2021. |

## 9 IJARAH MUNTAHIA BITTAMLEEK

| | ***2021*** | | | *2020* | | |
|---|---|---|---|---|---|---|
| | ***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 | **255,958** | **9,023** | **264,981** | 263,508 | 9,023 | 272,531 |
| Additions | **72,359** | **5,608** | **77,967** | 75,251 | - | 75,251 |
| Settlements / adjustments | **(16,539)** | **(8,602)** | **(25,141)** | (82,801) | - | (82,801) |
| **At 31 December** | **311,778** | **6,029** | **317,807** | 255,958 | 9,023 | 264,981 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January | **47,031** | **3,565** | **50,596** | 66,767 | 2,887 | 69,654 |
| Charge for the year | **17,769** | **657** | **18,426** | 12,550 | 840 | 13,390 |
| Settlements / adjustments | **(7,379)** | **(3,567)** | **(10,946)** | (32,286) | (162) | (32,448) |
| **At 31 December** | **57,421** | **655** | **58,076** | 47,031 | 3,565 | 50,596 |
| **Impairment allowance** | **(2,310)** | **(39)** | **(2,349)** | (2,326) | (17) | (2,343) |
| **Net Book Value** | **252,047** | **5,335** | **257,382** | 206,601 | 5,441 | 212,042 |

### 9.1 The movement on impairment allowances is as follows:

| **2021** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| At 1 January 2021 | **467** | **601** | **1,275** | **2,343** |
| Net movement between stages | **119** | **(52)** | **(67)** | **-** |
| Net charge for the year | **144** | **(135)** | **(3)** | **6** |
| Write-off | **-** | **-** | **-** | **-** |
| **At 31 December 2021** | **730** | **414** | **1,205** | **2,349** |

| 2020 | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| At 1 January 2020 | 208 | 2,786 | 11,797 | 14,791 |
| Net movement between stages | 127 | (2,351) | 2,224 | - |
| Net charge for the year | 132 | 166 | 6,418 | 6,716 |
| Write-off | - | - | (19,164) | (19,164) |
| At 31 December 2020 | 467 | 601 | 1,275 | 2,343 |

## 10 PROPERTY AND EQUIPMENT

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *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** | **4,201** | **13,746** | **900** | **1,111** | **33,130** |
| Additions / Transfers | - | - | **279** | **410** | **57** | **(51)** | **695** |
| Disposals | - | - | - | - | - | - | - |
| **At 31 December** | **5,521** | **7,651** | **4,480** | **14,156** | **957** | **1,060** | **33,825** |
| **Depreciation:** | | | | | | | |
| At 1 January | - | **2,991** | **3,919** | **11,286** | **887** | - | **19,083** |
| Charge for the year | - | **254** | **122** | **867** | **8** | - | **1,251** |
| Relating to disposed assets | - | - | - | - | - | - | - |
| **At 31 December** | - | **3,245** | **4,041** | **12,153** | **895** | - | **20,334** |
| **Net Book Value** | **5,521** | **4,406** | **439** | **2,003** | **62** | **1,060** | **13,491** |

| | 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 |

## 11 INVESTMENT IN REAL ESTATE

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Land | **14,680** | 16,226 |
| | **14,680** | 16,226 |

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Movement in investment in real estate: | | |
| At 1 January | **16,226** | 18,756 |
| Disposal | **-** | (182) |
| Fair value changes | **(1,546)** | (2,348) |
| **At 31 December** | **14,680** | 16,226 |

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

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Repossessed assets* | **2,515** | 3,992 |
| Receivables** | **8,013** | 632 |
| Staff advances | **1,536** | 1,550 |
| Prepaid expenses | **367** | 485 |
| Right-of-use asset (12.1) | **361** | - |
| Other | **300** | 658 |
| | **13,092** | 7,317 |

*Repossessed assets comprise lands located in Kingdom of Bahrain and are net of impairment allowance of BD 1,143 thousand (2020: BD 1,697 thousand).

**Receivables includes cash collateral deposited with an insurance company for issuance of surety bond of BD 7,641 thousand (2020: BD Nil thousand) relating to a legal case (refer note 26).

## 12.1 RIGHT-OF-USE ASSET

| | 2021 BD'000 |
|---|---|
| Recognition of right-of-use assets on initial application of FAS 32 | **503** |
| Additions for the year | **183** |
| Amortization charge for the year | **(325)** |
| | **361** |

## 13 FINANCING FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 56,919 thousand (2020: BD Nil thousand) secured by pledge over Sukuk of BD 64,533 thousand (2020: BD Nil thousand). The average rate of financing is 1.05% (2020: 2.53%) (note 7).

## 14 OTHER LIABILITIES

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| Managers' cheques | **5,754** | 8,761 |
| Payable to vendors | **3,911** | 3,647 |
| Accrued expenses | **4,879** | 3,886 |
| Zakah and charity fund | **353** | 243 |
| Net Ijarah liability (14.1) | **344** | - |
| Other* | **14,873** | 7,105 |
| | **30,114** | 23,642 |

* Other includes impairment allowance for commitments and contingent liabilities of BD 3,296 thousand (2020: BD 136 thousand) (refer note 17) and provision for litigation claims of BD 3,202 thousand (2020: BD Nil thousand) (refer note 26).

### 14.1 NET IJARAH LIABILITY

| | ***2021 BD'000*** |
|---|---|
| Maturity analysis – Gross Ijarah liability | |
| Less than one year | **214** |
| One to five years | **140** |
| **Total gross Ijarah liability** | **354** |
| Maturity analysis – net Ijarah liability | |
| Less than one year | **203** |
| One to five years | **141** |
| **Total net Ijarah liability** | **344** |

## 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

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Type of Equity of Investment Accountholders** | | |
| Placements and financing from financial institutions – Wakala | **42,239** | 33,986 |
| Placements from non-financial institutions and individuals – Wakala | **47,197** | 53,259 |
| Mudharaba | **426,794** | 407,015 |
| | **516,230** | 494,260 |
| Mudharaba-based customer investment accounts | | |
| Balances on demand | **344,723** | 333,661 |
| Contractual basis | **82,071** | 73,354 |
| | **426,794** | 407,015 |

### 15.2 Assets in which IAH funds were invested

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

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| **Asset** | | |
| Cash and balances with banks and Central Bank | **23,346** | 23,786 |
| Placements with financial institutions | **11,400** | 26,022 |
| Financing assets, net | **261,894** | 245,317 |
| Ijarah Muntahia Bittamleek | **110,599** | 91,016 |
| Investment securities, net | **108,991** | 108,119 |
| | **516,230** | 494,260 |

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 19,636 thousand of ECL (2020: ECL of BD 17,677 thousand) to the IAH.

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

## 15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

### 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:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| **Account type** | **Utilization** | **Mudarib Share** | **Profit to IAH** | Utilization | Mudarib Share | Profit to IAH |
| Tejoori | **90%** | **98.00%** | **2.00%** | 90% | 97.29% | 2.71% |
| Savings | **90%** | **97.99%** | **2.01%** | 90% | 97.28% | 2.72% |
| Vevo | **90%** | **97.93%** | **2.07%** | 90% | 97.20% | 2.80% |
| IQRA | **100%** | **77.01%** | **22.99%** | 100% | 64.65% | 35.35% |
| Time deposits | **100%** | **67.70%** | **32.30%** | 100% | 40.95% | 59.05% |

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

| | ***2021*** | *Movement* | *2020* |
|---|---|---|---|
| | ***BD'000*** | *BD'000* | *BD'000* |
| Profit equalisation reserve | **1,400** | 90 | 1,310 |

### 15.5 Return on equity of investment accountholders

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Gross return to equity of investment accountholders | **24,069** | 16,616 |
| Group's share as a Mudarib | **(20,388)** | (12,476) |
| Allocation to profit equalization reserve | **(90)** | (65) |
| Net return on equity of investment accountholders | **3,591** | 4,075 |

## 16 OWNERS' EQUITY

| | | ***2021*** | *2020* |
|---|---|---|---|
| | | ***BD'000*** | *BD'000* |
| a. | Share capital | | |
| *i.* | *Authorised* | | |
| | 2,000,000,000 shares (2020: 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 (2020: 1,064,058,587 shares) of BD 0.100 each | **106,406** | 106,406 |

b. Subordinated Mudaraba (AT1)

In order to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain, during the year, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent.

Summary of key terms and conditions of this issue are as follows:

a. Profits on these securities shall be distributed annually starting June 2022 subject to and in accordance with terms and conditions on the outstanding par value of the securities at an expected rate of 7.5% p.a.
b. Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
c. Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
d. In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
e. The Sukuk certificates carry a call option after 5 years from the date of issue.

The Subordinated Mudaraba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) will be accounted for as appropriation of profits.

Issuance costs of BD 458 thousand representing BD 394 thousand underwriting fee to the Parent and BD 64 thousand other transaction costs have been adjusted in the retained earnings.

**16 OWNERS' EQUITY (continued)**

c. Treasury Shares

| | ***2021*** | | *2020* |
|---|---|---|---|
| | ***Number of Shares*** | ***BD'000*** | *BD'000* |
| At 31 December | **5,855,358** | **892** | 892 |

| | ***2021 BD'000*** |
|---|---|
| Cost of treasury shares, excluding shares under employee share incentive scheme | **892** |
| Market value of treasury shares | **480** |

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.

d. Reserves

*i) Statutory reserve*
During the year, the Bank has appropriated BD 613 thousand (2020: BD Nil thousand) to the statutory reserve representing 10% of the profit for the year of BD 6,131 thousand (2020: BD Nil thousand). The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and following the approval of CBB.

*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.

**16 OWNERS' EQUITY (continued)**

e. 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:

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| *Names* | *Nationality* | *Number of shares* | *% holding* | *Number of shares* | *% holding* |
| National Bank of Bahrain | Bahraini | **838,630,728** | **78.81%** | 838,630,728 | 78.81% |
| 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:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | *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** | **2,724** | **8.11%** | 86,303,690 | 2,745 | 8.11% |
| 1% and less than 5% | **62,757,848** | **3** | **5.90%** | 62,757,848 | 3 | 5.90% |
| 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%** | 838,630,728 | 1 | 78.81% |
| | **1,064,058,587** | **2,729** | **100.00%** | 1,064,058,587 | 2,750 | 100.00% |

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

**Categories:**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | *Number of shares* | *Number of directors* | *Number of shares* | *Number of directors* |
| Less than 1% | **352,500** | **1** | 352,500 | 1 |

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):

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | *Number of shares* | *Percentage of Shareholding* | *Number of shares* | *Percentage of Shareholding* |
| Directors | **352,500** | **0.033%** | 352,500 | 0.033% |
| Shari'a supervisory members | **558,396** | **0.052%** | 187,663 | 0.018% |
| Senior management | **50,327** | **0.005%** | 191,760 | 0.018% |
| | **961,223** | **0.090%** | 731,923 | 0.069% |

f. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 138 thousand in 2021 (2020: BD 122 thousand), charitable donations of BD 350 thousand in 2021 (2020: BD 250 thousand) and dividends amounting to BD Nil thousand (2020: 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:

| | ***2021*** | *2020* |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Letters of credit and acceptances | **4,573** | 4,792 |
| Guarantees | **44,787** | 44,431 |
| Credit cards | **37,511** | 37,041 |
| Altamweel Almaren | **25,407** | 28,447 |
| Commitments to finance | **27,805** | 31,826 |
| Operating lease commitments | **-** | 217 |
| | **140,083** | 146,754 |

Impairment allowance of BD 3,296 thousand (2020: BD 136 thousand) has been provided on account of the credit risk on these for commitments and contingent liabilities.

## 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 had fallen below BD 100 million, which is the minimum requirement stipulated under LR-2.5.2A of the CBB's Rule Book. This was resolved after the introduction of additional tier 1 subordinated mudaraba amounting to BD 25 Million during 2021.

**18 CAPITAL ADEQUACY (continued)**

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 CET1 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 2021 (refer to note 2).

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

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| CET 1 Capital before regulatory adjustments | **116,370** | 111,019 |
| Less: regulatory adjustments | **-** | - |
| **CET 1 Capital after regulatory adjustments** | **116,370** | 111,019 |
| AT1 Capital | **25,000** | - |
| T 2 Capital adjustments | **9,997** | 10,165 |
| **Regulatory Capital** | **151,367** | 121,184 |

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:

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| **Risk weighted exposure:** | | |
| Total Credit Risk Weighted Assets | **676,125** | 638,995 |
| Total Market Risk Weighted Assets | **471** | 536 |
| Total Operational Risk Weighted Assets | **117,482** | 120,448 |
| **Total Regulatory Risk Weighted Assets** | **794,078** | 759,979 |
| Investment risk reserve (30% only) | **-** | - |
| Profit equalization reserve (30% only) | **420** | 393 |
| **Total Adjusted Risk Weighted Exposures** | **793,658** | 759,586 |
| **Capital Adequacy Ratio** | **19.07%** | 15.95% |
| **Tier 1 Capital Adequacy Ratio** | **17.81%** | 14.62% |
| Minimum requirement | **12.5%** | 12.5% |

## 19 INCOME FROM FINANCING

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Income from Murabaha financing | 26,318 | 24,688 |
| Income from Ijarah Muntahia Bittamleek | 11,750 | 10,319 |
| Income from Musharaka financing | 4,030 | 4,845 |
| Income from placements with financial institutions | 341 | 654 |
| | 42,439 | 40,506 |

## 20 INCOME FROM INVESTMENT IN SUKUK

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Profit income on investment in Sukuk | 12,386 | 12,637 |
| Gain on sale of Sukuk | 1,009 | 26 |
| | 13,395 | 12,663 |

## 21 INCOME FROM INVESTMENT SECURITIES

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Gain on sale of investment in unquoted shares - at fair value through equity | - | 836 |
| Gain on sale of investment in associates | 49 | - |
| Dividend income | 23 | 89 |
| | 72 | 925 |

## 22 INCOME FROM INVESTMENT IN REAL ESTATE

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Gain / (loss) on sale | 19 | (34) |
| Rental income | 101 | 87 |
| Impairment charge | (913) | (2,476) |
| | (793) | (2,423) |

## 23 OTHER INCOME, NET

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Recoveries from previously written off financing | 640 | 891 |
| Foreign exchange gain | 920 | 636 |
| Others | (158) | 421 |
| | 1,402 | 1,948 |

## 24 OTHER EXPENSES

| | 2021 BD'000 | 2020 BD'000 |
|---|---|---|
| Marketing and advertisement expenses | 1,236 | 1,157 |
| Professional services | 1,483 | 1,477 |
| Information technology related expenses | 1,379 | 1,269 |
| Card Centre expenses | 1,189 | 1,169 |
| Premises and equipment expenses | 575 | 817 |
| Communication expenses | 1,109 | 801 |
| Board remuneration | 86 | 260 |
| Board of directors sitting fees | 168 | 161 |
| Shari'a committee fees & expenses | 78 | 78 |
| Others | 2,383 | 2,574 |
| | 9,686 | 9,763 |

## 25 IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

| | *2021* | *2020* |
|---|---|---|
| | *BD'000* | *BD'000* |
| Financing assets (note 6.4) | **5,221** | 15,613 |
| Ijarah Muntahia Bittamleek (note 9) | **6** | 6,716 |
| Investments in Sukuk (note 7) | **(90)** | 621 |
| Investments at fair value through equity (note 7) | **3,821** | 2,024 |
| Investment in associates (note 8) | **200** | 2,000 |
| Placements with financial institutions | **3,689** | (2) |
| Other assets | **-** | 1,111 |
| Commitments | **3,160** | 79 |
| **Impairment allowance, net** | **16,007** | 28,162 |
| Litigation claims | **3,202** | - |
| **Total impairment allowance and other provisions, net** | **19,209** | 28,162 |

## 26 LITIGATIONS AND CLAIMS

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors.

As of the year end, the Group is defending a claim from the Official Committee of Unsecured Creditors of Arcapita Bank B.S.C. (c) against it based on a preliminary judgement. The Group has filed an appeal against this judgement and a provision of USD 18.3 million (BD 6.9 million) has been made, which consists of USD 9.8 million (BD 3.7 million) for the principal amount and USD 8.5 million (BD 3.2 million) for the profit amount. The Group has pledged a bond for the full amount with a surety in order to stay the execution of judgement until issuance of appeal judgement.

Further in 2020, an investor has filed a claim against the Group during 2021, the Group received judgment in its favour from the Court and the investor has filed an appeal. Based on the advice of the Bank's external legal counsel, the Board of directors is of the opinion that the Group has strong grounds to successfully defend itself against this appeal.

No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

## 27 ZAKAH

The total Zakah payable as of 31 December 2021 amounted to BD 1,924 thousand (2020: BD 1,523 thousand) of which the Bank has BD 138 thousand Zakah payable (2020: BD 122 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2022. The Zakah balance amounting to BD 1,786 thousand or 1.7 fils per share (2020: BD 1,401 thousand or 1.3 fils per share) is due and payable by the shareholders.

## 28 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:

| | *2021* | *2020* |
|---|---|---|
| Profit / (loss) for the year in BD'000 | **6,131** | (12,563) |
| Weighted average number of shares | **1,052,935** | 1,052,592 |
| Basic and diluted earnings per share (fils) | **5.82** | (11.94) |

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

## 29 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 2020, the Group had 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 included, 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:

| | *2021* | | | | |
|---|---|---|---|---|---|
| | *Shareholders* | *Associates and joint ventures* | *Directors and related entities* | *Senior management* | *Total* |
| | *BD'000* | *BD'000* | *BD'000* | *BD'000* | *BD'000* |
| **Assets** | | | | | |
| Cash and balances with banks and Central Bank | 317 | - | - | - | 317 |
| Placements with financial institutions | 18,509 | - | - | - | 18,509 |
| Financing assets | - | - | 1,396 | 167 | 1,563 |
| Ijarah Muntahia Bittamleek | - | - | 326 | 71 | 397 |
| Investment in associates | - | 9,314 | - | - | 9,314 |
| Other assets | - | - | - | 224 | 224 |
| **Liabilities and Equity of investment accountholders** | | | | | |
| Financing from financial institutions | 19,159 | - | - | - | 19,159 |
| Placements from non-financial institutions and individuals | - | - | 90 | - | 90 |
| Customers' current accounts | - | 1,374 | 650 | 226 | 2,250 |
| Other liabilities | - | - | 272 | - | 272 |
| Equity of investment accountholders | - | - | 516 | 1,995 | 2,511 |

| | *2021* | | | | |
|---|---|---|---|---|---|
| | *Shareholders* | *Associates and joint ventures* | *Directors and related entities* | *Senior management* | *Total* |
| | *BD'000* | *BD'000* | *BD'000* | *BD'000* | *BD'000* |
| **Income** | | | | | |
| Income from financing | 35 | - | 116 | 11 | 162 |
| Share of results of associates, net | - | (272) | - | - | (272) |
| **Return on equity of investment accountholders** | - | - | - | (89) | (89) |
| Expense on financing from financial institutions | (160) | - | - | - | (160) |
| Expense on placements from non-financial institutions and individuals | - | - | (14) | - | (14) |
| **Expenses** | | | | | |
| Other expenses | - | - | (332) | - | (332) |
| Staff costs | - | - | - | (1,469) | (1,469) |

**29 RELATED PARTY TRANSACTIONS (continued)**

| | 2020 | | | | |
|---|---|---|---|---|---|
| | *Shareholders* | *Associates and joint ventures* | *Directors and related entities* | *Senior management* | *Total* |
| | *BD'000* | *BD'000* | *BD'000* | *BD'000* | *BD'000* |
| Assets | | | | | |
| Financing assets | - | - | 905 | 681 | 1,586 |
| Ijarah Muntahia Bittamleek | - | - | 689 | 146 | 835 |
| Investment in associates | - | 19,298 | - | - | 19,298 |
| Other assets | - | - | - | 500 | 500 |
| Liabilities and Equity of investment accountholders | | | | | |
| Placements from non-financial institutions and individuals | - | - | 1,054 | 999 | 2,054 |
| Customers' current accounts | - | 2,748 | 697 | 407 | 3,852 |
| Other liabilities | 801 | - | 320 | - | 1,121 |
| Equity of investment accountholders | - | - | 635 | 2,289 | 2,924 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | *Shareholders* | *Associates and joint ventures* | *Directors and related entities* | *Senior management* | *Total* |
| | *BD'000* | *BD'000* | *BD'000* | *BD'000* | *BD'000* |
| 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) |

Compensation of the key management personnel is as follows:

| | **2021** | 2020 |
|---|---|---|
| | ***BD'000*** | *BD'000* |
| Short term employee benefits | **1,161** | 1,406 |
| Other long term benefits | **308** | 367 |
| | **1,469** | 1,773 |

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

## 30 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 Sharia'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.

**30 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) Unemployment rate;
(x) General government net lending / borrowing;
(xi) General government net debt;
(xii) Domestic credit growth (%); and
(xiii) Oil price.

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.

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.

**30 RISK MANAGEMENT (continued)**

**e. Credit Risk (Continued)**

*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. 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.

*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 from the International Monetary Fund (IMF) database and Economist intelligence unit (EIU) 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.

**30 RISK MANAGEMENT (continued)**

**e. Credit Risk (Continued)**

*(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.

*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. Forbearance 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.

**30 RISK MANAGEMENT (continued)**

**e. Credit Risk (Continued)**

*vii) Modified exposures subject to credit risk (Continued)*

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 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.

Collateral coverage by type of credit exposure:

| **2021** | **Properties BD'000** | **Others BD'000** | **Total BD'000** |
|---|---|---|---|
| Financing assets | **455,912** | **62,960** | **518,872** |
| Ijarah Muntahia Bittamleek | **326,120** | **3,577** | **329,697** |
| | **782,032** | **66,537** | **848,569** |

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

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2021 amounts to BD 90,693 thousand (31 December 2020: BD 88,130 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.

**30 RISK MANAGEMENT (continued)**

**e. Credit Risk (Continued)**

*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.

| | ***2021 BD'000*** | *2020 BD'000* |
|---|---|---|
| Balances with banks and Central Bank | **33,377** | 34,542 |
| Placements with financial institutions | **86,894** | 44,442 |
| Financing assets | **605,916** | 571,513 |
| Ijarah Muntahia Bittamleek | **257,382** | 212,042 |
| Debt type investment instruments | **253,639** | 251,884 |
| | **1,237,208** | 1,114,423 |
| Letters of credit, guarantees and acceptances | **49,360** | 49,223 |

*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 2021 BD'000*** | *31 December 2020 BD'000* | ***31 December 2021 BD'000*** | *31 December 2020 BD'000* | ***31 December 2021 BD'000*** | *31 December 2020 BD'000* |
| **Geographical region** | | | | | | |
| Middle East | **1,311,663** | 1,205,164 | **1,197,629** | 1,113,563 | **140,083** | 146,754 |
| North America | **12,330** | 6,237 | **757** | 1,541 | **-** | - |
| Europe | **527** | 165 | **373** | 425 | **-** | - |
| Other | **16** | 15 | **17** | 10 | **-** | - |
| | **1,324,536** | 1,211,581 | **1,198,776** | 1,115,539 | **140,083** | 146,754 |
| **Industry sector** | | | | | | |
| Trading and Manufacturing | **84,922** | 82,868 | **61,572** | 48,080 | **18,425** | 19,432 |
| Aviation | **-** | - | **575** | 170 | **-** | - |
| Real Estate | **126,364** | 150,726 | **61,376** | 107,931 | **23,574** | 27,603 |
| Banks and Financial Institutions | **126,507** | 71,028 | **220,289** | 96,313 | **3,433** | 2,028 |
| Personal / Consumer Finance | **596,778** | 527,237 | **640,602** | 637,704 | **38,080** | 37,847 |
| Governmental Organizations | **333,080** | 321,020 | **69,784** | 102,780 | **39,809** | 46,963 |
| Others | **56,885** | 58,702 | **144,578** | 122,561 | **16,762** | 12,881 |
| | **1,324,536** | 1,211,581 | **1,198,776** | 1,115,539 | **140,083** | 146,754 |

**30 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 2021 | | | |
|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3**** | ***Total*** |
| **Financing assets (Funded exposure)** | | | | |
| Low risks | 457,757 | 8,472 | - | 466,229 |
| Acceptable risks | 65,742 | 51,167 | - | 116,909 |
| Watch list | 1,214 | 2,810 | - | 4,024 |
| Non performing | - | - | 52,922 | 52,922 |
| **Gross exposure** | **524,713** | **62,449** | **52,922** | **640,084** |
| Less: ECL | (3,136) | (9,209) | (18,271) | (30,616) |
| **Financing assets carrying amount** | **521,577** | **53,240** | **34,651** | **609,468** |
| **Ijarah Muntahia Bittamleek** | | | | |
| Low risks | 234,449 | 1,464 | - | 235,913 |
| Acceptable risks | 9,911 | 10,314 | - | 20,225 |
| Watch list | 474 | - | - | 474 |
| Non performing | - | - | 3,119 | 3,119 |
| **Gross exposure** | **244,834** | **11,778** | **3,119** | **259,731** |
| Less: ECL | (730) | (414) | (1,205) | (2,349) |
| **Ijarah muntahia bittamleek carrying amount** | **244,104** | **11,364** | **1,914** | **257,382** |
| **Investment in Sukuk** | | | | |
| *Low risks* | 253,800 | - | - | 253,800 |
| *Acceptable risks* | - | - | - | - |
| *Watch list* | - | - | - | - |
| *Non performing* | - | - | 12,570 | 12,570 |
| **Gross exposure** | **253,800** | **-** | **12,570** | **266,370** |
| Less: ECL | (161) | - | (12,570) | (12,731) |
| **Investment in Sukuk carrying amount** | **253,639** | **-** | **-** | **253,639** |
| **Placements with financial institutions** | | | | |
| *Low risks* | 86,898 | - | - | 86,898 |
| *Acceptable risks* | - | - | - | - |
| *Watch list* | - | - | - | - |
| *Non performing* | - | - | 3,686 | 3,686 |
| **Gross exposure** | **86,898** | **-** | **3,686** | **90,584** |
| Less: ECL | (4) | - | (3,686) | (3,690) |
| **Placements with financial institutions carrying amount** | **86,894** | **-** | **-** | **86,894** |

**30 RISK MANAGEMENT (Continued)**

**e) Credit Risk (continued)**

*xi) Credit quality of exposures subject to credit risk (continued)*

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3** | *Total* |
| **Balances with Banks** | | | | |
| *Low risks* | 10,397 | - | - | 10,397 |
| *Acceptable risks* | - | - | - | - |
| *Watch list* | - | - | - | - |
| *Non performing* | - | - | - | - |
| **Gross exposure** | **10,397** | **-** | **-** | **10,397** |
| Less: ECL | - | - | - | - |
| **Balances with Banks carrying amount** | **10,397** | **-** | **-** | **10,397** |
| **Total funded exposures subject to credit risk carrying amount** | **1,116,611** | **64,604** | **36,565** | **1,217,780** |
| **Commitments** | | | | |
| Gross exposure | **32,176** | **794** | **3,129** | **36,099** |
| Less: ECL | (159) | (8) | (3,129) | (3,296) |
| Commitments carrying amount | **32,017** | **786** | **-** | **32,803** |

*This includes BD 33,833 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 2021 | | | |
|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
| At 1 January 2021 | **3,413** | **5,722** | **32,184** | **41,319** |
| Transfer to Stage 1 | **234** | **(218)** | **(16)** | **-** |
| Transfer to Stage 2 | **(124)** | **465** | **(341)** | **-** |
| Transfer to Stage 3 | **(49)** | **(333)** | **382** | **-** |
| Net movement between stages | **61** | **(86)** | **25** | **-** |
| Charge for the year (net) | **716** | **3,995** | **7,275** | **11,986** |
| Write-off | **-** | **-** | **(644)** | **(644)** |
| Foreign exchange movement | **-** | **-** | **21** | **21** |
| **At 31 December 2021** | **4,190** | **9,631** | **38,861** | **52,682** |

**30 RISK MANAGEMENT (Continued)**

**e) Credit Risk (continued)**

*xi) Credit quality of exposures subject to credit risk*

(iii) The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3** | *Total* |
| 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 | | | | |
| 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 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 |

**30 RISK MANAGEMENT (Continued)**

**e) Credit Risk (continued)**

*xi) Credit quality of exposures subject to credit risk (continued)*

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3** | *Total* |
| 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 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 2020 | | | |
|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
| 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 |

**30 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 2021 was as follows:

| | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 months to 1 year* | *1 to 3 years* | *Over 3 years* | *No fixed maturity* | *Total* |
|---|---|---|---|---|---|---|---|---|
| | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* |
| **ASSETS** | | | | | | | | |
| Cash and balances with the banks and Central Bank | 22,611 | - | - | - | - | - | 22,980 | 45,591 |
| Placements with financial institutions | 86,894 | - | - | - | - | - | - | 86,894 |
| Financing assets | 28,135 | 23,389 | 28,030 | 46,020 | 160,798 | 323,096 | - | 609,468 |
| Ijarah Muntahia Bittamleek | 9,521 | 6,794 | 9,218 | 14,110 | 61,581 | 156,158 | - | 257,382 |
| Investment securities | 4,997 | - | 883 | - | 79,572 | 168,187 | 20,985 | 274,624 |
| Investment in associates | - | - | - | - | - | - | 9,314 | 9,314 |
| Investment in real estate | - | - | - | - | - | - | 14,680 | 14,680 |
| Property and equipment | - | - | - | - | - | - | 13,491 | 13,491 |
| Other assets | 38 | 653 | 794 | 152 | 702 | 596 | 10,157 | 13,092 |
| **Total assets** | 152,196 | 30,836 | 38,925 | 60,282 | 302,653 | 648,037 | 91,607 | 1,324,536 |
| **LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS** | | | | | | | | |
| Placements from financial institutions | 37,492 | 61,011 | 10,943 | 10,965 | 12,935 | - | - | 133,346 |
| Placements from non-financial institutions and individua | 55,564 | 50,328 | 58,198 | 43,671 | 4,657 | - | - | 212,418 |
| Financing from financial institutions | - | 19,159 | - | 37,760 | - | - | - | 56,919 |
| Customers' current accounts | 249,749 | - | - | - | - | - | - | 249,749 |
| Other liabilities | 30,114 | - | - | - | - | - | - | 30,114 |
| Equity of investment accountholders | 391,463 | 46,265 | 21,377 | 34,506 | 21,214 | 1,405 | - | 516,230 |
| **Total liabilities and equity of investment accountholders** | 764,382 | 176,763 | 90,518 | 126,902 | 38,806 | 1,405 | - | 1,198,776 |
| **Liquidity gap** | (612,186) | (145,927) | (51,593) | (66,620) | 263,847 | 646,632 | 91,607 | 125,760 |
| **Cumulative liquidity gap** | (612,186) | (758,113) | (809,706) | (876,326) | (612,479) | 34,153 | 125,760 | - |

**30 RISK MANAGEMENT (continued)**

**f. Liquidity risk (continued)**

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2020 was as follows:

| | *Up to 1 month* | *1 to 3 months* | *3 to 6 months* | *6 months to 1 year* | *1 to 3 years* | *Over 3 years* | *No fixed maturity* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* | *BD '000* |
| 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 | 1,637 | 2,329 | 3,376 | 6,159 | 28,980 | 169,561 | - | 212,042 |
| Investments 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 individua | 66,662 | 60,855 | 75,220 | 58,265 | - | - | - | 261,002 |
| Financing 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 | - |

**30 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. As of 31 December 2021, the Group had LCR ratio of 225%.

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 which have been extended until 30 June 2022. 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 2021 the Group had NSFR ratio of 109%.

**30 RISK MANAGEMENT (continued)**

**f. Liquidity risk (continued)**

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

| | Unweighted Values (before applying factors) | | | | BD'000 |
|---|---|---|---|---|---|
| Item | No Specified maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total Weighted Value |
| **Available Stable Funding (ASF):** | | | | | |
| **Capital:** | | | | | |
| Regulatory Capital | 141,369 | - | - | 15,369 | 156,739 |
| Other Capital Instruments | - | - | - | - | - |
| **Retail Deposits and deposits from small business customers:** | | | | | |
| Stable Deposits | - | 265,438 | 6,156 | 1,742 | 259,756 |
| Less stable deposits | - | 310,106 | 54,700 | 21,129 | 349,454 |
| **Wholesale funding:** | | | | | |
| Operational deposits | - | - | - | - | - |
| Other wholesale funding | - | 435,985 | 69,000 | 4,406 | 134,547 |
| **Other liabilities:** | | | | | |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | 12,791 | - | - | - |
| **Total ASF** | 141,369 | 1,024,320 | 129,856 | 42,646 | 900,496 |
| **Required Stable Funding (RSF):** | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | 246,036 | - | 43,324 | - | 32,186 |
| Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| **Performing financing and sukuk/ securities:** | | | | | |
| Performing financing to financial institutions secured by Level 1 HQLA | - | - | - | - | - |
| Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 93,553 | 4,503 | 11,032 | 27,316 |
| Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 86,027 | 61,651 | 681,109 | 651,799 |
| - With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines | - | - | - | - | - |
| **Performing residential mortgages, of which:** | | | | | |
| - With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | - | - | - | - |
| **Other assets:** | | | | | |
| Physical traded commodities, including gold | - | - | - | - | - |
| Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs | - | - | - | - | - |
| NSFR Shari'a-compliant hedging assets | - | - | - | - | - |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 100,489 | - | - | 10,468 | 110,957 |
| OBS items | 140,083 | - | - | - | 7,004 |
| **Total RSF** | 486,608 | 179,580 | 109,478 | 702,609 | 829,262 |
| **NSFR (%)** | | | | | 108.59% |

f. **NET STABLE FUNDING RATIO** (continued)

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

| Item | Unweighted Values (before applying factors) | | | | BD'000 |
|---|---|---|---|---|---|
| | No Specified maturity | Less than 6 months | More than 6 months and less than one year | Over one year | Total Weighted Value |
| **Available Stable Funding (ASF):** | | | | | |
| **Capital:** | | | | | |
| Regulatory Capital | 111,018 | - | - | 11,314 | 122,332 |
| Other Capital Instruments | - | - | - | - | - |
| **Retail Deposits and deposits from small business customers:** | | | | | |
| Stable Deposits | - | 263,413 | 5,374 | 4,396 | 259,743 |
| Less stable deposits | - | 302,625 | 50,734 | 39,875 | 357,899 |
| **Wholesale funding:** | | | | | |
| Operational deposits | - | - | - | - | - |
| Other wholesale funding | - | 371,029 | 53,141 | 1,310 | 168,307 |
| **Other liabilities:** | | | | | |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | 6,350 | - | - | - |
| **Total ASF** | 111,018 | 943,417 | 109,249 | 56,895 | 908,281 |
| **Required Stable Funding (RSF):** | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | 287,942 | - | - | - | 13,097 |
| Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| **Performing financing and sukuk/ securities:** | | | | | |
| Performing financing to financial institutions secured by Level 1 HQLA | - | - | - | - | - |
| Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 37,300 | 1,098 | 4,610 | 10,754 |
| Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 129,860 | 82,875 | 555,127 | 568,825 |
| - With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines | - | - | - | - | - |
| **Performing residential mortgages, of which:** | | | | | |
| - With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - |
| Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 3,798 | - | - | 1,899 |
| **Other assets:** | | | | | |
| Physical traded commodities, including gold | - | - | - | - | - |
| Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs | - | - | - | - | - |
| NSFR Shari'a-compliant hedging assets | - | - | - | - | - |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 117,969 | - | - | - | 117,969 |
| OBS items | 146,754 | - | - | - | 7,338 |
| **Total RSF** | 552,665 | 170,958 | 83,973 | 559,737 | 719,882 |
| **NSFR (%)** | | | | | 126.2% |

**30 RISK MANAGEMENT (continued)**

**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. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group Assets and liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of profit rate risk and risks arising from IBOR reform.

As of 31 December 2021, the Group did not have any outstanding contracts linked to benchmark rates and it continues to enhance its systems and processes to cope with the change in benchmark rates.

**30 RISK MANAGEMENT (continued)**

**g. Market 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 44 million (31 December 2020: BD 48 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) 2021 BD '000*** | *Equivalent long (short) 2020 BD '000* |
|---|---|---|
| **Currency** | | |
| Pound Sterling | **228** | 131 |
| Euro | **87** | 56 |
| Kuwaiti Dinars | **18** | 326 |

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.

## 31 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 2021*** | | | |
|---|---|---|---|---|
| | ***Corporate BD'000*** | ***Retail BD'000*** | ***Investment BD'000*** | ***Total BD'000*** |
| Total income | **9,470** | **25,668** | **12,761** | **47,899** |
| Total expenses | **(4,562)** | **(15,850)** | **(2,147)** | **(22,559)** |
| Provision for impairment | **(4,711)** | **(1,298)** | **(13,200)** | **(19,209)** |
| **Profit / (loss) for the year** | **197** | **8,520** | **(2,586)** | **6,131** |
| **Other information** | | | | |
| Segment assets | **280,324** | **636,343** | **407,869** | **1,324,536** |
| Segment liabilities and equity | **441,740** | **630,758** | **252,038** | **1,324,536** |

| | *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 |

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

## 32 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 20,985 thousand (31 December 2020: BD 24,724 thousand) are treated as Level 3 investments. During the year fair value movement of BD 3,821 thousand (31 December 2020: BD 2,024 thousand) was charged to income statement and BD 82 thousand (31 December 2020: BD 978 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:

| **2021** | ***Level 1 BD'000*** | ***Level 2 BD'000*** | ***Level 3 BD'000*** | ***Total BD'000*** |
|---|---|---|---|---|
| Unquoted shares | - | - | **20,549** | **20,549** |
| Unquoted managed funds | - | - | **436** | **436** |
| **Total** | - | - | **20,985** | **20,985** |

| 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 |

**Transfers between Level 1, Level 2 and Level 3**

During the year ended 31 December 2021 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.

## 33 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.

## 34 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four 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.

## 35 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.

## 36 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.

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.

In 2020, 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 measures 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 ended 31 December 2020 and ending 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 CBB subsequently announced a second, third, fourth and fifth payment holiday programmes effective September 2020 for a period of four months, January 2021 for a period of six months, July 2021 for a period of six months and January 2022 for a period of six months. The latter fourth programmes permitted banks to charge profit, and as such, did not result in any additional modification losses to the Group.

• 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.

• 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 series of payment holidays.

• The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

A summary of the financial impact of the above effects on the Group as at 31 December 2021 is as follows:

| | Net impact on the Group's consolidated income statement | Net impact on the Group's consolidated financial position | Net impact on the Group's consolidated owners' equity |
|---|---|---|---|
| | *BD'000* | *BD'000* | *BD'000* |
| Average reduction of cash reserve | - | 15,464 | - |
| Concessionary repo at 0% | | 40,741 | - |
| Modification loss | - | - | (14,711) |
| Government grants | - | - | 1,814 |
| Stressed liquidity | (214) | - | - |
| Credit card income | (125) | - | - |
| ECL attributable to COVID-19 | (929) | (3,632) | (2,703) |
| | **(1,268)** | **52,573** | **(15,600)** |

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 may result in this information be out-of-date. 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.