بنك البحرين الإسلامي BisB

STRONGER **TOGETHER**

Annual Financial & Sustainability Report 2021

His Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince and Prime Minister

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

STRONGER TOGETHER

01

WHO WE ARE

PROFILE

Bahrain Islamic Bank (BisB) was founded in 1979 as the first Islamic bank in the Kingdom of Bahrain, and the fourth in the GCC.

The Bank has played a significant role in the development not only of the Kingdom's economy, but also of the Islamic banking industry. We are driven by our Islamic values.

The Bank operates under an Islamic Retail bank license from the Central Bank of Bahrain and is listed on the Bahrain Bourse. The Bank operates with four branches, four innovative financial malls, one digital branch and 45 ATMs located throughout the Kingdom.

Developed in the Kingdom of Bahrain as a leader of the Islamic industry and the leading provider of integrated financial solutions compliant with Shari'a.

The Bank adopts a customer-centered approach, constantly developing in anticipation of the needs and expectations of our customers.

Innovation has always been at the core of our operations and financial offerings. We believe we are the industry's "mover and shaker", and as part of our strategic drive for digitalization, we have achieved major milestones since our establishment.

Succeeded in changing the norms of banking within the Kingdom and improving people's lives.

Steady emphasis on sound corporate governance and risk management, employee growth, and the use of state-of-the-art technology to provide superior customer service.

Successfully built a strong base of excellence from the implementation of the back-to-basics Ishraq strategy; digitalization, streamlining operations, restructuring our financial role and engaging with our employees and local partners to grow deeper and more meaningful roots.

Promoting the principles of sustainability in all markets.

We compete by being different.


BisB

OUR BRAND AND VALUES

OUR BRAND PROMISE

Fueled by Bahraini devotion, we craft new ways of Simplifying Your Money Matters

BAHRAINI DEVOTION — Our legendary national warmth and caring for others guide our approach to our customers, partners, personnel and broader society.

WE — Our entire team and organisation is committed to your financial well-being.

CRAFT — We sculpt and refine our services and products to best serve your needs.

NEW WAYS — Innovation and continuous development drive us to challenge the ordinary.

SIMPLIFYING — We remove barriers and get things done efficiently and easily for you.

BRAND VALUES

Bahraini

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

Innovative

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

To achieve this, we need to work together and champion these values, and to live and breath them at all times.

Simple

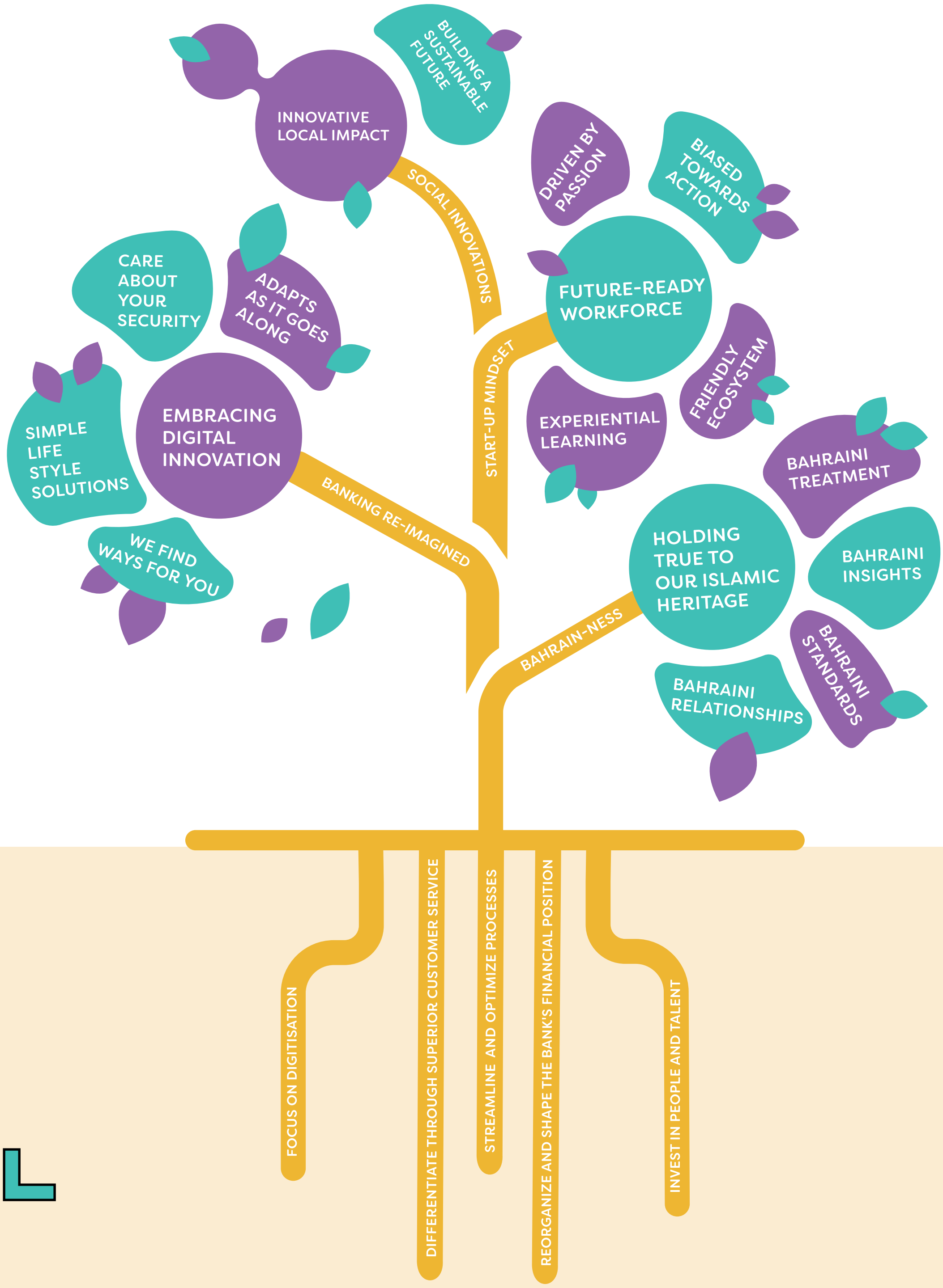
We strive for clarity and consistency, make decisions quickly and pragmatically and focus on what's essential. We go out of our way to simplify the lives of everyone around us because we understand that banking is complicated. We always challenge ourselves to find better ways. We celebrate successful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

Bold

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

OUR BRAND AND VALUES (Cont'd)

OUR GUIDING PRINCIPLES



OUR BRAND AND VALUES (Cont'd)

OUR GUIDING PRINCIPLES

BisB Tree of Life Pillars

Bahrain-ness

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

Start-up mindset

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

Banking re-imagined

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

Social innovation

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

VALUE CREATION: 2021 FINANCIAL AND OPERATIONAL HIGHLIGHTS

1

We have delivered excellent service to our customers in retail and corporate markets. Our support for individuals and businesses in response to COVID-19 has helped customers weather the challenging economic conditions.

2

We have continued to make our customers' lives easier by developing and providing the products and services they need in the way they want, increasingly through digital channels, with new products and offerings.

3

Through active engagement with small and medium sized companies, and by making our products and services readily accessible to everyone across the Kingdom, we have continued to support financial inclusion – aided by our digital capabilities.

4

Through the provision of our services as an Islamic bank, we have continued to provide Shari'a compliant products and services that meet market needs.

5

We have successfully protected the health and well-being of our workforce, operating safely and responsibly – enabling, for example, more than 70% of our employees to work from home when necessary.

6

By offering to restructure debt to better match the revised cash flows of our clients, we have helped our customers respond to the financial challenges created by the pandemic.

7

In partnership with the government, we have helped families in need, such as our involvement in initiatives to provide affordable housing.

8

Through our community investment initiatives, we have helped to support those who are disadvantaged across Bahraini society.

9

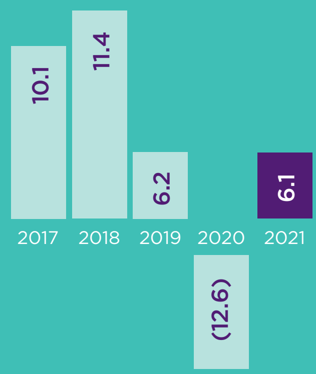
Our work with young people has helped to build their skills and knowledge of banking and of the digital business world they will work in the future.

10

By operating our business in an ethical and responsible way, we have continued to set a positive example for corporate governance.

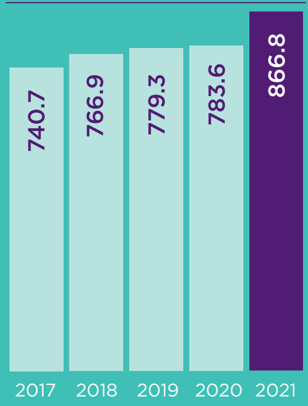
FINANCIAL HIGHLIGHTS

NET PROFIT
(BD Millions)
6.1 M

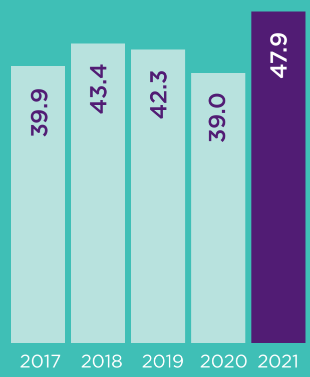


CUSTOMER DEPOSITS
(BD Millions)
1,105.9 M

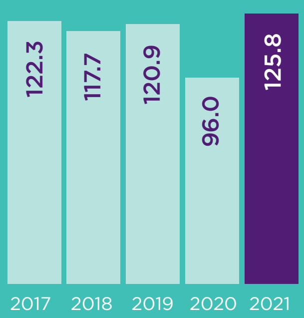
TOTAL ISLAMIC FINANCING
(BD Millions)
866.8 M



TOTAL INCOME
(BD Millions)
47.9 M

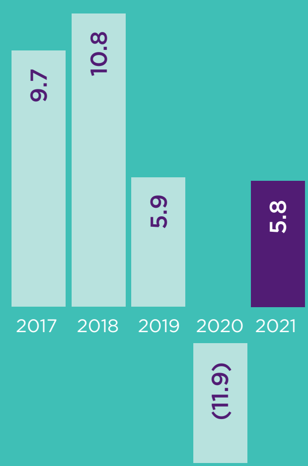


OWNERS' EQUITY
(BD Millions)
125.8 M



CAPITAL ADEQUACY
(%)
19.1%

EARNINGS PER SHARE
(FILS)
5.8 Fils



FINANCIAL HIGHLIGHTS

	2021	2020	2019	2018	2017
Earnings (BD Millions)					
Net profit income	**42.2**	34.4	34.7	33.9	32.9
Other income	**5.7**	4.6	7.6	9.5	7.0
Operating expenses	**22.6**	23.4	25.1	23.1	23.5
Net profit / (loss)	**6.1**	(12.6)	6.2	11.4	10.1
Financial Position (BD Millions)					
Total assets	**1,324.5**	1,211.6	1,223.6	1,280.5	1,228.6
Total islamic financing	**866.8**	783.6	779.3	766.9	740.7
Investment securities	**274.6**	276.6	246.2	240.1	258.4
Earning assets	**1,252.4**	1,139.9	1,139.0	1,190.4	1,133.5
Total deposits	**1,168.7**	1,091.9	1,081.1	1,137.6	1,094.9
Customer deposits	**1,105.9**	1,033.5	963.3	935.0	721.2
Owners' equity	**125.8**	96.0	120.9	117.7	122.3
Ratios (%)					
Earnings					
Return on average equity	**5.5**	(11.6)	5.2	9.5	8.5
Return on average assets	**0.5**	(1.0)	0.5	0.9	0.9
Earnings per share (fils)	**5.8**	(11.9)	5.9	10.8	9.7
Cost-to-income ratio	**47.1**	60.0	59.3	53.3	61.9
Capital					
Owners' equity as % of total assets	**9.5**	7.9	9.9	9.2	10.0
Total liabilities and URIA to owners' equity (times)	**9.5**	11.6	9.1	9.9	9.0
Capital adequacy ratio	**19.1**	16.0	14.9	17.1	19.4

BOARD OF DIRECTORS

Dr. Esam Abdulla Fakhro
Chairman

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

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

Mr. Khalid Yousif Abdul Rahman
Vice Chairman

Non-Executive Director
Vice Chairman - Executive Committee

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

BOARD OF DIRECTORS (Cont'd)

Mr. Jean-Christophe Durand
Vice Chairman

Executive Director
Chairman - Executive Committee

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

Mr. Mohamed Abdulla Nooruddin
Board Member

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

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

BOARD OF DIRECTORS (Cont'd)

Mr. Khalid Abdulaziz Al Jassim
Board Member

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

Mr. Khalid Abdulaziz Al Jassim is the Chairman and the Managing Director of Afkar Holding Company, which specializes in investments and financial advisory. Prior to that and for more than fifteen years, he was an Executive Director at Arcapita Bank. Mr. Al Jassim has also worked for Arthur Anderson as a senior business consultant. He currently serves on the Board and is the Chairman of the Audit, Risk, Governance and Compliance Committee at Bahrain Flour Mills. He is also a Board Member at SICO Bank serving on its Investment Committee. He holds a BSC in Computer Science & Mathematics from the California State University, Long Beach, USA as well as an Executive MBA from Pepperdine University in California, USA.

Mr. Marwan Khaled Tabbara
Board Member

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

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

BOARD OF DIRECTORS (Cont'd)

Mr. Mohammed Abdulla Al Jalahama
Board Member

Non-Executive Director, Independent
Member - Audit Committee (AC)

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

Mr. Yaser Abduljalil Alsharifi
Board Member

Executive Director
Member - Executive Committee

Mr. Yaser Alsharifi is the Chief Strategy Officer at the National Bank of Bahrain and is leading the Bank's transformation and innovation efforts. He boasts over 25 years of experience in investment management and corporate finance across the GCC, Europe and the US, with past roles in Al Rajhi Holdings, and Partner at Ernst & Young. Additionally, Mr. Alsharifi serves as the Chairman of the Bahrain Institute for Pearls and Gemstones (Danat). He is also a Board Member of Bahrain Real Estate Investment Company (Edamah), Bahrain Bourse, Bahrain Clear and Bahrain Car Parks Company B.S.C. Mr. Alsharifi is part of the Limited Partners Advisory Committee of the Al Waha Fund of Funds. Furthermore, he is a Member of the Young Presidents Organisation (YPO) and holds a Bachelors in Business Administration from the University of Massachusetts at Amherst, USA.

BOARD OF DIRECTORS (Cont'd)

Ms. Dana Abdulla Buheji
Board Member

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

Ms. Dana Buheji holds the position of Group Chief Human Resources & Sustainability Officer at the National Bank of Bahrain.

Ms. Buheji has held roles with, the Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, the Ministry of Finance, and Ahli United Bank. Ms. Buheji also serves as a Board Member for INJAZ Bahrain, and chairs the Human Resources Committee at Bahrain Association of Banks (BAB). She is also a member of BAB's Sustainability Committee. Ms. Buheji has a B.A. in Commerce from Concordia University, Canada and a professional certification in human resources (CPP) from London, UK.

Mr. Isa Hasan Maseeh
Board Member

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

Mr. Maseeh currently holds the position of Group Chief Risk Officer at the National Bank of Bahrain (NBB).

He has over 23 years of commercial and investment banking experience in the Kingdom of Bahrain across Islamic and conventional institutions. Mr. Maseeh was previously the Group Chief Risk Officer of Al Salam Bank Bahrain.

Mr. Maseeh is a Board Member of RE Property SPC and holds an MBA (Hons) from DePaul University, USA as well as a Bachelor of Commerce from Concordia University, Canada. He is also a Chartered Financial Analyst (CFA) and a Professional Risk Manager (PRM).

SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Latif Mahmood Al Mahmood
Chairman of Shari'a Supervisory Board

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

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman of Shari'a Supervisory Board

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

SHARI'A SUPERVISORY BOARD (Cont'd)

Shaikh Adnan Abdulla Al Qattan
Shari'a Supervisory Board Member

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

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

- Member of the Shari'a Supervisory Board Central Bank of Bahrain, Abu Dhabi Islamic Bank, Sharjah Islamic Bank, Ithmaar Bank, Gulf Finance House, Khaleeji commercial Bank, ABC Islamic Bank.
- Member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Holds a number of Academic degrees and awards, First Degree Award of Capability for Islamic services within and outside Bahrain 2007, from the King of Bahrain, Euro Money Award for innovation in Islamic banking supervision, Malaysia, Malaysia Award for contribution to Islamic banking-Malaysia.
- He participated in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

EXECUTIVE MANAGEMENT

Mr. Hassan Amin Jarrar
Chief Executive Officer

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

Mr. Ameer Abdul Ghani Dairi
Chief Financial Officer

Mr. Ameer A.Ghani Dairi has over 20 years of experience in financial management and accounting in addition to a broad commercial banking background in Bahrain. He joined BisB in 2007 and holds the position of Chief Financial Officer. Mr. Dairi is a Board Member and Chairman of Audit Committee in Liquidity Management Centre (LMC), representing BisB. He is also the Chairman of the Board of Directors of Abaad Real Estate Company, and a Board Member of Benefit. Mr. Dairi is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US and holds a BSc in Accounting from the University of Bahrain. Mr. Dairi has been awarded a certificate of excellence in data science and analytics from Berkeley University of California and a leadership grooming program certificate from Ivey Business School, Canada, a program designed by CBB Waqf Fund for Islamic Banking future leaders.

EXECUTIVE MANAGEMENT (Cont'd)

Mr. Fahim Ahmed Shafiqi
Chief Risk Officer

Ms. Afnan Ahmed Saleh
Chief Human Resources Officer

Mr. Fahim Ahmed is an experienced banker with over 21 years of international experience gained through various roles in Corporate Banking and Risk Management, spanning the markets of Pakistan, GCC, Africa and the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He holds a Diploma in Islamic Finance (CDIF) and an MBA from the University of Warwick, UK.

Bringing to the role over 20 years of work experience, Ms. Afnan Saleh began her career at the Career Counseling Office of the University of Bahrain where she worked for six years, ultimately heading Professional Liaisons Division. She later joined INTELNACIM as a Corporate Affairs Manager in 2006. From 2008, Ms. Afnan Saleh held several leading positions at Tharawat Investment House, namely as Director of HR & Corporate Management and Secretary of the Board of Directors. Ms. Afnan joined BisB in 2015 as a HR Manager, till she was promoted to reach Chief Human Resources Officer in 2020. In addition to her work experience, she holds a BSc. in Business Administration from the University of Bahrain, and an MBA in Business Administration from Strathclyde University, UK.

EXECUTIVE MANAGEMENT (Cont'd)

Mrs. Maisa Jawdat Shunnar
Group Chief Digital Transformation

Mr. Andrew Mario Stefan Corera
Chief Applications Officer

Mrs. Maisa Shunnar is contributes to the creation and the execution of the digital transformation strategy at BisB. She is responsible for the coordination of multiple automation projects and initiatives for improving customers & users' experience by having more efficient processes and straight through processing. Mrs. Shunnar has the bird's eye-view of all automation initiatives to ensure collaboration among the business units and effective usage of the Bank's resources.

Mrs. Shunnar is a notable speaker and active participant on topics such as FinTech and Transformation. She has participated in many conferences within the Middle East & Europe. Furthermore, she is a member of many national committees in the fields of FinTech and Innovation. Additionally, Mrs. Shunnar serves on the Advisory Board of Bahrain FinTech Bay. Prior to holding her current position in BisB, Mrs. Shunnar worked in the National Bank of Abu Dhabi as Transformation Manager, headed the BPR Department in the Electronic Government Authority of Bahrain and served as the Manager of Performance and Productivity Improvements for Electronic Data Systems - Bahrain. Prior to moving to the Middle East, Mrs. Shunnar worked in Shell Oil and Gas and for the City of Houston in the State of Texas, USA. Mrs. Shunnar holds a BSc. degree in Business Administration majoring in Computer Information Systems from the University of Houston (Texas, USA), and a master's degree in Business Communication and Leadership from Jones International University (Colorado, USA). In addition to that, she has also acquired a numerous Certificates in the fields of Fintech, Innovation, and Digital Strategies from Oxford University, Columbia Business School and MIT.

Mr. Andrew Mario Stefan Corera's background boasts a blend of software, technology and operations knowledge spanning across banking for over 30 years. His extensive experience includes technology management, full suite of back-office operations, disciplines in process improvement, governance over information, data & cyber security, project and program governance. Moreover, his background comprises leading transformation change in Agile Dynamic Work Design and New Ways of Working, people management and talent development.

Having worked in multinational banks in the likes of ANZ, Grindlays and Standard Chartered (SCB), Mr. Stefan has been exposed to diverse markets including Sri Lanka, Australia, Qatar, Vietnam and Bahrain; the lattermost of which he served on several steering committees, namely CBB for IBAN, BCTS, ECC, and also represented SCB on the Benefit Board.

He holds an MBCS from the British Chartered Institute for IT and is a Chartered Information Technology Practitioner (CITP) and Project Management Certification from IPM. Mr. Stefan is also an avid future technologies and choral classical music enthusiast.

EXECUTIVE MANAGEMENT (Cont'd)

Jawad Abdul Hadi Humaidan
Acting Head of Corporate Banking

Ali Yousif Al Aradi
Acting Head of Retail Banking

Mr. Jawad Humaidan is a seasoned banker with over 16 years of extensive experience in Corporate, Wholesale, Commercial, and Retail Banking. Prior to joining BisB in 2018, Mr. Humaidan held senior roles in managing corporate relationships in leading local, regional, and international banks such as National Bank of Bahrain, Mashreq Bank and Standard Chartered Bank. He is an active member in community service societies, and currently serves on the board of Bahrain Economists Society.

Mr. Humaidan is a certified arbitrator specializing in Banking & Finance. He holds Bachelor's Degree in Economics from Carleton University in Canada, and Master of Science degree in Finance with distinction from DePaul University in Chicago, USA. Mr. Humaidan attended several leadership programs with leading institutions such as INSEAD in Singapore and Ivey Business School in Canada.

Mr. Ali Al Aradi has over 18 years of extensive financial and banking experience. Prior to joining BisB in October 2018 as Head of Branches and Sales, Mr. Al Aradi has held various key positions across Retail branch banking, Sales, and Wealth management within conventional, Islamic and international banks. Mr. Al Aradi also brings to the Bank an in-depth knowledge of consumer banking alternative channels. Mr. Al Aradi holds a Fintech certificate from Oxford University, Advanced Diploma in Banking and Finance, Advanced Diploma in Islamic Finance, and is currently undertaking his Master's Degree in Business Administration.

EXECUTIVE MANAGEMENT (Cont'd)

Mr. Hussain Ebrahim Al Banna
Head of Treasury

Mr. Khaled Waheeb Alnaser
Chief Internal Audit Officer

Mr. Hussain Al Banna is a banking professional with more than 16 years of conventional and Islamic banking experience in various capacities. He joined BisB in 2008 and is currently heading the treasury department with a mandate of handling Foreign Exchange (FX), Money Market (MM) as well as the Bank's sukuk portfolio. His banking career started in 2004 when he joined BNP Paribas as an Officer in the Regional Treasury Operations. During 2005, he moved on to join the Executive Management Trainee Program at Bank of Bahrain and Kuwait (BBK). During the program, he gained in-depth knowledge of Foreign Exchange (FX), Money Market (MM) - Asset Liability Management (ALM), Corporate Treasury sales and handled over US$ 700 million fixed income bond portfolio within the Treasury & Investments Department. He holds a BSc in Banking and Finance from the University of Bahrain and has successfully completed the Treasury and Capital Markets diploma from Bahrain Institute of Banking and Finance (BIBF).

Mr. Khaled Waheeb Alnaser has over 15 years' experience in the fields of external audit, financial reporting and control, internal control, and internal audit. Prior to joining BisB in 2014, he worked at Ernst & Young as an external auditor with focus on Islamic financial institutions. He joined BisB as a Senior Manager in Financial Control in charge of financial reporting and payables, then moved to establish and head the Internal Control department prior to joining Internal Audit and holding his current position as Chief Internal Auditor. He is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), Certified Islamic Professional Accountant (CIPA) from Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and a Chartered Global Management Accountant (CGMA). Mr. Alnaser also completed a Leadership Development Program from Darden School of Business, University of Virginia, in the US.

EXECUTIVE MANAGEMENT (Cont'd)

Mohammed Ayada Mattar
Acting Head of Compliance

Mr. Mohamed Ayada Mattar has over 17 years of experience in the financial services industry, covering Retail Banking and Compliance. Prior to joining BisB, he was the Deputy Money Laundering Reporting Officer at Kuwait Finance House - Bahrain. Mr. Mohamed has had extensive experience with various Central Bank regulators in the field of AML/CFT procedures, regulatory compliance, and FATCA/CRS reporting. He holds a BSc in Business Information System from the University of Bahrain, a Master degree in finance from the AMA International University and an International Diploma in Governance, Risk & Compliance from the International Compliance Association (ICA). He is also a certified Anti-Money Laundering Specialist.

02

OUR STRATEGY AND OUTLOOK

"Successfully built a strong base of excellence from the implementation of the back-to-basics Ishraq strategy; digitalization, streamlining operations, restructuring our financial role and engaging with our employees and local partners to grow deeper and more meaningful roots.

Promote the principles of sustainability in all markets.

We compete by being different."


BisB
بنك البحرين الإسلامي
التمويلات العقارية
عقد مشاركة
عقد إيجارة
تمويل سكني
Pari- Passu

BOARD OF DIRECTORS' REPORT

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.

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.

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 through 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 the 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.

Dr. Esam Abdulla Fakhro
Chairman of the Board

BOARD OF DIRECTORS' REPORT (Cont'd)

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

Other remunerations:
***Includes in-kind benefits – specific amount – remuneration for technical, administrative and advisory works (if any).
****Includes the board member's share of the profits - Granted shares (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 are stated in Bahraini Dinars.
* The highest authority in the executive management of the Bank.
** The Bank's highest financial officer.


BisB

THE CHIEF EXECUTIVE REPORT

With the challenges of social distancing and remote working, we have worked hard to know our customers and to safeguard their livelihoods and businesses. We renewed and restructured working capital facilities for a number of clients to help them maintain their operations.

Throughout 2021, the Covid-19 pandemic continued to create extremely challenging economic circumstances. We responded by modifying our processes and ways of working to embrace agile approaches. We adapted and improved our IT infrastructure to enable employees to work from home, securing their well-being and minimizing risks to their health. We continued to provide first-class service for our customers, offering seamless and reliable digital products that met their needs and made their lives simpler, in difficult social and economic conditions. All these efforts are reflected in our strong financial performance.

With the challenges of social distancing and remote working, we have worked hard to know our customers and to safeguard their livelihoods and businesses. We renewed and restructured working capital facilities for a number of clients to help them maintain their operations. We were the only Islamic Bank to participate in the government's Liquidity Support Fund, providing working capital to companies large and small facing short-term liquidity pressures. We continued our digital banking transformation in the knowledge that our digital services offer diverse benefits: improving customer service, minimizing risk, and increasing efficiency. These are just a few of the actions we took to deliver on our aim of making our customers lives simpler and better.

In delivering these, the benefits of integration with NBB are already becoming apparent. We have been able to deliver operational efficiencies through the provision of shared services and workspaces. We are already beginning to realize the benefits of shared learning and experience.

The management of Environment, Social and Governance (ESG) challenges continues to increase in importance. Global concerns about climate change are reflected in local pressure to take action to increase disclosure on what we are doing to minimize impacts, and on how we are supporting and challenging our clients. We are systematizing our investment and project screening to examine environmental and social matters and have increased our engagement with clients on ESG by introducing a customer questionnaire and scorecard. We are marketing new products, such as green financing, that help them respond.

In our own operations, we are continuing to follow our three-year sustainability roadmap. We are developing a management system to provide a framework for monitoring, managing, and measuring our resource efficiency which will drive further improvements in our resource efficiency, such as reduced energy use. In my capacity as Chairman of the new Sustainability committee, I will champion commitment and action throughout our organization. We understand that the road to sustainability represents a journey, and we recognize that an early priority is to raise awareness and educate our staff on the nature of these challenges and how we can tackle them.

Taking action to address the ESG agenda places additional and new demands on our staff, who have already faced significant challenges in their personal and professional lives over the last two years. I am extremely grateful for the efforts they have made, and the teamwork, flexibility and perseverance they have shown. Their response gives me great confidence that we will be able to rise to the challenges we face both in the year ahead, and over the long term.

Hassan Amin Jarrar
Chief Executive Officer

OUR STRATEGY AND OUTLOOK

Our Strategy

As an Islamic bank, we have strong ethical foundations, and we believe that sustainability is essential to business and society. We aim to embed it in our DNA, at the core of our business and operations. Our strategy is founded on the following foundations:

- An Islamic Bank
- Customer focused
- Digitalization
- Sustainability
- Stakeholder engagement
- Embedding effective ESG practices
- Integration with NBB
- Reporting on material topics

An Islamic Bank

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

We were delighted to win the International Finance Award in 2021 for the 'Most Innovative Islamic Bank', and the 'Best Islamic Bank – Bahrain' for the year 2021 award by MEA Finance magazine.

The judges recognised outstanding financial players and service providers based on factors including the provision of exceptional products and services, digital readiness, responsiveness to the changing times and innovative leadership.

As part of our commitment to position the Kingdom of Bahrain as the regional FinTech hub and global capital of Islamic banking, and our continuous efforts in providing innovative Islamic banking solutions, we have signed an agreement with Bahrain Bourse for our newly launched Murabaha financing Digital Service. This Murabaha financing framework is using a Shari'a compliant lending Finance provided by the CBB. We are working on bringing ethical alternatives to traditional investments and promoting Islamic Finance in the Kingdom and internationally. We have supported the ninth conference of the Shari'a Boards of Islamic Financial Institutions as a silver sponsor.

OUR STRATEGY AND OUTLOOK (Cont'd)

About Islamic banking

The scope of Islamic banks is based on financing or investing in areas that are not prohibited by Islamic law. Additionally, Shari'a aims to regulate the exchange of money by converting it into tradable goods or through Ijara and other tools sourced from Islamic jurisprudence.

There are other major differences related to the overall banking system, contracting mechanisms, financing methods and others. The Articles of Association in an Islamic Bank stipulate that it is forbidden to deal in lending and borrowing with interest. An Islamic Bank differs from conventional banks through the methods used in lending and investment. The risks associated with Islamic banking contracts are quite different from those of the profit-bearing financing contracts of conventional banks.

Islamic banks do not deal with usury (Riba) or trade in debt or undertake transactions involving gharar (uncertainty), or Shari'a noncompliant transactions, as all such acts are prohibited by Shari'a.

Islamic banks consider the purpose of safe guarding money (which is one of the five purposes of Islamic law: safeguarding religion, self, mind, offspring, and wealth), as well as ensuring Halal and good earnings through the following:

- Providing Islamic finance which is distanced from prohibited acts, to save people from sins.
- Finding Shari'a-compliant solutions for housing, vehicle and personal finance, to help people meet their needs.
- Helping people to invest their money away from usury and gambling, through adopting Mudaraba or investment agency products, and others.
- Contributing to the community through providing interest free financing (Qard Hassan), to people on low-incomes in addition to Zakat funds, donations, charity funds reserved from Shari'a non-compliant transactions, and funds from delinquent customers who have been committed to donate.
- Assisting insolvent and handicapped/disabled customers, by giving them more time, without charges, and without adding to their burdens.

Customer focused

Our philosophy puts the customer as the focus of all our action. Our aim is to offer products and services that make our customers live a simpler life. We do this by maintaining close relationships with all our customers, whether they be personal retail clients or corporate organisations. We work hard to understand their goals and objectives and in light of that, we develop products and services that meet their needs. For example, we have invested significantly in digital solutions which offer customers remote access to our service lines and which minimise the 'hassle factor' in carrying out banking transactions. For individuals, this can greatly simplify their lives; for corporate customers this can save valuable time and money.

Digitalization

Digital technology is already revolutionizing the banking process. The scope of change goes far wider than process automation and streamlining, important and valuable though these are. It extends to the way we develop, market, and deliver our services to our customers.

In pursuing digital opportunities, we are both responding to and driving the uptake of enhanced digital solutions, which are emerging at a rapid rate. This is abundantly clear in the demand for mobile products and services among our retail customers, both young and old, as well as in the transformation that is taking place across industrial sectors brought about by digital technology. We have been engaged in a digital transformation in our own business for several years, and there is no sign that the pace of change will slow or that the scope of transformation will do anything but grow. Digital solutions are an integral part of how we deliver banking services today and will continue to shape the nature of our business long into the future.

OUR STRATEGY AND OUTLOOK (Cont'd)

Sustainability

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

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

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

Since last year, the Bank has reported important non-financial information about its operations, promoting transparency and providing comprehensive coverage of significant sustainability topics. We will continue to assess our sustainability practice in accordance with international standards and best practice.

Stakeholder engagement

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

OUR STRATEGY AND OUTLOOK (Cont'd)

Stakeholder	What are the key issues?	How do we communicate?	What have we done this year?	What has been the impact or value?
Customers	•Offering superior customer service. •Building trust. •Providing new and innovative solutions. •Maintaining world-class security.	Key communication channels include this Report, our website and regular announcements in the appropriate local media. Our media presence ensures our stakeholders are provided with transparent and day-to-day information about our activities. We understand their needs by informing, consulting, and collaborating with them. We engage with our stakeholder groups on social media channels such as Facebook, Twitter, Instagram and LinkedIn. Our YouTube channel has included a series called "Suwalif BisB" which features industry professionals who discuss topics related to the banking sector and other economic sectors, the first of its kind in Bahrain. Another communication channel used is the virtual employee, Dana, our appointed Head of Simplification, who has her own channel on Instagram and Twitter. We created a virtual employee because we believe in doing things differently. Dana is a living reflection of our promise to simplify, and our desire to break boundaries, to question the status quo, to innovate and imagine.	We launched new products and solutions including: •Virtual Card •Arcade Card •Futureleader Program •Apple Pay & Benefit Pay enabling contactless transactions through Mobile •Dana Chat bot Our communications with customers has involved three new programmes on YouTube to strengthen customer loyalty to the BisB brand.	Virtual cards: Customers can now perform a card-based transaction without the need for an actual plastic card. 100% paperless onboarding, directly from the mobile app. Arcade card: 350 customers onboarded on Visa Arcade card – the first of its kind card in the GCC which caters for gamers and rewards them with games-related benefits. 100% paperless onboarding, directly from the mobile app. Futureleader programme: 390 young people were onboarded on the BisB 'Futureleader' programme for people age 7 to age 18. We are the first Bank in Bahrain to launch wearable solution to conduct transactions. Apple Pay and Benefit pay: By loading their card onto their smartphones (Android & Apple) customers lives are made simpler, and their impact on the environment is reduced.

OUR STRATEGY AND OUTLOOK (Cont'd)

Stakeholder	What are the key issues?	How do we communicate?	What have we done this year?	What has been the impact or value?
Employees	• Developing an ecosystem of continuous learning, creativity and innovation. • Share our Bahraini values, to encourage that engagement with customers.		We have used social programmes to improve communications between employees, as well as supporting the use of virtual platforms such as Yammer to encourage interaction. We used a computer-based training platform for information security, covering multiple topics and continued to raise employee awareness on email threats through phishing simulations. We provided operational risk training sessions to all staff. We provided a general awareness session on integrating environmental, social, and governance norms into bank-wide enterprise risk management.	Increased employee awareness of enterprise risk and its implications for ESG. We have maintained our leading position on nationalisation, with 93% of our workforce being Bahraini nationals. Achieving an increase of 26% on total training delivered compared to last year with an average of 53 hours per employee.
Shareholders and investors	• Delivering strong sustainable financial performance and long-term shareholder value for current and future shareholders.		We have supported the Islamic banking industry by sponsoring the new building of the Bahrain Institute for Banking Studies and participating in the study of Shari'a accounting standards with the Bahrain Association of Banks.	We continued to deliver robust financial performance. We increased our revenues, reduced operating costs, and in the market, we increased the total financing portfolio – of benefit to our shareholders and to the wider Bahrain economy.

OUR STRATEGY AND OUTLOOK (Cont'd)

Stakeholder	What are the key issues?	How do we communicate?	What have we done this year?	What has been the impact or value?
Communities	• Undertaking community-centric projects focused on shared goals.		Our 'Jood' programme has supported a wide range of organisations and initiatives in fields including education, healthcare and others. This has involved financial support, sponsorship and volunteering activities. Our staff participated in the Malkiya beach cleanup, alongside our colleagues in NBB.	
Government and regulators	• Developing security, privacy, resilient standards and policies. • Demonstrating robust corporate governance. • Maintaining security, privacy and reliance as important elements of our culture. • Offering products and services in accordance with Islamic Shari'a principles.		We supported government initiatives to protect the economy during the pandemic, deferring credit payments, providing liquidity to businesses in need, and supporting social housing. We continued to comply with regulatory requirements by enhancing virtual communication with the Central Bank of Bahrain. We maintained positive communication with the regulator on the impacts of COVID-19 on the bank's credit and liquidity risk profile.	We continued to enhance our policies, procedures and guidelines and align them to the latest legislation, best practices in the field, and emerging regulations. We developed a robust governance process for cyber / information security and business continuity processes to engage all relevant stakeholders certified against ISO27001:2013 and ISO22301:2019 international standards, and aligned to international best practices including the NIST Cyber Security Framework. We obtained the BCI Middle East Award for Collaboration in Resilience and continued to ensure zero breaches or cyber exposures.

OUR STRATEGY AND OUTLOOK (Cont'd)

Stakeholder	What are the key issues?	How do we communicate?	What have we done this year?	What has been the impact or value?
Suppliers	• Ensuring the provision of essential services and technology in support of our offer to customers. • Ensuring that all security requirements are identified, along with protection of personal data. • Ensuring continuity of services and operations.		We conducted detailed assessment of suppliers, third parties and outsourced service providers to highlight high supplier dependencies during our business continuity review processes. Elements on security, privacy, continuity and resilience are embedded into all contracts and agreements, with on-boarding reviews of suppliers performance and reviews during project lifecycles and software development lifecycles.	Our support for local suppliers continue to bring benefit to Bahraini companies.

Connect with us on social media

The social media channels we use are:

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

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

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

Dana: Instagram @Dana_Simplifies

Embedding ESG practices

Around the world, banks are under increasing pressure to influence and support their clients and to adopt sound environmental, social, and governance practices that shape the products and services they offer in the market. The drive towards robust ESG policies and procedures has been progressing for many years, but has taken an increasing importance recently, and in particular with heightened concern about global climate change, equality and diversity, and the need for ethical business practices in an interconnected global business environment.

At BisB, we pride ourselves on the rigour of our existing corporate governance structures and practices, and the fact that our philosophy and behaviours are rooted in principles of Islamic banking. Even so, the need to deepen our engagement with customers on ESG issues grows ever stronger, through regulatory requirements, pressure from civil society organisations, and the wishes and desires of our employees. As a result, we are engaging with our clients through the use of questionnaires and engagement tools to better understand the ESG challenges they face, and to assess how we can best support them, whether that be through preferential pricing, advice, or support in their journey to long-term environmental and social goals such as net zero carbon.

OUR STRATEGY AND OUTLOOK (Cont'd)

Integration with NBB

Delivering the benefits from our integration with NBB is a fundamental strand of our strategy. Our combined organisations – stronger together - offer greater financial reach, a more diverse portfolio of services, access to a wider range of markets, opportunities for economies of scale and process efficiencies, and the scope for organisational cross-pollination and a seedbed for new ideas and innovative approaches. We are beginning to see the fruits of our combined teams already, where the amalgamation of functions has delivered more streamlined processes, cost savings, and shared learning amongst individuals and teams. The process of integration will require patience and perseverance but we are confident that long-term benefits will emerge and that working as one group will place us in a very strong position in our local and international markets.

Reporting on material topics

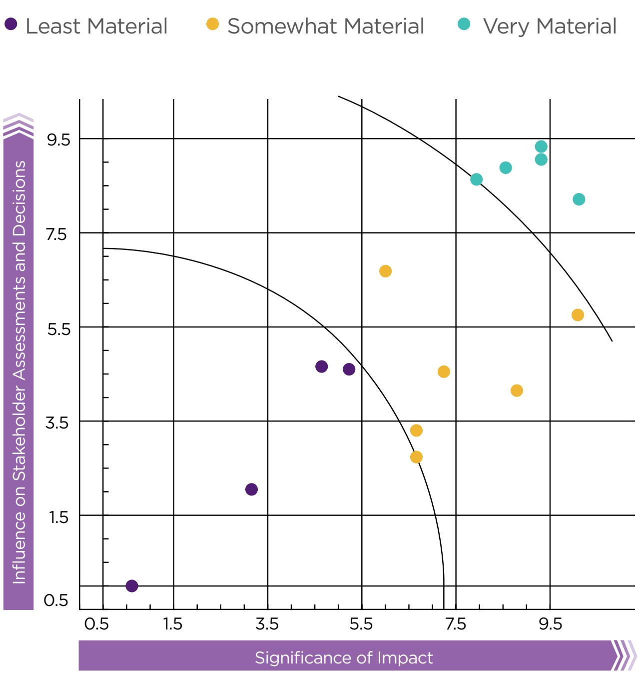
To ensure that this report focuses on the issues of most importance to our stakeholders, we have conducted a materiality assessment to identify the most important sustainability topics we should report on.

'Material' topics are those that reflect our economic, environmental and social impact and that significantly influence the assessments and the decisions of our stakeholders. The materiality analysis was developed to define our understanding of the influence of each topic and link them with our sustainability goals.

In assessing materiality, we consider a range of stakeholder perceptions, covering customer, employee, shareholder, regulator and other stakeholder priorities. We also took account of broader contexts including the Bahrain 2030 vision, the United Nations Sustainable Development Goals, ESG analyst priorities, and reporting guidance and standards. We sought to determine the issues which have the most significant implications for stakeholders, as well as on our own business.

The matrix provides an illustrative view of the issues and their relative significance. Each of the 15 material topics identified is discussed in this report, with greater emphasis given to those which are considered 'very material'.

BisB Material Matrix



Material Topic

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

03

HOW WE CREATE VALUE

We create value by delivering excellent service to our customers in retail and corporate markets. We make our customers lives easier by developing and providing the products and services they need in the way they want.

Increasingly, we deliver our services through digital channels, simplifying our customers lives, and making their dealings with us more efficient, cost-effective, and flexible. We do this for personal and corporate customers while preserving the confidentiality of their information.

We promote financial inclusion by making our products and services readily accessible to everyone across the Kingdom, enabled by our digital activities.

The way in which we create value is also important to us. As an Islamic bank, our services are supplied in adherence to Shari'a principles. We aim to act as a responsible bank.

And of course, we have continued to support individuals and businesses in response to the coronavirus pandemic, protecting the health and well-being of our workforce, and providing products and services to corporate customers that have helped them to weather the challenging economic conditions.

We create value across Bahraini society. Our community investment initiatives support good causes and help to build the skills and experience of young people, and support those who are disadvantaged. We have supported government initiatives to provide affordable housing, and have worked with young people to develop their skills and knowledge of banking and of the digital business world they will work in the future.

We also take account of the need to operate our own activities in a sustainable manner, minimizing the impact of our activities on the natural environment. We seek to make sure that everything we do is founded on a solid basis of robust corporate governance with appropriate checks and controls that support us in behaving as an ethical and responsible business.

DELIVERING VALUE TO OUR CUSTOMERS

Our approach

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

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

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

Despite the challenging market circumstances this year, we have sought to grow our products and services offering to serve customer's requirements and ensure companies and individuals are offered suitable financing schemes. We have also developed products to cater for the demand for digital banking as a support channel to ensure business continuity during periods of restriction. We have succeeded in providing several specific measures to support our customers in the light of the global health and economic crisis, including referral of payments, without fees and grace periods. We also, for example, maintained close relationships with our corporate clients, offering options for restructuring to alleviate any cash flow concerns they faced.

What actions have we taken to serve our customers better?

In 2021, we launched an innovative service giving customers the ability to issue Virtual cards on their BisB Mobile App. This virtual card enables them to conduct transactions directly from their phone by use of Apple Pay or BenefitPay (through an android Phone). With Apple Pay, BisB was among the first banks in Bahrain and the first Islamic Bank in Bahrain to launch the functionality. With the launch of virtual cards, BisB enabled its customers to be issued with prepaid cards immediately, using the BisB Mobile application, enabling the whole process to be completed in seconds, and without paper.

In addition to services for individual customers, we have also expanded our services to small organisations and Sijili customers through an end-to-end digital service, allowing them to open and operate a corporate account using facial recognition via the Bank's corporate mobile application, BisB Corporate Digital.

With contactless payment increasingly becoming a standard and customer preference, we have continued to provide a range of contactless solutions. We enabled customers to make cash withdrawals or balance inquiries using the BenefitPay application on Android smartphones at ATMs.

Additionally, the Bank launched its Arcade Card, a prepaid Visa card designed with gamers in mind, being the first of its kind in the Kingdom and the wider GCC region, giving users the opportunity to earn BisB Rewards points on purchases made at gaming stores.

We have also enhanced self-service digital kiosks in all of branches and financial malls, developed by our Innovation Lab. The service enables customers to open a bank account without human intervention, as well as providing a wide variety of digital banking services, including direct issue of debit cards, immediate issuance of pre-paid cards, updating customers' personal data and issuing bank account statements.

DELIVERING VALUE TO OUR CUSTOMERS (Cont'd)

The Arcade Card

'We are in a new era of banking where we are creating solutions to cater to our customers daily lives, which are personalised to how they lead their lives, instead of dictating how cards ought to be used. This is the first card of this kind in the market, which rewards gamers for purchases they would be making as part of their everyday life.'

Hassan Jarrar, Chief Executive Officer, BisB.

In partnership with Al Naseem International School

Another of our innovative solutions comes in the form of the 'Future Leaders' initiative, a cashless payment account giving parents the ability to track and manage their children's transactions through a prepaid card, wristband, mobile phone, or the Bank website. The programme was launched to encourage youth to better manage their spending and learn financial management skills, instilling a sense of responsibility and independence. We subsequently signed a Memorandum of Understanding with Al Naseem International School to launch the product as a payment method for students.

'We are pleased to foster this partnership with BisB, which stands as a step forward in our ongoing mission to put 'students first'. This agreement supports our mission to lead the way in the educational sector, through the introduction of innovative technology to pupils. By introducing Future Leaders within the school, our students will be able to learn financial independence in a safe environment, with the added benefit of contactless transactions, benefiting their health and safety."

Mrs. Sameera Al Kooheji, President and Executive Director of Al Naseem International School.

We have also partnered with Bahrain FinTech Bay to launch an exclusive programme entitled: 'Digital Marketing – Tech Minds of Tomorrow', giving local talent and start-ups the opportunity to develop a future-forward digital marketing tech programme for the Bank's Marketing division. Participants were tasked with creating the ultimate Marketing Automation platform for social media inclusive of processes such as: campaign management, digital platform analytics, social media listening tools, scheduling, reporting and publishing, with a built-in approval process, whilst also offering customers a seamless, efficient and personalised digital experience.

We also unveiled a modern design and innovative concept for our financial mall located in Riffa, renamed to the "Riffa Innovation Hub". The new space combines the best of traditional and digital experiences in a single area, with one floor dedicated to traditional customer services, coupled with a fully-fledged digital floor with self-service kiosks and services dedicated to customers that prefer to complete their banking transactions independently. In addition, the area includes the locally-owned coffee shop, Roast, who won a competition for SMEs facilitated with the Bahrain Chamber of Commerce & Industry. As part of this arrangement, we provided a great business opportunity together with a discounted rent for the entire tenure duration at the rate of BD 1, alongside free utilities.

DELIVERING VALUE TO OUR CUSTOMERS (Cont'd)

The Riffa Innovation Hub

'The hub represents a new way forward for all our financial malls, as part of our promise to simplify money matters, ultimately transforming the traditional customer experience to one that is digital and modern. While we look forward to receiving our customers to our new concept, we still encourage our customers to make use of our services available online considering the current COVID-19 situation'.

Hassan Jarrar, Chief Executive Officer, BisB.

'We are extremely grateful for this once in a lifetime opportunity of having access to a space with a strategic location and guaranteed footfall at such a low cost. We are excited to be part of a new concept for the banking industry, and look forward to serving premium coffee to both the employees of BisB and customers that come to the Riffa Innovation Hub.'

Mr. Sadiq Al Thahaba, CEO of Roast Coffee Shop.

Customer security and privacy

We value customer data privacy and security. We believe that privacy is a fundamental value that is aligned with the Personal Data Protection Law (PDPL), Shari'a law and ethical business practice.

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

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

Our Privacy Policy

Our privacy policy is available on the website, mobile app and is embedded in services and products introduced by the Bank. It provides clear consent processes and simplified terms.

Services, products and projects are assessed for their privacy and security impact from the initial stages of product, project and service development. A security by design and privacy by design approach is used to ensure that products are designed from the outset to protect, safeguard and minimise privacy and security concerns.

DELIVERING VALUE TO OUR CUSTOMERS (Cont'd)

Our commitment to security

We have made a formal commitment in our Security and Privacy Statement, publicly available on our website. We commit to respect our customers' privacy, cyber security, continuity and resilience. The Bank has internal processes to enforce privacy protection internally and in outsourcing contracts. In addition, the Bank is certified against the standard ISO 22301:2019 Business Continuity Management System, ISO 27001:2013 Information Security Management System, PCI-DSS 3.2 for card security and SWIFT Customer Security Framework.

As part of the bank's information security strategy, people play a significant role in providing the first line of defense against security threats. We conduct awareness sessions for new joiners and carry out multiple computer based training activities for employees, including extensive email threat simulations of phishing attempts with varying complexity that are customised towards a specific department, function or all employees.

We ensure that we cover all security and privacy topics through our social media and communication channels, targeting all our stakeholders. Our security department is staffed with subject matter experts in the fields of information security, cyber security, privacy management and business continuity. There are 20 professional certifications in these fields in the team, including some qualifications that are the first in the region.

The range of security and privacy measures we have implemented enable us to safeguard our customers and facilitate transactions across different platforms: online, mobile, and ATMs. Training programmes and awareness activities took place in the course of the year to further embed privacy into our culture, including the practice of ensuring that privacy-by-design and security-by-design principles are followed in the development, maintenance and operations of products and services we introduce and operate. We are pleased to report that no security breaches have been reported this year.

Data security breaches	2017	2018	2019	2020	2021	Target
Number of data security breaches	0	0	0	0	0	0
Number of data security breaches involving customers' personally identifiable information	0	0	0	0	0	0
Percentage of data security breaches involving customers' personally identifiable information	0	0	0	0	0	0

Customer satisfaction

We are committed to measuring and enhancing our customers' experience and to increase our Net Promoter Score (NPS). We are proud of our levels of customer satisfaction as reflected in our high scores of 97.59%. Customer satisfaction training has been recently introduced at a group level. Aligned policies and procedures have also been introduced to ensure a consolidated approach is taken towards customers and investors.

We take action to stay in touch with what our customers want and are always prepared to launch new ideas. This year, for example, we successfully opened a revamped branch concept, following research that we completed last year, at the Riffa financial mall.

Customer satisfaction	2018	2019	2020	2021	Target
Overall customer satisfaction (%)	90	96	95	98	95

What is our 'Net Promoter Score'?

Our net promoter score indicates how far a customer would be willing to recommend the Bank to a family member or a friend.

DELIVERING VALUE TO OUR CUSTOMERS (Cont'd)

Customer complaints

As a retail Bank with a large customer base, day-to-day operational issues can lead to customer complaints. Customer-facing employees are charged with resolving routine issues without further escalation. Customer complaints are lodged and recorded through BisB's website. Any critical customer complaint are reported to the Operational Risk and Management Committee and to the Board Risk and Compliance Committee. We commit to resolve customer complaints within the mandatory regulatory deadline of four weeks, and in practice we far exceed these timescales.

Managing customer complaints

A customer complaint form is available on our website. Customers can raise concerns, with all complaints categorised, investigated, and shared with the respective business units and involved parties. If the proposed resolution is not satisfactory to the customer, we seek further resolution depending on the circumstances until the incident is closed.

This year 112 complaints were reported, a slight increase on the previous year. All complaints, as in previous years, were successfully closed.

Customer complaints	2018	2019	2020	2021
Number of complaints received	204	136	76	112
Number of complaints closed	204	136	76	112
Response rate to customer queries	Avg. 3-5 working days	Avg. 3-5 working days	Avg. 3-5 working days	Avg. 3-5 working days

Know Your Customer

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

DELIVERING VALUE THROUGH DIGITALIZATION

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

Digitalization has been helpful in enabling people to respond to the consequences of the COVID-19 pandemic. We were able to provide customers with digital services that ensured their safety as well as that of our employees. The Bank has developed new and attractive offerings for its customers and employees - enabling people to remain connected despite social distancing.

2017

Digital Channels:

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

Kiosk:

No kiosks were available

2018

Digital Channels:

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

Kiosk:

No kiosks were available

2019

Digital Channels:

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

Kiosk:

Number of total kiosks: 1
Number of total services: 1

Services:

New to Bank Clients:

1. Retail customer onboarding

Branches:

Paperless retail clients onboarding in all branches.

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

2020

Digital Channels:

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

1. Credit card applications
2. Online disputes
3. PIN reset
4. Certified digital certificates
5. Certified digital statement
6. Small business online onboarding & account opening
7. Finance against tejoori account
8. Credit card cash finance service
9. Open Banking - account aggregation service

Kiosk:

Number of total kiosks: 10

Number of total services: 11

Services Details:

New to Bank Clients:

1. Retail customer onboarding

Existing to Bank Clients:

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

2021

Digital Channels:

Added 6 new additional services to Retail Clients and Corporate Clients.

1. Arcade cards for gamers
2. Future leaders for kids
3. Virtual cards
4. KYC update for expired IDs
5. RIM (customer record) activation for customers without account or eBanking (without branch visit)
6. Dana chatbot

Kiosk:

1. RIM activation for customers without account or eBanking
2. Corporate onboarding and account opening for IE/Sijili
3. Video call feature for enhanced due diligence
4. Signature Capture and Update

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

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

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

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

Highlights in 2021

- Extending the digital onboarding to Kiosks for corporate customers.
- Introducing Future Leaders cashless wearables and cards service for children.
- Special prepaid gaming card introduced for gamers.
- Introduction of virtual cards that allow customer to use the card instantly without waiting for the physical card.
- Continuous improvement to our digital banking platform, where we added an option to print an official statement, balance confirmation letters, and multiple card statement downloads.
- Streamlined the onboarding process to reduce the turnaround time to activate clients digital banking access, contributing to a substantial increase in new onboarded clients in 2021.
- Introduced e-cheque, a world first introduced by Benefit with the support of the CBB, to multiple clients.
- Implemented a paperless internal approval process.

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

We have established and adopted open banking services in line with Central Bank of Bahrain directives. We were among the first Bank in Bahrain to enable such services, offering a streamlined experience from within a mobile app. In 2019, the open banking platform was established and Application Programing Interfaces (APIs) for any licensed FinTech to use was published. During 2020, the open banking was launched within BisB app by enabling customers to add other banks accounts into the BisB app, providing them with the ability to view their consolidated net worth across banks and view their statement and search through the transactions in all accounts. In 2021, we continued to market digital services to our corporate customers, including digital onboarding. We are targeting further improvements to our digital banking offer in 2022.

This shift to automation of our financial processes not only involves offering online services to customers, but also ensuring end-to-end integration through APIs to the key third parties involved in the delivery chain.

Credit card processes are automated, enabling our clients to apply for a card online. The card request will be sent through APIs to the card payment processor to issue the cards instantly.

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

More specifically, the total new retail clients onboarded through branches other than headquarters was approximately 10,419 across a total of 10 branches in 2017, 11,482 and 12,979 across a total of eight branches working six days a week with one delivery daily for 2018 and 2019, respectively. This contributed to an average of 2,880 transport activities for 2017 and 2,304 per year during 2018-2019. In 2020, our zero transport journey was deployed, where by, in 2021, the total new retail clients onboarded through branches was around 10,000 (as of December 2021) with zero paper transport activities. In addition, a total of around 28,000 customers were onboarded through Mobile & Kiosk.

	2020		2021	
	Acquistion	Channel	Acquistion	Channel
Branches & Sales	51%	10	49%	10
ATMs	0%	52	0%	45
KIOSKs	27%	10	22%	10
Call center	3%	1	1%	1
ITMs	0%	2	0%	2
Digital	20%	1	28%	1

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

We are proud to see that 50% of our acquisition is derived electronically (through Mobile and Kiosks). This re-enforces our strategy to shift towards digital banking and simplifying money matters.

We embody our philosophy of simplified banking through a wide range of products, including:

- Finance online acquisition: the service will be available for all customers.
- Credit card online acquisition: more customers will benefit from the service in future.

Customer and finance portfolio	2017	2018	2019	2020	2021	Target
Total number of retail banking customers	110,644	120,418	131,960	153,619	163,292	175,278
Total value of retail banking finance portfolio (BD Millions)	414	416	450	521	586	540
Percentage of retail banking finance portfolio	56%	54%	58%	66%	68%	65%

Innovation and simplification in action: kiosk development

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

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

By using face recognition technology and streamlined processes, we succeeded in making the transition as smooth and seamless as possible for the customer. The response and take-up of the kiosks has been a good source of service, benefiting the community throughout the COVID-19 pandemic, restricting levels of human interaction.

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

Hassan Jarrar, Chief Executive Officer, BisB.

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

Service type	Number of transactions
Account opening	13,765
Prepaid card printing	1,247
Print account balance certificate	183
Print IBAN certificate	18,912
Print new ATM card	227
Print replace ATM card	601
Print statement	3,124
Update address	3,816
Update employment information	954
Update KYC	9,318

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

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

We believe we gain much from efficient financial and administrative processes, especially in the face of intensifying regulatory compliance demands, both in the case of Central Bank of Bahrain specific directives and adhering to existing policies and procedures.

Innovation has supported the bank's corporate customers, including corporate customers being able to open an account digitally. The banks' end-to-end digital service allows individual establishments and Sijili customers to open a corporate account using advanced facial recognition technology via the bank's corporate mobile application, BisB Corporate Digital, within minutes. The service is seamless and provides the ultimate level of convenience, eliminating the hassle of customers visiting branches or financial malls in person.

DELIVERING VALUE THROUGH DIGITALIZATION (Cont'd)

In 2021, we continued to improve our enhanced Corporate online digital banking platform to cope with the increased pressure to shift processes online and remotely, allowing corporations to open online accounts without visiting branches. In addition, through digital banking, we have processed seamless payment requests worth more than BD 154 million during 2021. During the same period, more than 1,540 new digital banking clients were onboarded, representing more than 27% of corporate clients. We successfully expanded our customer base both for corporations and financial institutions, with a total Finance portfolio of BHD 280 million representing an increase of 6% above 2020 financing portfolio levels for both corporates and financial institutions. With a diversified portfolio, we have supported critical sectors of the economy including healthcare, information technology, telecommunication services, SMEs, and others by providing funding and financial support. As SMEs represent the largest contributor to local employment, we are seeking to enhance our product offering and streamline internal approval processes for this important market segment.

Given the continuing economic difficulties, numerous terms of credit facilities have been renegotiated to meet customers' cash flow requirements and give room to enhance their offerings and growth potential. We have provided support measures through a grace period, advising customers on solutions for their liquidity positioning and cash collection services at a reasonable rate. During the recovery phase, accounts across the board will be closely monitored to ensure their robustness and timely delivery of obligations. Otherwise, we will take proactive measures to ensure the efficiency of the finance / deposit portfolio.

We have participated in Tamkeen's solar energy panel financing programme and were the first bank to sign on to the financing scheme approval. We will market Tamkeen's solar energy panel financing programme once it becomes available.

Total finance to companies in the following sectors (BD Millions)	2019	2020	2021
Industrials	130	95	96
Real estate	59	62	44
Government and related entities	31	32	54
Contracting	57	41	46
Healthcare	4	7	6
Financials	5	3	7
Information Technology	2	2	1
Consumer Discretionary	-	-	4
Non-banking financial institutions	18	8	6
Services	5	2	4
Oil and gas	20	2	-

FINANCIAL INCLUSION

We believe there are many aspects to financial inclusion. This includes ensuring that a diverse product suite is available for different types of customers, and can be tailored to meet their requirements. It also requires accessibility: we have a wide range of branches located in strategic locations across the Kingdom serving corporate and retail clients. Our digital banking initiatives ensure our clients can conduct the majority of their transactions online and in a way that suits them. We also work to ensure our services are affordable. We have for example partnered with Tamkeen and the Ministry of Finance to offer liquidity to clients at substantially subsidised rates.

We also seek to raise awareness of financial matters across society. Our relationship managers are trained to give their clients the most appropriate financial advice, and we support financial literacy by providing training videos and support. Our goal is to make sure that our product offering provides the best possible match to our clients requirements.

In 2021, the proportion of new accounts held by first-time account holder, account holders holding an account purely for the purpose of deposit, (85%) demonstrates the effectiveness of our efforts in ensuring our financial services are extended to all populations.

Financial inclusion: accounts and finance	2018	2019	2020	2021	Target
Percentage of new accounts held by first-time account holders (%)	79	79	74	85	75
Percentage of new accounts held by first-time credit card holders (%)	5	5	3	4	4
Finance-to-deposit ratio for overall domestic lending (%)	79	82	84	88	89
Finance default rates for overall domestic lending (%)	4.0	4.5	3.2	2.6	4.2

Financial literacy

As part of our Jood community investment effort, we have entered into partnership with Bahrain Polytechnic University, developing initiatives that allow future talents and leaders to develop skills such as innovation, creativity, entrepreneurship and leadership.

Financial literacy	2019	2020	2021
Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	500	600	400

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

RESPONSIBLE BANKING

We believe there are many aspects to responsible banking. Key characteristics, such as operating in a prudent financial manner which respects our obligations to shareholders, providing services and products for customers which meet ethical standards, supporting our corporate clients in addressing the economic and business challenges they face, forging constructive relationships with suppliers and contractors, and working in partnership with a wide range of organisations across the community are all aspects of the way we do business. Acting in accordance with our principles, in an ethical manner, lies at the heart of our approach to banking.

Demonstrating responsibility in our core products and processes

We make sure that the products and services we offer to customers are compliant with Shari'a law. For example, we place great emphasis on customer privacy, which is a major legal requirement and a core value in Shari'a law and ethical business practice. Taking a responsible approach also involves supporting customers in need, who might be facing business challenges arising from difficult economic circumstances, or personal customers in need of help at key times in their lives. Over the past two years, throughout the coronavirus pandemic, we have provided relief measures to retail and corporate clients, provided credit facilities and helped businesses in distress to restructure. We have used and supported digital platforms to minimise the risk to individuals arising from social interaction and we have taken a positive approach to safeguarding the health and well-being of our employees and our customers.

Promoting sustainable banking practices

As a member of the Bahrain Association of Banks, we are keen to follow its priorities and aspirations. The association has prioritised sustainability in retail by establishing a permanent committee that examines what sustainable development means for the banking sector in Bahrain. The committee's purpose is to highlight areas in which the banking and financial sector should engage with the CBB and the Government of Bahrain to develop a framework of policies and measures to promote sustainable and green finance in the Kingdom. As part of this, we met frequently with the Sustainable Energy Authority in 2021 to brainstorm the introduction of green financing solutions. These products are currently under review and are expected to be released in 2022. In short, we want to play an important role in supporting responsible banking and delivering innovative solutions to our customers.

Working in partnership to ensure security and risk management

Through our information security function, we work closely with many special interest groups, organisations and bodies locally and internationally.

We represented the financial sector in the development of the national cyber security strategy and continue to work with the National Cyber Security Center in the development of new national initiatives, including standards, policies and regulations. We work with CBB to enhance cybersecurity, information security and business continuity practices through active participation in consultations and initiatives. We maintain a professional relationship with other regulators, including the Information and eGovernment Authority, the Telecommunication Regulatory Authority, and the Personal Data Protection Authority.

We routinely share threat intelligence, details of trending cyber threats and potential threats to the sector and the country in general. Threat sharing expands to cover private sector information and cyber security organisations and other peers in the financial sector and other sectors, including government, telecoms and industrials. Our CISO heads Bahrain's Association of Banks' Business Continuity Committee and is an active member of the Cyber Security Committee.

RESPONSIBLE BANKING (Cont'd)

Managing our supply chain and working constructively with contractors

Responsible banking also entails demonstrating a constructive approach towards all partners and suppliers. We make sure that through our procurement activities, we have a positive impact on our local economy.

We seek to mitigate risks associated with our supply chain, streamlining our performance and sustaining our operations. In all agreements signed with suppliers, especially with technology partners, relations are governed by contractual terms ensuring protection for both parties. Contractual arrangements are reviewed by Information Security to ensure security requirements are identified, along with protection of personal data and resilience requirements to ensure continuity of services and operations. As part of our supplier selection process, we measure service quality, vendor capability and cost. All service providers are vetted, with additional controls placed on high-impact and high-dependency suppliers. Recommendations for alternative supply sources and arrangements are implemented for key suppliers. We monitor supplier performance, security, resilience and privacy compliance.

Local procurement	2019	2020	2021
Total number of suppliers engaged	346	286	250
Total number of local suppliers engaged	276	227	194
Total procurement spending (BD Millions)	10.7	11.2	8.5

Taking an active role in the community

Responsible banking also entails making a positive contribution to the community, and for the benefit of society at large. This report provides many examples of where we have supported community endeavour, with financial support and volunteer effort - through support for financial literacy, in encouraging and giving opportunities to young people, and in taking action to clean up Bahrain's local natural environment - just a few of the many examples where we play a constructive role in the Kingdom.

OUR COVID-19 RESPONSE

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

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

Case Study: Account restructuring to support our customers	
Background	The COVID-19 pandemic wreaked havoc on the economy and required clients to reorganise their expenses and financing. Corporate & Institutional Banking (C&IB) was proactive as far back as 2020 when we remained in close contact with clients and offered various restructuring options to better face the upcoming instalments once the CBB deferment scheme expired. Our goal was to support our client's financial capabilities throughout the difficult economic circumstances affecting the entire economy. We also sought to minimise the financial impacts on the bank.
Approach	C&IB maintained a close relationship with all stakeholders (client, C&RM, MANCO, operations) to ensure that the ultimate objective of safeguarding and increasing shareholder wealth could be met while simultaneously providing the necessary financial support to our clients.
Outcomes	A significant number of C&IB client facility terms were renegotiated to better match their cash flows. Several clients with renegotiated facilities were also offered a renewal of existing working capital facilities, which is not usually the case with renegotiated terms due to the heightened risk. "The current economic environment is ever-changing which requires a fluid change from stakeholders. BisB is no exception. During the COVID-19 pandemic, we have remained close to our clients and provided the maximum flexibility in financial terms as well as financial support". Jawad Humaidan, Acting Head of Corporate Banking, BisB

Despite the difficult market conditions, BisB maintained healthy liquidity and continued to focus on reducing the cost of funds with the group and concluded the first repo deal with NBB group at attractive levels.

In terms of portfolio management, the Sukuk portfolio grew to BHD 254 million with the sovereign portfolio constituting almost 100% of the Sukuk book.

The COVID-19 pandemic also continued to place extra demands on our people. We continued to support our employees during the pandemic and have taken various measures, including:

- Complied with CBB and the Ministry of Health guidelines, on issues such as social distancing.
- Facilitated working from home. All Bank's employees were enabled to work remotely during the pandemic.
- Implemented measures to protect health and safety across our buildings and facilities by practicing social distancing and installing barriers where required. This included actions such as introducing temperature screenings and mandatory use of face coverings; segregation.
- Offered free COVID-19 tests for employees and supported them with the care and equipment they need.

OUR COVID-19 RESPONSE (Cont'd)

Protecting employee health	
Background	Throughout the pandemic, we have sought to ensure that our employees are fully protected and provided with what they need to reduce the strain of COVID-19. Doing this has created related challenges: ensuring that our customers were not adversely affected and making sure our IT infrastructure and support was capable and ready.
Approach	From the start of the pandemic, we began discussions with IT to provide an infrastructure that enabled employees to work from home at any time. For those employees who needed to work from office, we put measures in place to increase their sense of safety. For customers, we actively marketed digital banking solutions and provided alternative solutions to paper based requests. We measured temperatures daily and instituted regular rapid testing.
Outcomes	We exceeded our target of 70% of our employees working from home. Our IT infrastructure was significantly improved, to allow quick connections to the necessary bank applications by employees. Customer satisfaction levels improved, and most importantly, we protected the health and safety of our employees, our most valued assets.

Supporting families in need

Through its Zakat committee, the Bank disbursed about BD 400,000 for around 388 needy families in Bahrain. This support included the following: medical treatment, food, education, paying off debts, furnishing homes, building or repairing homes, and providing laptops for students.

COMMUNITY INVESTMENT

Our approach

As part of the brand DNA, the Bank is committed to community investment. 'Jood' is our corporate sustainability pillar and serves as a reminder of how we aspire to make a change.

We chose the name Jood because of its Arabic meaning of 'giving' and 'generosity' which is rooted within our values. Its focus is on investment in initiatives which foster education and innovation in a digital age, creating a positive and sustainable impact on our local communities. We recognise that we need to start working together across industries to create an innovative ecosystem of learning and foster creative minds to solve the problems of tomorrow. Ultimately, our aim as a bank is to simplify banking. We have been working to drive digitalization in the financial industry and launch innovative financial solutions to make banking less complicated and more intuitive, more human. Similarly, we wanted to simplify the act of giving back to the community. The Bank invests in the wellness of the community through its Zakat (the obligation for an individual to donate a certain proportion of wealth each year to charitable causes) and non-Halal income.

Jood is structured as an over-arching umbrella, covering the following:

- Donations
- Sponsorships
- Volunteering activities
- Zakat amounts - committed to charity funds, education, medical treatment, debt repayment, and other causes.

Our Donations Policy

The purpose of the Board of Directors Charitable Donation Policy is to guide the use of charitable donations funded by the Bank's Shareholders. Donations made under the Board of Directors Charitable Donation Policy will be subject to the undernoted parameters:

Each fiscal year, the Bank's Board of Directors will determine and recommend to the Shareholders at the Bank's Annual General Meeting an agreed amount to be appropriated from Bahrain Islamic Bank's annual earnings.

The proposed appropriation for the donations will be up to 5% of the bank's net annual profit.

Any donations made under this policy may be publicly attributed to the Bank as part of BisB's Corporate Social Responsibility Program, and be permitted to carry the bank's logo and other relevant marketing material.

At the discretion and direction of the Board of Directors, donations may be made in projects within Bahrain, such as:

- Educational Institutional Support
- Children's welfare causes
- Social community development
- Hospital and infirmary endowment
- Any other themed bequests as may be considered by the Board of Directors.

Disbursements to societies, associations or other institutions will be subject to these entities conforming to the following criteria, and must not contradict with Shari'a principles, as governed by the Bank's Shari'a Board:

- Licensed
- Authorised by their respective regulatory authorities
- Provision of audited financial statements
- External Auditors approved by BisB

Additionally, all the disbursements must conform to, and be subject to:

- Bahrain Islamic Bank's Memorandum and Articles of Association
- Central Bank of Bahrain regulations
- Bahrain Islamic Bank's policies
- Bahrain's law and regulations

COMMUNITY INVESTMENT (Cont'd)

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

We also want to celebrate everyday success stories and support an ecosystem of continuous learning, creativity and innovation throughout the community.

WHAT DID WE DO

Our people undertook a wide variety of Jood initiatives during the year.

For example, our employees delivered Iftar meals and maintained houses to needy families and others during the Holy Month of Ramadan. Through Jood, we also bought Eid clothes for orphaned children. In medical and care, we supported many needy families to get medical treatment.

Virtual Innovation Camp with INJAZ Bahrain for University of Bahrain Students	
Background	The Virtual Innovation Camp is an initiative designed to develop and inspire entrepreneurially minded students by giving them an educational glimpse into the realm of investment, ultimately broadening their horizons. A virtual Innovation Camp was held over two days, and involved eight teams, comprising a total of 130 students.
Approach	BisB guided the participating students with the insight of volunteers from the bank, who supported each group with the development of an innovative solution inspired by sustainability.
Outcomes	The winning solution was a digital platform presented by team 4, and aptly named Revival. The solution aims to create a digital hub for sustainable ideas to flourish, by linking entrepreneurs with investors, giving them access to the necessary funding for their ideas to be realised. Ultimately, the solution intends to encourage sustainable practice in the marketplace, whilst contributing to environmental, social and governance practices. "INJAZ Bahrain is proud to engage the community on initiatives such as the Virtual Innovation Camp, designed to broaden students' horizons across key sectors and growth areas such as sustainability, entrepreneurship and investment as part of their professional development journey and to collaborate with esteemed partners such as BisB." Ms. Hana Sarwani, Executive Director of INJAZ Bahrain.

COMMUNITY INVESTMENT (Cont'd)

Partnering with Arabian Gulf University	
Background	In 2021, we signed a Memorandum of Understanding with Arabian Gulf University to embark on initiatives that aim to equip young leaders with enhanced soft skills such as innovation, creativity, entrepreneurship and leadership in order to create a future-ready workforce.
Approach	BisB will provide structured work placements for Arabian Gulf University students, through internships, cooperative projects, on the job training as well as support in providing the required material to enable students to conduct industry-specific case studies and projects as part of their curriculum. Alongside training, members of the Bank's staff will attend key courses at AGU as guest lecturers, enabling students to benefit from the real-life experience of the bank's management, and gain knowledge of key financial skills. AGU will seek to provide the bank's staff with relevant short-term training courses, and share the findings of industry-based research projects.
Outcomes	"We look forward to kicking off this partnership with BisB, a leading financial player in the Kingdom that has cemented its reputation for innovation. We are excited at the prospect of launching these mutually-beneficial initiatives. This programme will better prepare our students to enter the job market as leaders, by providing them with the advantage that comes from gaining real-life and hands-on experience across a range of the bank's departments." Dr. Khalid Al Ohaly, President of AGU.

We initiated a contest in collaboration with the Ministry of Commerce, and the Chamber of Commerce, for a locally owned coffee house, to be the first coffee house to open an outlet inside a bank branch, to enhance customer experience, and attract younger people. More than 6,000 applicants participated, and an external auditor was engaged to validate the results. The winner was given a space of approximately 200m2 for a symbolic monthly rental fee of BD 1 including all fixed costs for three years.

As a founding partner of the CBB Digital Lab, known as "FinHub 973 we are proud to sponsor Bahraini small finTech start-ups. In 2021, we, ran a FinTech competition in the field of data analytics and artificial intelligence to develop credit scoring for various products for the two business segments. After shortlisting the winner, BisB proceeded to create a credit score for retail credit cards.

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

SAFEGUARDING NATURAL RESOURCES

Our approach

We are continuing to build awareness of sustainability practices, update internal policies, and identifying areas of opportunity where we can minimise the environmental impact of our own operations and those of our customers.

Our management team reviews yearly new ways to ensure we act in an environmentally responsible manner - through initiatives to increase recycling, decrease waste, reduce paper use, and minimise electricity and water consumption. In the year ahead, we will develop an Environmental Management system at a group level, to help us align targets, processes and monitoring activities with NBB bank.

We recognise the important role we play as a bank in helping our customers adopt environmentally preferable solutions. We are introducing an ESG questionnaire with our corporate clients to develop their awareness of environmental challenges, and to increase our understanding of how we can help them. This might include for example, incorporating responses when considering credit applications, which would enable us to offer preferential pricing for clients taking positive action. Green financing solutions are another tool we can deploy to help our clients tackle environmental challenges. In 2021, we met solar energy suppliers to discuss renewable energy options for our clients, at competitive prices. We are keen to support our customers in their journey towards a net zero carbon future.

Energy use and energy efficiency

BisB has a long history of implementing energy efficiency initiatives:

- In 2012, we redefined the design of the cooling system distribution on-premises for our data centre and server room to drive greater energy efficiency. The benefits continue to be realised today.
- In 2015, BisB procured capacitor banks to correct consumption power factors.
- In 2016, we changed all the lighting fixtures used at our premises to energy efficient LED lights, and fitted motion detectors in all offices, corridors, lift lobbies, service areas and emergency staircases.
- In 2018, we upgraded all four lifts in our office tower to energy efficient lifts that work on regenerative energy, which reduced power consumption by more than 30%.
- We are currently in the process of procuring solar panels for two of our branches which would collectively produce approximately 370 kwh annually in clean renewable energy.

Energy consumption	2019	2020	2021
Electricity consumption (kWh)*	3,863,000	3,711,000	3,634,000
Energy consumption from electricity (GJ)	13,907	13,360	13,082
Energy intensity (GJ/employee)**	42.14	41.88	53.61

*Head office only.

**Based on the total number of staff and contractors in BisB Head office.

GHG emissions	2019	2020	2021
Indirect GHG emissions (Scope 2) tons of CO2eq	2445.28	2349.06	2300.32

We are committed to building on the various steps we have taken to continue to improve our energy efficiency and reduce our energy use. We plan to establish a new Building Management Systems (BMS) for the main office and branches by 2022, and to have two branches using clean green energy, by covering the carparks in both with solar panels that generate up to 60% of over the year usage. The solar power generated would supply energy back to the grid in winter months.

SAFEGUARDING NATURAL RESOURCES (Cont'd)

Water use

We recognise that water is a valuable resource in the world and particularly in our region. Within our offices, all water taps are fitted with water saving nozzles and are checked weekly for leakage, including all other water outlets. All newly renovated floors have been fitted with smaller WC water tanks, and motion detection water taps. Bahrain Islamic Bank Tower water consumption in 2019 totalled 9,076,000 m3, in 2020, 8,326,000 m3, and in 2021 6,613,000 m3.

Water consumption	2019	2020	2021
Total water consumption (m3)*	9,076,000	8,326,000	6,613,000
Water consumption intensity (litres/employee)**	25,141.3	23,788.6	27,102.5

*Head office only.

**Based on the total number of staff and contractors in BisB Head office.

Waste management

We recognise the importance of managing the volume and type of materials we consume and of the need for waste minimisation. We are planning to introduce a more systematic approach to waste management to ensure our use of resources is minimised and that we use them as efficiently as possible.

We have already taken valuable steps, however. We do not procure non-reusable plastic. We are seeking to recycle in all areas of our operations. We are now reporting recycled waste and non-hazardous waste. In 2021, we reported 0.77 tonnes of non-hazardous waste.

One of the benefits of our progress to digital transformation has been the corresponding reduction of waste and paper. Since 2017, we have stopped printing all annual statements for customers and have introduced e-statements, with physical statements provided only to regulatory defined segments. All mandatory paper transactions are shredded after the end of the regulatory and legal period and recycled at a local welfare society. We have ensured that all printing is recyclable and reduced the cost of printing items over the past five years.

Over the years, we have seen growth in customer adoption of digital services and alternative channels for service delivery including mobile applications, the web, and use of the call center. There has been a significant increase in the use of digital channels for financial and non-financial services compared to the traditional branch channel, where most transactions have traditionally been handled on paper. Our transition has extended to the onboarding of new retail customers, which has enabled us to minimise the transit of paperwork between branches and headquarters. Our self-service kiosk machines, stationed across the country and providing around the clock services to customers, also help to reduce energy consumption. To date, we have automated 28 services which can be used through multiple channels including the mobile app, the Banking website and our self-service kiosks.

DEVELOPING OUR WORKFORCE

Our approach

Human capital remains our most valuable resource. Our employees are at the heart of what we do, and we consider them to be our most valued asset.

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

Workforce composition	2019	2020	2021
Total workforce (excluding trainees, students and outsourced)	361	350	331
Senior management employees	46	42	37
Middle management employees	110	107	105
Non-management employees	205	201	189
Trainees and sponsored students	30	14	11

Workforce by age and gender (excluding trainees, students and outsourced employees)	2019	2020	2021
Employees aged 18-30 (number)	89	76	54
Employees aged 31-50 (number)	264	263	267
Employees aged 51+ (number)	8	11	10
Male employees (number)	233	228	218
Female employees (number)	128	122	113
Female employees in middle management (number)	45	39	37
Female employees in senior management (number)	8	8	7

New hires and turnover	2019	2020	2021
Total new employee hires (number)	23	8	12
Male (number)	16	6	11
Female (number)	7	2	1
Employee turnover (voluntary and involuntary) (number)	27	19	28

Corporate culture and ethics: a culture of non-discrimination and openness

As stated in our HR policy, we do not discriminate on the basis of age, gender, marital status, or religion. We do not engage in, or tolerate, any form of discrimination or harassment and report any such acts or behaviours through the appropriate channels. We do not tolerate any discrimination amongst our employees, and line managers are expected to ensure that no employee suffers discrimination in relation to recruitment, remuneration, development opportunities, or promotion.

We are striving to increase the representation of women and Bahraini nationals in our organisation and more specifically within management and leadership roles.

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

DEVELOPING OUR WORKFORCE (Cont'd)

Our employees' opinions matter. Everyone is encouraged to share thoughts, feedback and suggestions. Department heads are happy to hear ideas for a new product, or a new way of working. It is part of our culture of collaboration. For example, we surveyed employees this year to assess their satisfaction with the integration with NBB and ensured they were able to escalate any complaints in relation to the integration. We also strengthened our internal communications by implementing social programmes for employees, linked to events such as back to school, the Bahrain National Day, International Women's Day, and sporting events.

Our grievance mechanism and whistleblowing policy have been communicated to all employees. We are pleased to report that no incidents of discrimination, harassment or human rights violations have been reported this year.

Grievances	2019	2020	2021
Number of grievances filed in the reporting period	8	11	5
Number of these grievance addressed or resolved	8	11	5
Number of grievances filed prior to the reporting period that were re-solved during the reporting period	0	0	0

We offer our employees a wide range of benefits. For example, we facilitate workers' access to non-occupational medical and healthcare services. Employees and their families are covered by a comprehensive medical scheme with wide network coverage nationally and internationally. In addition, optical, dental and maternity cover is included in their medical plan and delivered in private hospitals. We offer life insurance, year-end bonuses, and health club membership payment. We have continued to provide a medical scheme for all employees with additional benefits across the group. The Bank offers voluntary health services to its employees to address non-work-related health issues.

Full-time employees are also eligible for a range of other benefits such as personal profit free financing, an employee savings scheme, support for health club membership, and support for travel for expatriate employees and their families.

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

WHAT HAS THE IMPACT BEEN ?

Employee engagement

2021 has seen further investment in our employees and management. We continued to build employee engagement, employee experience, and improve productivity through focusing on accountabilities.

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

On employee engagement, communication at a departmental level was initiated and an action plan prepared to increase engagement levels. We have updated our HRMS portal with all the necessary COVID-19 precautions and government requirements. Our quarterly newsletter keeps employees informed of key business developments.

Diversity and inclusion

While pursuing targets for nationalisation, we also encourage a diverse workforce. Our employee workforce in 2021 included eight different nationalities. We welcome the variety that different backgrounds and outlooks offer to our culture and the way we do business.

DEVELOPING OUR WORKFORCE (Cont'd)

Nationalisation

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

The recruitment, retention and development of qualified Bahrainis remain important aspects of our people agenda. Our voluntary and involuntary employee turnover rate, at 8.2% remains low.

With a Bahrainisation rate of 93% in 2021, we are proud to be one of the most successful organisations in the country in recruiting and investing in Bahrainis, in all bank's levels, including senior management. This year, the nationalisation rates for senior management was 78%. We are currently building career programmes for young Bahrainis, which will enable them to be the long-term successors for expatriates.

Nationalisation	2019	2020	2021
Nationals among total full-time workforce (number)	336	326	308
Female National full-time employees (number)	124	119	110
Male National full-time employees (number)	212	207	198
Nationalisation in senior management among total workforce (percentage)	11	10	10
Nationalisation among total workforce (percentage)	93	93	93
Total number of nationalities in workforce	7	7	8

Empowering women

Acknowledging the importance of women in the workforce is essential. We attach great importance to female participation – who currently represent just over one-third of our total workforce.

Our HR policy addresses parental leave, which has been extended for male to cover up to three working days instead of a single day. Female employees are being entitled for an extended maternity and motherhood leave beyond the Bahrain labour law.

Parental leave and return to work	2019	2020	2021
Number of employees that took parental leave (number)	16	13	12
Number of employees who returned to work after parental leave ended (return to work) (number)	16	13	12
Number of employees returned from parental leave who were still employed twelve months after return to work (retention) (number)	14	12	12
Return to work rate (percentage)	100	100	100
Retention rate (percentage)	88	92	100

Female health and wellbeing

Every year and as part of a 'Think pink' campaign, all female employees are offered a mammogram and ultrasound breast checkup. We maintain a list of all employees with chronic illnesses and have arrangements in place to anticipate any issues arising to ensure people are properly cared for in a timely manner.

We are proud to report that our commitment to female representation in our bank is in line with the Kingdom of Bahrain's strategy to empower women. We have appointed women to managerial and chiefs' positions within BisB and worked on a tailored development program targeting them as part of the diversity and inclusion. We currently have 113 female employees, accounting for 34% of our total workforce. Thirty-five percent of middle management roles are filled by women and 19% of senior management roles are filled by women. We currently have one female Board director.

DEVELOPING OUR WORKFORCE (Cont'd)

As per the approved Group HR policy, measures have been initiated to support female employees such as:

- Modifying parental leave to become paid leave up to three working days instead of a single day.
- Modifying maternity leave to become paid leave up to a total of 90 calendar days for regular birth, and 120 calendar days for premature birth.
- Motherhood Leave: up to six calendar months' unpaid leave to care for children under the age of seven years.
- Unpaid leave is available three times in an employee's service. The period is not considered as part of service, and no Social Insurance Contribution is paid for this period.
- Miscarriage Leave, covering paid sick leave up to 15 calendar days.
- Nursery Periods of two hours per day for 1 Year, and 1 hour per day for the second Year.
- Vaccination Leave of 1 working day for female employees, on the day of any vaccination till their child reaches two year of age.
- Light Duty - fertility treatment, enabling reduced working hours for a period of up to 45 calendar days. The reduced working hours are 6 hours per workday.
- New paid leave of 3 working days for the birth of up to three grandchildren.

[The ratio of basic remuneration between women and men has improved since last year. The average wage gap between male and female employees (excluding Chief level and above) has improved from 2.4% at the end of 2020 to 6% at the end of 2021, getting closer to our equal pay target and in line with our initiatives to empower women.] Annual Average male basic remuneration in 2021 was BD 21,673 and annual average female basic remuneration was BD 18,883.

Health and safety

We are in the process of formalizing our safety management system, and embedding it to our risk management guidelines, in accordance with Bahrain H&S legal requirements.

The system will cover areas such as a safety manual, legal compliance, inspection, induction material and procedures, employees H&S training matrix, incidents, and unsafe condition reporting and investigation procedures. The scope also covers contractors' management, fire aid and safety communication procedures, emergency, workstation safety, manual and chemicals handling processes. The system will build on the Health & Safety policy and the safety and security manual that we already have in place.

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

To further safeguard our people, we compile monthly information on HSE incidents and report this to the bank's senior management. These are also reported to the Operation Risk and Human Resources depending on the nature of the incident.

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

We are pleased to report that no employee and contractors lost time injuries were recorded in 2021.

KPI	2020	2021
Employee lost-time injuries (number)	0	0
Contractor lost-time injuries (number)	0	0

DEVELOPING OUR WORKFORCE (Cont'd)

Our approach to training and education

Our policies and processes ensure that our employees possess the necessary tools to develop their skills and knowledge and increase the use of e-learning. Our management training plan for 2021 ensured that professional development plans are in place for all employees, through mandatory learning and development objectives and personal development plans which cover all employees. We have identified areas that are important for development, such as leadership and management skills, business awareness and policies and procedures.

We want to create an environment that inspires new ways of thinking and are working to boost collaboration, creativity and innovation, to be able to deliver the best customer service. Training needs analysis is conducted every year to make sure the training and learning efforts address the most relevant needs. A dedicated team administers our training policy, oversees the annual training plan, and facilitate training programmes.

The organisational changes necessitated by the pandemic have reinforced our long-standing belief in adapting. 'Virtual' is the 'new normal', and we will continue to have virtual onboarding sessions for new employees and will continue to conduct virtual training.

Training in 2021

- 17,572 training hours delivered, compared to 13,858 hours in 2020.
- Average training per employee totalled 53 hours in 2021.
- Female employees, on average, undertook 52 hours of training during 2021, an increase from 39 hours in 2020.
- 153 of our employees completed sustainability awareness e-learning programmes, more than double the number in the previous year

We continued the BisB/NBB monthly calendar webinar in 2021 and assigned 10 hours of e-learning courses for each employee. We made sure that courses and interventions target employees based on their knowledge, skills, and needs as well as their professional development plans.

We continued to work through our training academy where more than 650 online tutorials in a wide range of subjects have been added to the portal. In addition, 20 employees have been certified as holding professional qualifications, representing 6% of the total workforce. We provided ESG webinars in 2021 to our employees and board members, to enhance their knowledge of environmental, social and governance topics – a key long-term strategic goal. We provided a number of webinars and e-learnings related to safety and security.

Course name	Number of attendees
Safety and security training	265
Understanding PCI DSS	194
Safety procedures training	258

Through our online learning portal, BisB Academy, we extended learning opportunities to all BisB personnel, giving them the opportunity to register for any of more than 650 courses. All employees have benefited from the courses provided by the academy in topics such as anti-money laundering, FATCA (US Foreign Account Tax Compliance Act), block chain, and trade finance.

We maintain a comprehensive information security awareness programme that aims to embed information security, privacy and continuity into our culture. Targeted training initiatives are provided to specific groups, along with computer-based security training modules, tests and knowledge assessment, and phishing simulation activities. Through training, we have reduced phishing success rates to approximately one-quarter of one percent.

DEVELOPING OUR WORKFORCE (Cont'd)

WHAT TRAINING DID WE DO DURING THE PANDEMIC?

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

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

In addition to these initiatives, we provided a wide range of technical training, also accessible from home. This included courses on performance management, people and culture, operational risk awareness, environmental management, ESG and sustainability issues for bankers, customer excellence, workspace automation, and agility and digital transformation in banking – among many other courses.

Training performance	Units	2019	2020	2021
Average training per employee				
Male employees	Hours	19	40	54
Female employees	Hours	12	39	52
Senior management employees	Hours	26	59	50
Middle management employees	Hours	8	46	53
Non-management employees	Hours	8	32	54
Average training per employee	Hours	20	35	53
Number of employees who completed sustainability-related awareness/ training programs	#	N/A	67	153
Total training delivered	Hours	7,392	13,858	17,572
Senior management employees	Hours	2,599	2,461	1,852
Middle management employees	Hours	1,653	4,913	5,530
Non-management employees	Hours	2,768	6,484	10,190
Male employees	Hours	2,599	9,162	11,728
Female employees	Hours	1,653	4,699	5,844
Average training per employee in alignment with Islamic principles	Hours	5.3	9.4	8
Total training delivered in alignment with Islamic principles	Hours	216	2,068	1,181
Total number of Shari'a-related Awareness Campaigns Conducted	#	0	1	1

04

HOW WE PROTECT VALUE

Our capacity to deliver value for our stakeholders is founded upon having robust systems of control which ensure that we manage the business in a responsible manner.

We have a strong compliance function that makes sure we adhere to external requirements such as those imposed by regulators, and to internal our own codes of conduct, policies, and processes.

We have a rigorous system of internal control which governs the day-to-day operations of our business. It includes clear definitions of accountability, a framework of policies, systematic processes, and mechanisms for overseeing and reporting on performance. Our board committees provide regular scrutiny and challenge across key performance parameters such as our financial performance, adherence to our ways of working, remuneration, governance, and sustainability.

Our suite of policies set out frameworks for what we do and how we do it. They cover a wide range of topics such as whistleblowing, anti-money laundering, fraud prevention, and how we manage our employees, and many others.

We protect value by maintaining a keen awareness of risk and a clear definition of our risk appetite. Our risk management function monitors and assesses a wide variety of risks to the business such as credit risk, security risk, liquidity risk, market risk, and reputational risk. We have comprehensive systems in place to manage these challenges, and sophisticated processes to ensure business continuity, and to manage key customer concerns such as data privacy and confidentiality.

Our independent internal audit function provides a further layer of protection, working to a risk-based audit plan to monitor the operation of our system of internal control.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOR

COMPLIANCE

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

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

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

We expect our management to exercise due care in complying with regulatory requirements and avoid any violation. However, system and human errors cannot be fully eliminated while serving a large customer base. Financial penalties paid during the year are disclosed in accordance with CBB requirements. In 2021, financial penalties paid mainly related to technical issues.

Raising an incident

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

- The employee can send an email to the Chairman of the Audit committee on "whistleblow@BisB.com".
- A letter can be posted to P.O. Box 5240 Manama, addressed to the Chairman of the Audit committee.

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

The Bank establishes procedures regarding Customer Due Diligence (CDD), which includes identifying and verifying the identity of the customers and the beneficial owners and their source of funds. In addition, for high-risk customers, Enhanced Due Diligence (EDD) measures have been adopted with continuous monitoring as stipulated in the CBB Rulebook Volume 2. As matter of policy, the Bank does not maintain anonymous accounts, does not conduct business with shell Banks and does not transact or conduct business with correspondent Banks which are domiciled in jurisdictions classified as non-cooperative countries or territories by Financial Action Task Force (FATF).

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

There were no incidents of corruption involving the organisation in 2021.

CORPORATE GOVERNANCE AND ETHICAL BEHAVIOR (Cont'd)

Systems and Controls

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

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

We have succeeded in implementing our risk-based approach to assessing and managing money laundering and terrorist financing risks. We carry out anti-money laundering risk assessment in relation to the Bank's customers, products, services, and distribution channels. We continue to strengthen our compliance culture and are committed to enhancing our compliance procedures, policies, and systems by continuously engaging and working with CBB, conducting impact assessments of new regulations on the Bank and reporting, and enhancing our AML system.

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

Our Anti-Financial Crimes Policy

This is available to all employees, who are required to ensure full compliance with it. Any member of the Bank is free to report any incident of fraud to the chief executive officer or a Board member directly. Any breach of the anti-financial crimes policy may result in disciplinary action, including dismissal for gross misconduct or other termination of employment.

INTERNAL AUDIT

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

This year, and despite the challenges faced, the team has maintained its productivity and output while working remotely. We aligned with the Group's methodology and collaborated in IT/IS audits and supported management by participating in committees, taskforces, and in the early communication of risks. We also partnered with management in planning for 2022 and delivered a number of ad-hoc assignments.

We aligned the Audit Committee Charter, Internal Audit Charter, and Whistleblowing policy with the latest revisions made to the these at Group level.

We launched an informational dashboard to the Audit Committee using the board management information software and launched the Internal Audit Annual report initiative to provide insight on our own activity and performance, engagement results, key risks/outlooks for the year ahead This also provided a summary of key governance updates to those charged with governance. We continued in our commitment to make further use of data analytics by enrolling members of the team in Data Literacy Academy. We also collaborated with the Group IA team to deliver internal awareness sessions, and increased the number of Certified Internal Auditors in the team.

RISK MANAGEMENT

Risk Management Philosophy

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

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

The Risk Management Function

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

Key Risks

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

In terms of IT security risk (an operational risk), the Bank has newly incorporated IT and cyber security risk into its ICAAP and stress testing framework, by means of projecting the maximum operational loss given a range of scenario severities over a three-year horizon. The exercise indicated that IT security risk is moderate, but is significantly mitigated due to having the appropriate infrastructure in place, and a cyber security insurance policy.

For reputational and strategic risk, we preserve our shareholders' integrity through the monitoring of the bank's brand image and rating profile.

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

Controls

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

RISK MANAGEMENT (Cont'd)

Board Risk & Compliance Committee

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

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

Credit & Risk Management

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

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

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

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

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

Next projects and commitments:

- Integrate ESG into the ICAAP process using a scorecard-based approach.
- Implement and operate privacy centered processes.
- Expand and streamline business continuity processes and enhance organisational resilience.

RISK MANAGEMENT (Cont'd)

- Implement behavioral scorecards for retail customers to streamline retail credit application process and data analytics.
- Paperless financing and customer-related credit documentation, with the intent of having them processed in an automated fashion.
- Keep technical vulnerabilities on internet facing infrastructure close to zero.

Data Security and Privacy

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

As an active participant in all security, privacy and resilience programs and events, in 2021, we represented the financial sector in the development of Bahrain's National Cyber Security standards, participated in the BCI Award program as professional judges in global programs, and provided feedback on regulatory consultancy rules. Our CISO was among a team of international experts nominated to be part of a working group to develop the new version of the Business Continuity Institute (BCI) Good Practice Guideline (GPG) 2023. The GPG is an internationally recognised and widely adopted reference in the field of business continuity and resilience.

We have implemented numerous security and privacy measures to safeguard our customers and facilitate transactions. The bank's processes are fully aligned with the NIST Cyber Security Framework and certified against ISO 27001, Information Security Management System international standard, Payment Card Industry Data Security Standard (PCI-DSS), and SWIFT Customer Security Controls Framework. Internal audits on IT, Information Security, Cybersecurity and Business Continuity processes are performed annually to ensure compliance with regulatory requirements.

This year, we launched our board approved information / cyber security strategy which highlights our strategic objectives for the next three years, and established a governance process by launching a new management level Information Security Committee and a governance process to manage information risks through the Board Risk and Compliance Committee (BRCC) and the Board of Directors.

We conducted various independent security tests on digital platforms and daily vulnerability assessments on internet facing assets, as well as weekly assessments on all internal assets. We continued training and educating our employees on emerging threats and provided multiple awareness sessions through our corporate training programme and computer-based information security awareness platform.

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

As part of our efforts to maintain the trust of our customers, we continuously inform them about the collection and the use of their data, and general security threats through a number of social media channels. A privacy by design and security-by-design approach is followed in the development and enhancement process of new services and products. These principles ensure that we always advocate the best customer behavior in relation to use of digital services and products. During 2021, we had zero data security breaches.

RISK MANAGEMENT (Cont'd)

	2019	2020	2021
Control of Technical Vulnerabilities			
Number of technical vulnerabilities on public assets and websites rated, high and critical	0	0	0
Security breaches reported internally			
Number of reported security breached	0	0	0
Security and privacy awareness programme			
Campaign failure rate (%)	5.42	5.47	0.26
Number of computer-based training modules completed	51	252	484
Average security awareness score (%)	93	88	89
Team competency			
Number of professional certifications in the information security, continuity and privacy field	23	25	20
Number of unique professional certifications or award in the field, where BisB security professional is the first to achieve in Bahrain	3	4	3

Fraud Prevention

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

During 2021, the amount of fraudulent transactions (in which customers have provided their cards' details, the PIN and OTPs voluntarily to the fraudsters who used this information to access their accounts) was BD 129,408. The percentage of recovered amounts was 17.7%.

In order to safeguard the Bank's customers, the Bank has implemented fraud prevention actions, which include:

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

RISK MANAGEMENT (Cont'd)

Business Continuity Management

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

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

The integration in NBB has enabled us to further develop our BCM framework. A core team with individuals with expertise in the fields of resilience, information, and cyber security have worked together to develop and implement new systems for BCM across the group. Work has involved implementing testing and auditing components, structures, templates and documentation for an enhanced BCM system. The first group-wide BCM framework was jointly developed and approved by the Board at the end of 2021. Our approach is closely aligned with best practices and international standards. The system has enabled us to better understand the challenges, gaps in infrastructure, interdependencies, and potential scenarios. The full BCM framework, which is cloud-based and paperless, brings a number of advantages including process efficiencies, the provision of computer-based training that is accessible for all staff and new joiners, enhanced exercises, automation of key processes, the development of new measures and performance indicators that are linked to the Board approved policies, and reductions in cost. Our success in carrying out this project was marked by the receipt of a Business Continuity Institute (BCI) award in 2021, which recognised the progress we have made towards creating a unified group operation and adapting global best practices in business continuity and resilience.

Systems put to the test

This year, we conducted our largest and most sophisticated BCM exercise to date, by operating the entire e-banking and mobile banking platform from the disaster recovery environment for a whole week. We simulated a technical issue in our data center to trigger operating the entire bank and branches from the disaster recovery site for one full business day without any impact on operations.

Maintaining reliable operations during COVID-19

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

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

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

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

CORPORATE GOVERNANCE REVIEW

Corporate Governance Framework

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

Statement of Responsibility

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

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

* The Board Independent Committee was formed to supervise the acquisition of BisB's shares. The Board Independent Committee has been reactivated to handle an advisory role and provide advice and recommendations to the Board of Directors on issues related to integration and synergies between National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB). BisB's corporate governance framework is built on a code of business conduct, policies, procedures, internal controls, risk management, Shari'a review and audit, internal and external audit and compliance functions. The framework is based on effective communications, transparent disclosures, performance measurement and accountability. An independent Internal Audit function is established within the Bank that reports directly functionally to the AC.

Code of Business Conduct

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

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

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

Compliance

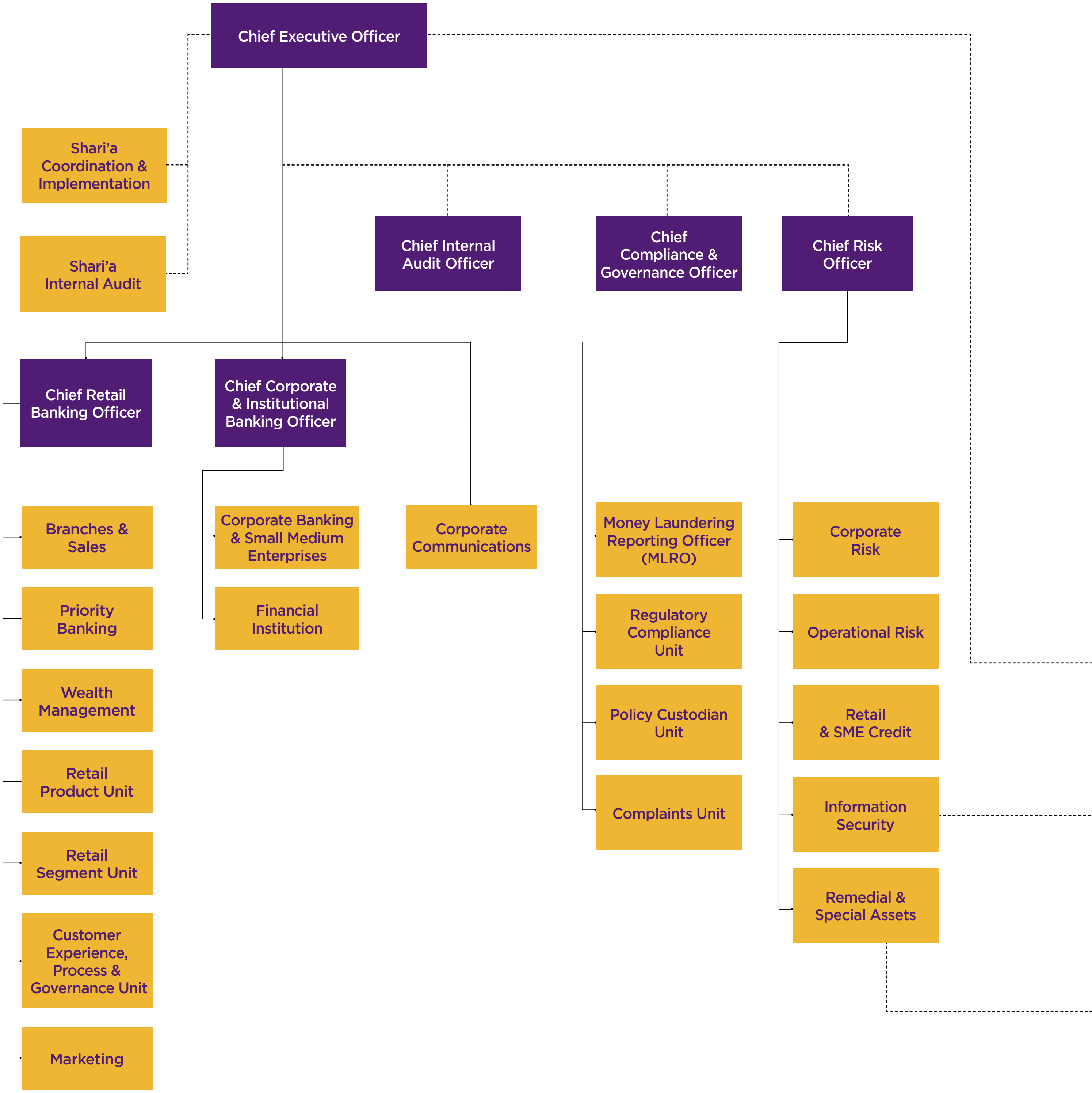
Compliance is an independent function that reports to the BRCC. The Compliance function, guided by the Board approved policies, works with various business and controlled functions of the Bank to ensure compliance with the applicable rules and regulations of the CBB. Given the digital business strategy of the Bank, as well as the expanding regulatory scrutiny and enforcement, the Compliance Department of the Bank is keeping up with the digital advancements by also taking on an active role in directly participating in the risk management process.

Communications

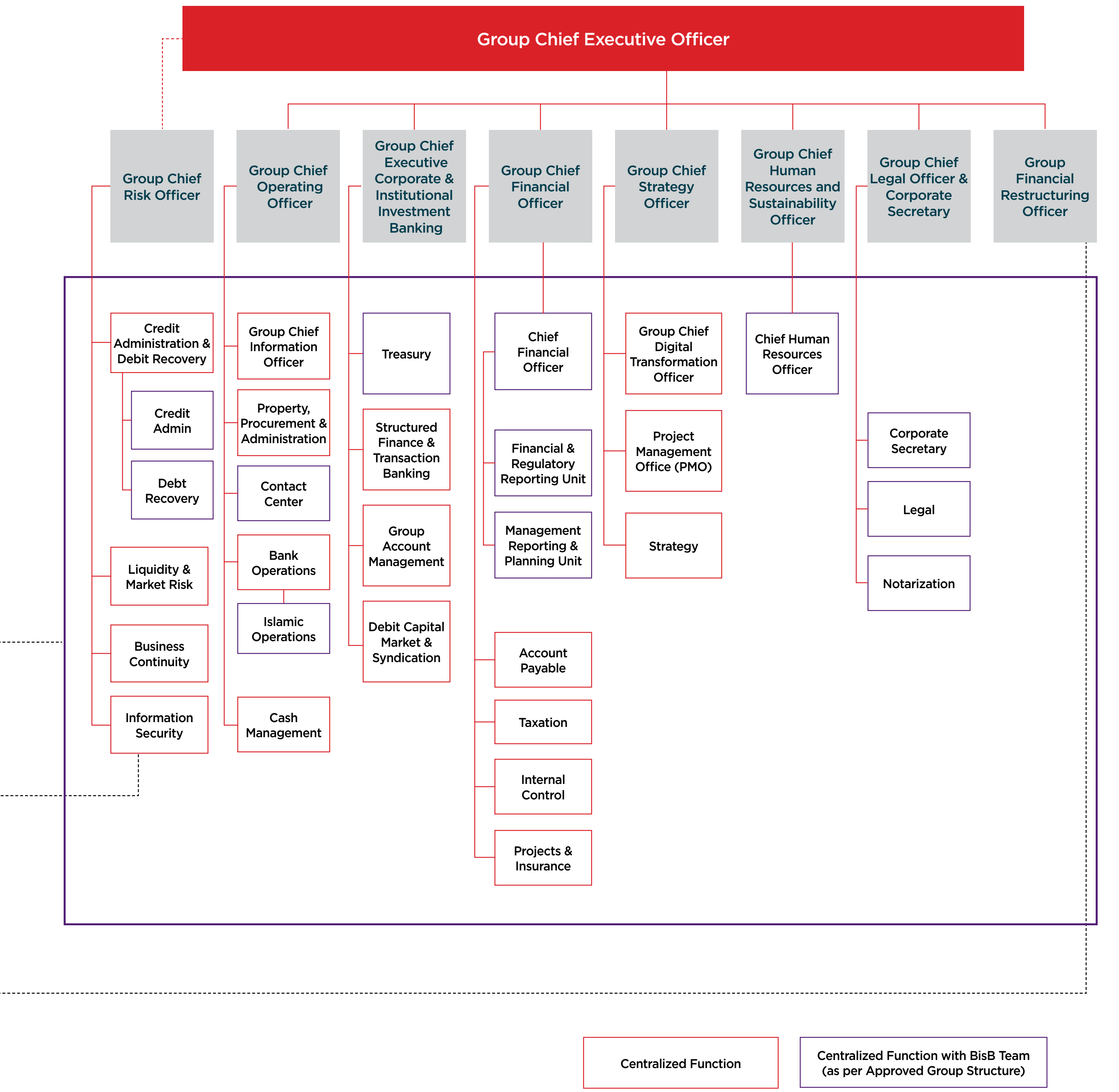
BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include the annual report, website, and regular announcements in the appropriate local media.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Bank's Structure

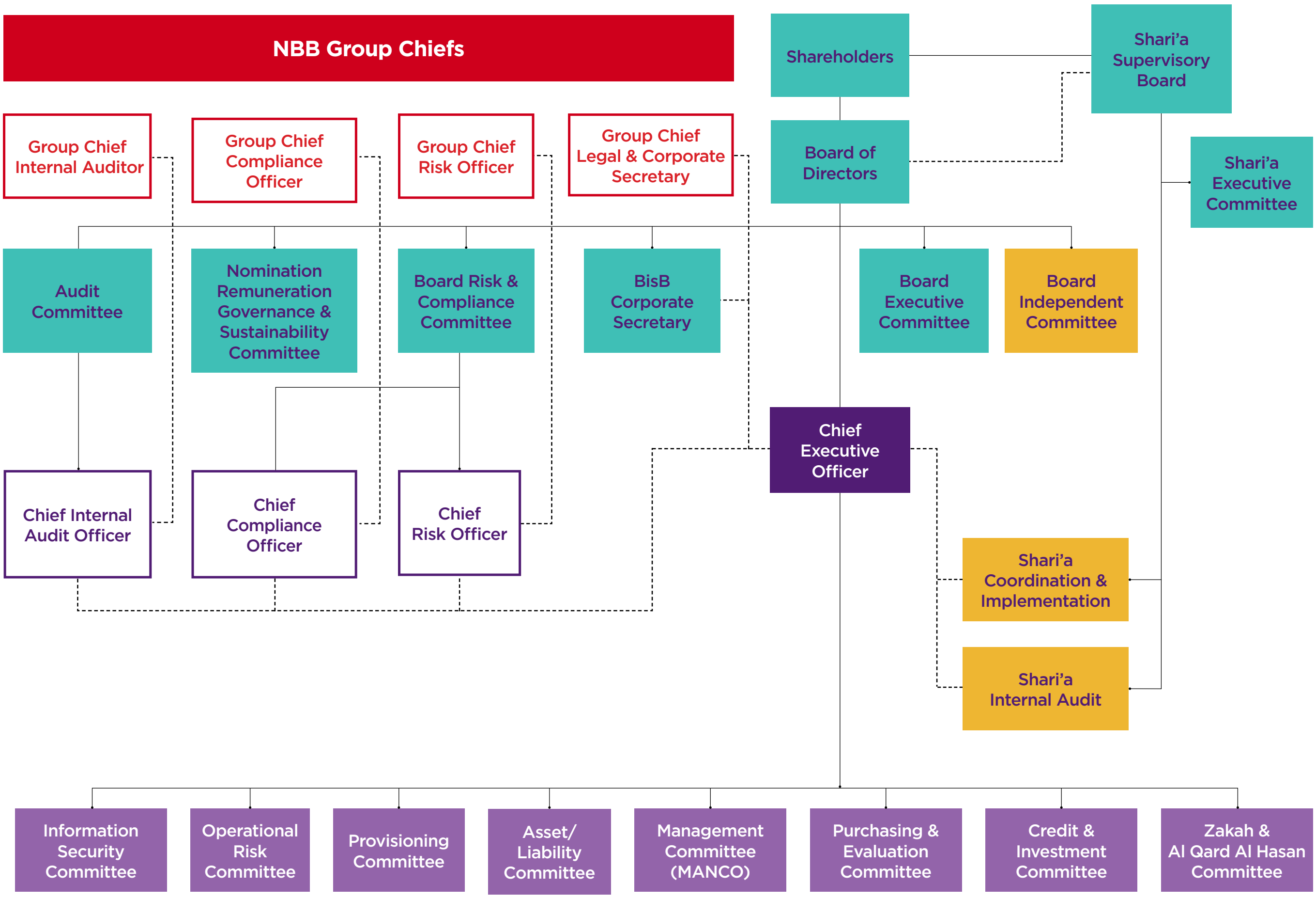


CORPORATE GOVERNANCE REVIEW (Cont'd)



CORPORATE GOVERNANCE REVIEW (Cont'd)

Governance Structure



CORPORATE GOVERNANCE REVIEW (Cont'd)

Board of Directors Composition

No.	Director	Designation	Start Date	Term
1.	Dr. Esam Abdulla Fakhro	Non-Executive & Non-Independent	23rd March 2016	Second
2.	Mr. Khaled Yusuf AbdulRahman	Non-Executive & Non-Independent	23rd March 2016	Second
3.	Mr. Jean Christophe Durand	Executive Director	05th February 2020	First
4.	Mr. Khalid Abdulaziz Al Jassim	Non-Executive & Independent	21st March 2019	First
5.	Mr. Mohammed Abdulla Al Jalahama	Non-Executive & Independent	21st March 2019	First
6.	Mr. Marwan Khaled Tabbara	Non-Executive & Independent	21st March 2019	First
7.	Mr. Mohammed Abdulla Nooruddin	Non-Executive & Independent	21st March 2019	First
8.	Mr. Yaser Abduljalil Alsharifi	Executive Director	05th February 2020	First
9.	Ms. Dana Abdulla Buheji	Executive Director	05th February 2020	First
10.	Mr. Isa Hasan Maseeh	Executive Director	19th April 2020	First

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

Board of Directors' Responsibilities

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

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

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

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

Induction of New Directors

The Bank provides an orientation program for new Directors which includes presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors. New guidelines for new board members were created under codified document called the "New Board Member Onboarding Guidelines". This document was put in place to ensure that new board members are able to fulfil their governance responsibilities and director duties, and most importantly adjust to the Bank as soon as possible.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Code of Conduct

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

Review of Internal Control Processes and Procedures

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

Board Membership

The Board of Directors' membership term is three years, subject to renewal. The current term started March 2019 and is expected to end March 2022. Shareholders owning 10% or more of the share capital have the right to nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the Ordinary General Meeting for electing the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

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

- If a member fails to attend at-least 75% of the meetings without a reasonable excuse;
- If he/she tenders his resignation in writing;
- If he/she fails to fulfill any related conditions referred to the Bank's Articles of Association;
- If he/she is appointed or elected in violation of the provisions of the CBB Law and/or Bahrain Commercial Companies Law;
- If he/she abuses his/her membership for carrying on other business that competes with or is detrimental to the Bank's business;
- If the shareholder who nominated him/her applies for his/her removal; or
- If the shareholder who nominated him/her is no longer a shareholder or loses its eligibility to nominate a representative on the board of directors.

Board Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	15-Feb-21	26-Apr-21	02-Aug-21	25-Oct-21	29-Nov-21	Attendance Percentage
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	100%
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	100%
Mr. Jean Christophe Durand	✓	✓	✓	✓	✓	100%
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	100%
Mr. Mohammed Abdulla Al Jalahma	✓	✓	✓	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	100%
Mr. Yaser Abduljalil Alsharifi	✓	✓	✓	✓	✓	100%
Ms. Dana Abdulla Buheji	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	-	✓	✓	✓	✓	100%

✓ Participated via phone/video link

✓ Participated physically

CORPORATE GOVERNANCE REVIEW (Cont'd)

Board Committees' Members

Board Committee	Members	Objectives
Executive Committee (EC)	Mr. Jean Christophe Durand (Chairman) Members: • Mr. Khalid Yousif Abdul Rahman • Mr. Yaser Abduljalil Alsharifi • Mr. Hassan Amin Jarrar (non-voting member)	The EC assists the Board of Directors in fulfilling their responsibilities with regards to financing and investments activities, as well as any other matters not delegated to a specific Board Committee. Accordingly, the EC is empowered to approve specific credit and investment proposals, review budgets, plans and major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.
Audit Committee (AC)	Mr. Khalid Abdulaziz Al Jassim (Chairman) Members • Mr. Mohammed Abdulla Al Jalahma • Mr. Isa Hasan Maseeh	The AC oversights the integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of audit findings, provisions, and impairments.
Nomination, Remuneration, Governance, and Sustainability Committee (NRGSC)	Dr. Esam Abdulla Fakhro (Chairman) Members: • Mr. Mohamed Abdulla Nooruddin • Mr. Marwan Khaled Tabbara • Ms. Dana Abdulla Buheji	The NRGSC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. It is also entrusted to identify and recommend persons occupying senior positions including board members. Furthermore, the committee also oversee Bank's governance related matters. NRGSC is also responsible of ensuring the availability of a continuously growing awareness around ESG and sustainability areas.
Board Risk and Compliance Committee (BRCC)	Mr. Marwan Khaled Tabbara (Chairman) Members: • Mr. Mohamed Abdulla Nooruddin • Mr. Khalid Abdulaziz Al Jassim • Mr. Isa Hasan Maseeh	The BRCC is formed to assist the Board of Directors in fulfilling their regulatory as well as fiduciary responsibilities towards the stakeholders. Furthermore, the Committee also oversee compliance with legal and regulatory requirements.
Board Independent Committee (BIC)	• Mr. Mohamed Abdulla Nooruddin (Chairman) Members • Mr. Khalid Abdulaziz Al Jassim • Mr. Marwan Khaled Tabbara • Mr. Mohammed Abdulla AlJalahma	The Board Independent Committee of Bahrain Islamic Bank (BIC) which was initially formed to supervise the acquisition of BisB's shares has been reactivated to provide advice and recommendations to the Board of Directors on issues related to integration and synergies between National Bank of Bahrain (NBB) and Bahrain Islamic Bank (BisB).

CORPORATE GOVERNANCE REVIEW (Cont'd)

Executive Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	08 Feb 2021	12 Apr 2021	22 Jun 2021	21 Sep 2021	02 Nov 2021	12 Nov 2021	Attendance Percentage
Mr. Jean Christophe Durand	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	✓	100%
Mr. Yaser Abduljalil Alsharifi	✓	✓	✓	✓	✓	✓	100%
Mr. Hassan Amin Jarrar (non-voting member)	✓	✓	✓	✓	✓	✓	100%

✓ Participated via phone/video link
✓ Participated physically

Audit Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	26 Jan 2021	02 Feb 2021	25 Apr 2021	04 Jul 2021	01 Aug 2021	06 Oct 2021	24 Oct 2021	24 Nov 2021	29 Dec 2021	Attendance Percentage
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Mohammed Abdulla Al Jalahma	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%

✓ Participated via phone/video link
✓ Participated physically

Nomination, Remuneration, Governance, and Sustainability Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	25-Jan-21	11-Feb-21	25-Apr-21	29-Jul-21	15-Nov-21	Attendance Percentage
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	100%
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	100%
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	100%
Ms. Dana Abdulla Buheji	✓	✓	✓	✓	✓	100%

✓ Participated via phone/video link
✓ Participated physically

CORPORATE GOVERNANCE REVIEW (Cont'd)

Board Risk and Compliance Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	27 Jan 2021	17 Mar 2021	22 Apr 2021	30 May 2021	28 Jun 2021	18 Jul 2021	22 Sept 2021	10 Nov 2021	05 Dec 2021	Attendance Percentage
Mr. Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Mr. Isa Hasan Maseeh	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%

✓ Participated via phone/video link

✓ Participated physically

Board Independent Committee Meetings and Attendance

Minimum Number of Meetings Required = Upon Request

Members	22 Sept 2021	10 Nov 2021	Attendance Percentage
Mr. Marwan Khaled Tabbara	✓	✓	100%
Mr. Mohamed Abdulla Nooruddin	✓	✓	100%
Mr. Khalid Abdulaziz Al Jassim	✓	✓	100%
Mr. Mohammed Abdulla AlJalahma	✓	✓	100%

✓ Participated physically

Evaluation of the Board and Each Committee

Being known to strive for well-developed and balanced governance practices, ethical standards and fair dealings, BisB has revamped its Board performance evaluation process and enhanced its format to identify improvement opportunities to enhance the overall performance of the Board , its Committees and each board member. Therefore, the enhanced Board performance evaluation for the year 2021 has been conducted electronically through the completion of a structured performance evaluation questionnaire form against certain pre-defined criteria as per the mandate of the Board and each of its Committees on the effectiveness and contribution of the overall performance of the Board, its committees and the performance of each Board member. The NRGSC carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results. The Board considers this as a beneficial exercise that can enhance governance and therefore deliver and unlock value to BisB and its shareholders.

Board of Directors Remuneration and Sitting Fees

The Board of Directors are paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting. While the amount of the remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the Directors to the Bank, are considered for determining the total remuneration. In addition, Directors are paid sitting fees for attending the meetings of the Board and its various subcommittees. Non-resident directors are also entitled to travel expenses. Further details on the remunerations paid to Board as well as Senior Management are available under the remuneration disclosures of the annual financial and sustainability report.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Shari'a Supervisory Board

Objective

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

The Shari'a Supervisory Board has established a Shari'a Coordination & Implementation function to ensure the Shari'a compliance of the Bank and performance of supervision and reviewer from the Shari'a point of view, in addition to the secretariat of the Shari'a Supervisory Board. The Shari'a Supervisory Board has also established an independent Internal Shari'a Audit function that reports any exceptions to the Shari'a fatwas and guidelines.

Shari'a Board Meetings

Members	03 Mar 2021	06 Jun 2021	22 Sep 2021	11 Nov 2021	29 Nov 2021*	Attendance Percentage
Sh. Dr. Abdul Latif Al Mahmood	✓	✓	✓	✓	✓	100%
Sh. Mohammed Al Juffairi**	✓	✓	X	✓	X	60%
Sh. Adnan Al Qattan	✓	✓	✓	✓	✓	100%
Sh. Dr. Nedham Yacoubi	✓	✓	✓	✓	✓	100%
Sh. Dr. Essam Al Enizi***	✓	X	X	X	X	20%

* With Board of Directors

** Sh. Mohammed Al Juffairi did not complete the required percentage of attendance, which is 75%, as he attended 3 out of 5 meetings, due to a health condition he had.

*** Sh. Dr. Essam Al Enizi attended one meeting, subsequently, his Shari'a Board membership ended in March 2021.

Executive Management

The management structure that clearly defines roles, responsibilities, and reporting lines, is available in the annual report of the Bank. Within the management structure there are separate committees responsible to meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

Name & Designation	Profession	Experience in years	Qualification
Hassan Amin Jarrar Chief Executive Officer	Banking	32	BSc in Finance from California State University, San Jose.
Wesam A.Aziz Baqer Chief Corporate & Institutional Banking Officer (until Jun 3rd, 2021)	Banking	19	MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland. BS in Business Administration from the University of Bahrain. Certified Financial Adviser (CeFA).

CORPORATE GOVERNANCE REVIEW (Cont'd)

Executive Management (Cont'd)

Name & Designation	Profession	Experience in years	Qualification
Jawad Humaidan Acting Head of Corporate Banking From June - date 2021	Economics & Finance	16	MSc in Finance from DePaul University, Chicago, USA. BS in Economics from Carleton University, Ottawa, Canada. Certified Arbitrator specializing in Banking & Finance.
Dalal Ahmed Al Qais Chief Retail Banking Officer (until Nov 3rd, 2021)	Banking	19	MBA in Finance from AMA University. BSc in Business Management from the University of Bahrain.
Ali Yousif Al Aradi Acting Head of Retail Banking From Nov 2021 to date	Banking	18	CMI level 5 from Chartered Management Institution. CIM level 6 from Chartered Institute of Marketing Advanced Diploma in Banking & Finance.
Ameer Abdul Ghani Dairi Chief Financial Officer	Accounting	21	CPA from New Hampshire Board of Accountancy. Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, USA. BSc in Accounting from University of Bahrain.
Fahim Ahmed Shafiqi Chief Risk Officer	Banking	22	Diploma in Islamic Finance (CDIF). MBA from University of Warwick, UK.
Eman Ali Abdulla Ebrahim Head of Central Operations	Banking	24	Associate Diploma in Accounting, University of Bahrain
Hussain Ebrahim Al Banna Head of Treasury	Banking	17	BSc in Banking & Finance from the University of Bahrain. Treasury and Capital Markets Diploma, BIBF.
Afnan Ahmed Saleh Chief Human Resources Officer	Business Administration	20	SHRM Senior Certified Professional (SHRM-SCP) in 2015 MBA University of Strathclyde in 2006
Osama Ali Nasr Chief Information Officer (until Aug 31st, 2021) replaced with **Stefan Corera**	Information Technology	23	MSc in Information Systems Management from the University of Liverpool. BSc in Computer Science from Al-Isra University, Jordan.
Mazar Rashed Jalal Chief Compliance & Governance Officer (until May 2nd, 2021) replaced with **Mohamed Ayada Mattar**	Banking	20	BSc in Accounting from the University of Bahrain. International Compliance Associate Diploma from UK. Diploma in Islamic Banking and Insurance from UK, Wales.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Executive Management (Cont'd)

Name & Designation	Profession	Experience in years	Qualification
Mohammed Ayada Mattar Acting Head of Compliance and AML, and MLRO	Banking	17	Masters in Finance from AMA International University. Certified Anti-Money Laundering Specialist. Diploma in Governance, Risk & Compliance from International Compliance Association.
Maisa Jawdat Shunnar Group Chief Digital Transformation	Strategy Implementation & Transformation	21	BSc in Business Administration majoring in Computer Information Systems from University of Houston (Texas, USA). Masters of Business Communication & Leadership, Jones International University, Colorado, USA.
Hamad Farooq Al- Shaikh Head of Shari'a Coordination & Implementation	Banking	16	Masters of Shari'a - ALEmam ALAwzaie University - Lebanon CIFP-Chartered Islamic Finance Professional ADIC J- Advanced Diploma in Islamic Commercial Jurisprudence- BIBF CSAA – Certified Shari'a Adviser and Auditor – AAOIFI. CIB – Certified Islamic Banker – CIBAFI. Bachelors Degree in law and Shari'a - Qatar University
Eman Mohammed AlBinghadeer Head of Internal Shari'a Audit	Banking	16	Professional Diploma in Shari'a Auditing – CIBAFI. CSIA – Certified Specialist in Islamic Accounting – CIBAFI. CIB – Certified Islamic Banker – CIBAFI. CSAA – Certified Shari'a Adviser and Auditor – AAOIFI. Diploma in Computing and Business Studies – Bournemouth University and Technology Centre – UK.
Khaled Waheeb Al Naser Chief Internal Audit Officer	Auditing and Banking	14	Certified Public Accountant - CPA Certified Internal Auditor - CIA Certified Islamic Professional Accountant - CIPA BSC Managerial Accounting – NYIT CGMA – AICPA/ CIMA COSO Internal Control - COSO

CORPORATE GOVERNANCE REVIEW (Cont'd)

Management Committees

Committee(s)	Members	Objectives
Management Committee (MANCO)	Hassan Amin Jarrar Chairman Members • Ameer Abdul Ghani Dairi • Fahim Ahmed Shafiqi • Maisa Jawdat Shunnar • Afnan Ahmed Saleh • Wesam A. Aziz Baqer (until Jun 3rd, 2021) replaced with Jawad Humaidan • Dalal Ahmed Al Qais (until Nov 3rd, 2021) replaced with Ali AlAradi • Eman Ali Abdulla Ebrahim • Osama Ali Nasr (until Aug 31st, 2021) replaced with Stefan Corera • Mazar Rashed Jalal (until May 2nd, 2021) replaced with Mohamed Ayada Mattar	MANCO is the highest management body that reviews the Bank's strategy implementation. In addition, the committee also plays a significant role in establishing the policies, procedures and frameworks covering risk management, compliance, retail and corporate banking. The Committee also monitors the performance of business, support and control functions of the Bank.
Asset & Liability Committee (ALCO)	Ameer Abdul Ghani Dairi Chairman Members • Hassan Amin Jarrar • Fahim Ahmed Shafiqi • Hussain Ebrahim Al Banna • Dalal Ahmed Al Qais (until Nov 3rd, 2021) replaced with Ali AlAradi • Wesam A. Aziz Baqer (until Jun 3rd, 2021) replaced with Jawad Humaidan	The purpose of Asset & Liability Committee is to act as a decision-making body and guiding force responsible for balance sheet planning from risk return perspective, including strategic management of yield and liquidity risks.
Credit & Investment Committee (C&IC)	Hassan Amin Jarrar Chairman Members • Ameer Abdul Ghani Dairi • Wesam A. Aziz Baqer (until Jun 3rd, 2021) replaced with, Jawad Humaidan • Dalal Ahmed Al Qais (until Nov 3rd, 2021) Replaced with Ali AlAradi • Fahim Ahmed Shafiqi (Dissenting Vote)	C&IC determines the Credit & Investment Policy of the Bank, identified possible risks assumed by the Bank for different types of transactions. The C&IC has the authority to make a decision on approval or rejection or proposed transactions within its authority as well as to monitor the performance and quality of the Bank's credit & Investment portfolios.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Management Committees (Cont'd)

Committee(s)	Members	Objectives
Qard Al Hassan, Donation & Zakah Committee	Hamad Farooq AlShaikh Chairman Members • Nada Ishaq Abdul Karim • Hamad Al Bassam • Nayef Alnasser • Aysha Alnasser	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Provisioning Committee (PC)	Hassan Amin Jarrar Chairman Members • Fahim Ahmed Shafiqi • Ameer Abdul Ghani Dairi • Salah Yaseen Mohammed • Khalid Waheeb AlNasser (observer)	Provisioning Committee reviews the Bank's provisions as well reviewing the progress on recovery for impaired assets and problem exposures.
Operational Risk Committee (ORC)	Fahim Ahmed Shafiqi Chairman Members • Sohail Kabeer • Ameer Abdul Ghani Dairi • Afnan Ahmed Saleh • Mohammed Isa Hammad • Maisa Jawdat Shunnar • Hamad Farooq AlShaikh • Ibtisam Abdulkarim • Wesam A. Aziz Baqer (until Jun 3rd, 2021) Replaced with Jawad Humaidan • Dalal Ahmed Al Qais (until Nov 3rd, 2021) Replaced with Ali AlAradi • Osama Ali Nasr Nasr (until Aug 31st, 2021) replaced with Stefan Corera • Mazar Rashed Jalal (until May 2nd, 2021) Replaced with Mohamed Ayada Mattar • Khaled Waheeb Al Nasser (observer)	The purpose of the Operational Risk Committee is to: a) Oversee and review the Bank's operational risk framework. b) Assist the management in fulfilling its operational risk management responsibilities as defined by applicable laws and regulations.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Management Committees (Cont'd)

Committee(s)	Members	Objectives
Purchasing & Evaluation Committee	Hamad Mohammed Al Bassam Chairman • Aysha Ali AlNasser • Salman Matar	The Bank has formed a Purchasing & Evaluation that independently oversee the vendor management and procurement process.
Information Security Committee (ISC)	Fahim Ahmed Shafiqi Chairman Members • Hassan Amin Jarrar • Mohammed Isa Hammad • Jawad Humaidan • Ali Al Aradi • Razi Amin • Mohammed Ayada • Stefan Corera	The committee is responsible for overseeing the implementation of the information security strategy to protect its information assets, in line with the Bank's strategic direction and risk appetite. This includes providing organizational framework for the corporate governance of information security, ensuring that the information system management requirements are integrated into the organization's processes to achieve its intended outcomes.

Succession Planning

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

Related Party Transactions and Conflict of Interest

Under the Bahrain Commercial Companies Law and the CBB's regulations, Board members are required to disclose potential conflicts as well as refrain from participating in any conflicted decisions. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank. In addition, exposures to major shareholder, directors and senior management are governed by the regulations of the CBB.

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. All material service providers are selected following a satisfactory tendering process which is governed by the vendor management policy of the Bank. Any director or member of the senior management conflicted is excluded throughout the decision-making process. Details of related party transactions, carried out at arm's length, are disclosed in Note 29 of the financial statements.

Material Transactions Requiring Board Approval

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

CORPORATE GOVERNANCE REVIEW (Cont'd)

Exceptions to CBB's Corporate Governance Regulations

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance to be explained to the shareholders and to the CBB. Exceptions to guidance are explained as follows:

Reference	Explanation
HC-1.3.13	HC-1.3.13 states that no one person should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist. Dr. Essam Abdulla Fakhro, the Chairman of the Board, holds more than three directorships in public companies in the Kingdom of Bahrain. The Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as he provides adequate attention to his responsibilities and there is no conflict of interest between his other directorships and that of the Bank.
HC-1.4.6	HC-1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Dr. Essam Abdulla Fakhro is appointed by the National Bank of Bahrain (NBB) which is a Controller of the Bank. Accordingly, Dr. Fakhro is reported as a Non-Independent Director. The Board is of the view that given the seniority and experience of Dr. Essam Fakhro in business and leadership in addition to his ability to segregate between the interests of the Bank he is representing and the interests of BisB, he has been appointed in the position of the chairman of the Board. The CBB was notified of such appointment.
HC-1.8.2	HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the NRGSC. The Board is of the view that this does not compromise the high standards of corporate governance as the NRGSC has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities.
HC-5.3.2	HC-5.3.2 states that the Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. The Remuneration Committee of the Bank is combined with the Nomination and Governance Committee as allowed under HC-1.8.5. The Chairman of the NRGSC, Dr. Essam Abdulla Fakhro, is treated as Non-Independent on the basis that his nomination is through NBB, a Controller of the Bank. The Board is of the view that given the seniority, leadership character and experience of Dr. Essam Fakhro , he has been appointed as a chairman of the NRGSC. The Central Bank of Bahrain (on the 21st of May 2019) provided its no objection to appoint Dr. Essam Fakhro as Chairman of the NRGSC.

Employments of Relatives

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

Remuneration of the External Auditors

KPMG Fakhro was the Bank's external auditors for the financial year ended 31st December 2021. The details of the audit fee paid to the auditors during the year 2021 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to shareholders upon specific request.

CORPORATE GOVERNANCE REVIEW (Cont'd)

Information on Products & Services & Availability of Financial Information

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

Customer Complaints

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

Whistleblowing Policy

The Board has adopted a Whistleblowing Policy (by appointing Mr. Khalid Al Jassim in his capacity as a Board member and chairman of the Audit Committee to be responsible for the Whistleblowing Policy) which provides all employees an opportunity to raise any observation regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking any adverse action against employees for doing so.

Major Shareholders Ownership (5% and above)

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

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	87.51%	931,144,307
Kuwait	8.72%	92,816,310
United Arab Emirates	2.80%	29,802,637
Kingdom of Saudi Arabia	0.75%	7,966,602
Qatar	0.13%	1,382,987
Others	0.09%	945,744
Total	**100.00%**	**1,064,058,587**

CORPORATE GOVERNANCE REVIEW (Cont'd)

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

Name	Shares as of 31st Dec 2020	Sold During 2021	Acquired During 2021	Shares as of 31st Dec 2021
Directors				
Dr. Esam Abdulla Fakhro *	352,500	-	-	352,500
Mr. Khalid Yousif Abdul Rahman **	-	-	-	-
Mr. Jean-Christophe Durand	-	-	-	-
Mr. Khalid Abdulaziz Al Jassim	-	-	-	-
Mr. Mohammed Abdulla Al Jalahama	-	-	-	-
Mr. Marwan Khaled Tabbara	-	-	-	-
Mr. Mohamed Abdulla Nooruddin	-	-	-	-
Mr. Yaser Abduljalil Alsharifi	-	-	-	-
Ms. Dana Buheji	-	-	-	-
Mr. Isa Hasan Maseeh	-	-	-	-

*Dr. Esam Abdulla Fakhro owns 50% of shares in Kingdom Investment which owns 861,250 number of shares in BisB.

**Khalid Yousif Abdul Rahman owns 30.25% of shares in Yousif Abdulrahman Engineer Holding Co WLL. which owns 536,020 number of shares in BisB.

Shari'a Supervisory Board	Shares as of 31st Dec 2020	Sold During 2021	Acquired During 2021	Shares as of 31st Dec 2021
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	174,426	-	370,733	545,159
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	13,237	-	-	13,237
Shaikh Mohammed Jaffar Al Juffairi	-	-	-	-
Shaikh Adnan Abdulla Al Qattan	-	-	-	-
Approved Persons	**Shares as of 31st Dec 2020**	**Sold During 2021**	**Acquired During 2021**	**Shares as of 31st Dec 2021**
1. **Hassan Amin Jarrar** Chief Executive Officer	943,958	943,958	-	-
2. **Ameer Abdul Ghani Dairi** Chief Financial Officer	-	-	-	-
3. **Fahim Ahmed Shafiqi** Chief Risk Officer	-	-	-	-
4. **Afnan Ahmed Saleh** Chief Human Resources Officer	-	-	18,894	18,894

CORPORATE GOVERNANCE REVIEW (Cont'd)

Approved Persons	Shares as of 31st Dec 2020	Sold During 2021	Acquired During 2021	Shares as of 31st Dec 2021
5. **Hamad Farooq AlShaikh** Head of Shari'a Coordination & Implementation	-	-	-	-
6. **Eman Mohammed AlBinghadeer** Head of Shari'a Internal Audit	-	-	-	-
7. **Hussain Ebrahim Al Banna** Head of Treasury	-	-	-	-
8. **Khaled Waheeb AlNasser** Chief Internal Audit Officer	10,565	-	20,868	31,433
9. **Nayef Naser Yusuf** Acting Head of Special Assets & Remedial	-	-	-	-
10. **Mohammed Ayada Mattar** Acting Head of Compliance and AML, and MLRO	-	-	-	-
11. **Hamad Hussain Al Qattan** Deputy Money Laundering Reporting Officer	-	-	-	-
12. **Ali Yousif Al Aradi** Acting Head of Retail Banking	-	-	-	-
13. **Mohamed Jamal Aish** Deputy Money Laundering Reporting Officer	-	-	-	-
14. **Ammar Fuad Alsabah** Head of Financial Institutions	-	-	-	-
15. **Faisal Al Abdulla** Head of Priority Banking	-	-	-	-
16. **Hussain Ali Bahram** Head of Wealth Management	-	-	-	-
17. **Sohail Kabiruddin** Head of Operational Risk	-	-	-	-
18. **Siddharth Kumar** Head of Corporate & Liquidity Risk	-	-	-	-
19. **Saleh Isa Almehri** Head of Retail Credit Review	-	-	-	-
20. **Mohammed Isa Hammad** Chief Information Security Officer	-	-	-	-
21. **Jawad Abdulhadi Humaidan** Acting Head of Corporate Banking	-	-	-	-

As of 31st December 2021, the total number of shares held by Board of Directors, Shari'a Supervisory Board members and the Approved Persons of the Bank are 961,223 which represents 0.09% of the total issued shares of the Bank.

The shares held by the Approved Persons includes shares granted by the Bank under the Share Incentive Scheme.

REMUNERATION DISCLOSURES

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

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

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

Remuneration strategy

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

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

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

1. Fixed pay
2. Benefits
3. Annual performance bonus

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

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

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

NRGSC role and focus

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

REMUNERATION DISCLOSURES (Cont'd)

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

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

Scope of application of the remuneration policy

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

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Bahrain Commercial Companies Law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting as well as Ministry of Commerce, Industry and Tourism. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

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

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

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

REMUNERATION DISCLOSURES (Cont'd)

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

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

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

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

Remuneration of control functions

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

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

Variable compensation for business units

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

Risk assessment framework

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

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

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

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

REMUNERATION DISCLOSURES (Cont'd)

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

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

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

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

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

Risk adjustments

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

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

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

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

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

Malus and Clawback framework

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

The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

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

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.

REMUNERATION DISCLOSURES (Cont'd)

- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash:

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

Deferred cash:

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

Upfront shares:

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

Deferred shares:

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

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

REMUNERATION DISCLOSURES (Cont'd)

Deferred Compensation

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

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

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

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

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

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2021	2020
Sitting fees	*164	161
Remuneration	**282	141

*Includes NRGSC sitting fees as of 31 December 2021 amounted to BD 20 thousand (2020: BD 14 thousand).

**Subject to AGM and regulatory approval.

(b) Shari'a's Supervisory Board

BD 000's	2021	2020
Remuneration, Fees and Expenses	78	78

REMUNERATION DISCLOSURES (Cont'd)

(c) Employee Remuneration

2021

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	12	1,389	-	-	-	67	-	10	51	2	1,520
- Control & Support	16	1,370	-	-	-	65	5	-	20	5	1,465
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	303	7,497	-	-	-	683	-	-	-	-	8,180
Total	331	10,256	-	-	-	815	5	10	71	7	*11,165

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

2020

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	10	1,312	-	-	-	54	-	11	53	2	1,432
- Control & Support	23	1,994	-	-	-	68	6	-	23	5	2,096
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	317	7,792	-	-	-	533	-	-	-	-	8,325
Total	350	11,098	-	-	-	655	6	11	76	7	*11,853

*Includes end of service compensations.

REMUNERATION DISCLOSURES (Cont'd)

Deferred awards disclosures

2021

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	69	4,402,920	559	628
Adjustment based on final award price of 2020	-	31,961	-	-
Awarded for the year	10	946,332	76	86
Paid out / released during the year	(30)	(1,695,006)	(212)	(242)
Service, performance and risk adjustments	(1)	(108,720)	(9)	(10)
Corporate action adjustment	-	-	-	-
Closing balance	48	3,577,487	414	462

2020

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

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

SHARI'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 Shari'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Shari'a perspective for the financial year ending on 31st December 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 Shari'a Coordination and implementation, the Shari'a Supervisory Board has monitored the implementation on the Bank's Finances and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2021 to ensure the Bank's adherence to the provisions and principles of Islamic Shari'a.

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

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

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

1) Shari'a Internal Audit

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

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

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

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

2) Independent External Shari'a Compliance Audit

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

Third: Shari'a Governance

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

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

Fourth: Shari'a Supervisory Board Operations

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

Fifth: Financial Statements and Zakah Calculation Methods

The Shari'a 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 Shari'a Supervisory Board decides that:

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

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

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh. Dr. A. Latif Mahmood Al Mahmood Chairman	Shaikh. Mohammed Jaffar Al Juffairi Vice Chairman
Shaikh. Adnan Abdulla Al Qattan Member	Shaikh. Dr. Nedham M. Saleh Yacoubi Member

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.
MANAMA, KINGDOM OF BAHRAIN

Report on the audit of the consolidated financial statements

Opinion

We have audited the 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: • of the significance of financing assets and Ijarah muntahia bittamleek representing 65% of total assets; • impairment of financing assets and Ijarah muntahia bittamleek involves: - complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; - use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and - complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of FAS 30, our business understanding, and industry practice. • Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. **Controls testing** We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic disruption caused by COVID-19. Key aspects of our control testing involved the following: • Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the FAS 30 ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates;

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.
MANAMA, KINGDOM OF BAHRAIN

Description	How the matter was addressed in our audit
• The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, 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.	• Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them. **Test of details** Key aspects of our testing involved: • Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; • Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. **Use of specialists** For the relevant portfolios examined, we have involved 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: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: - evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); - on a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); - evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and - evaluating the overall reasonableness of the management economic forecast by comparing it to external market data and reflective of underlying credit quality and macroeconomic trends including the impact of COVID-19. **Disclosures** 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.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.
MANAMA, KINGDOM OF BAHRAIN

Other information

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic 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.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C. MANAMA, KINGDOM OF BAHRAIN

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

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 Chairman	**Khalid Yousif Abdul Rahman** Vice Chairman	**Hassan Amin Jarrar** Chief Executive Officer

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

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
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

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

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

						Reserves					
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**	**Statutory reserve BD'000**	**Real estate fair value reserve BD'000**	**Investment securities fair value reserve BD'000**	**(Accumulated losses)/ Retained earnings BD'000**	**Total reserves BD'000**	**Total owners' equity BD'000**
Balance at 1 January 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

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 BD'000	2020 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

The attached notes 1 to 36 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) FAS 32 Ijarah (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) FAS 32 Ijarah (Continued)

(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**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. New standards, amendments, and interpretations (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Measurement principles (Continued)

i) Fair value measurement (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

x. Income recognition (Continued)

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

v) Write-off

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCING ASSETS (Continued)

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCING ASSETS (Continued)

6.3 Mudaraba

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

6.4 The movement on impairment allowances is as follows:

2021	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
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 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2020	1,615	1,557	26,298	29,470
Net movement between stages	434	(164)	(270)	–
Net charge for the year	578	3,659	11,376	15,613
Write-off	–	–	(19,044)	(19,044)
At 31 December 2020	2,627	5,052	18,360	26,039

7. INVESTMENT SECURITIES

a. Debt type instruments*

	2021 BD'000	2020 BD'000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

7. INVESTMENT SECURITIES (Continued)

b. Equity type instruments

	2021 BD'000	2020 BD'000
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.

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

2021	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
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 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2020	20	-	12,174	12,194
Net charge for the year	231	-	390	621
Foreign exchange movement	-	-	(15)	(15)
At 31 December 2020	251	-	12,549	12,800

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

8. INVESTMENT IN ASSOCIATES (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. IJARAH MUNTAHIA BITTAMLEEK (Continued)

9.1 The movement on impairment allowances is as follows:

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
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 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

10. PROPERTY AND EQUIPMENT (Continued)

	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

14. OTHER LIABILITIES (Continued)

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 BD'000	2020 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 BD'000	2020 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.

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FOR THE YEAR ENDED 31 DECEMBER 2021

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		
	Utilization	**Mudarib Share**	**Profit to IAH**	Utilization	Mudarib Share	Profit to IAH
Account type						
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 BD'000	**Movement BD'000**	2020 BD'000
Profit equalisation reserve	**1,400**	**90**	1,310

15.5 Return on equity of investment accountholders

	2021 BD'000	2020 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

a. Share capital

	2021 BD'000	2020 BD'000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

16. OWNERS' EQUITY (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

16. OWNERS' EQUITY (Continued)

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 BD'000	2020 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

18. CAPITAL ADEQUACY (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

25. IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

	2021 BD'000	2020 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total 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
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

29. RELATED PARTY TRANSACTIONS (Continued)

	2020				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Financing assets	–	–	905	681	1,586
Ijarah Muntahia Bittamleek	–	–	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
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 BD'000	2020 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.

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

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

(i) Auto finance;

(ii) Mortgage finance;

(iii) Tasheel Finance and Others; and

(iv) Credit cards.

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

iii) Determining whether credit risk has increased significantly

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

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

	31 December 2021			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
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 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

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

	31 December 2020			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	413,273	7,874	–	421,147
Acceptable risks	76,689	41,556	–	118,245
Watch list	1,520	4,030	–	5,550
Non performing	–	–	52,610	52,610
Gross exposure	491,482	53,460	52,610	597,552
Less: ECL	(2,627)	(5,052)	(18,360)	(26,039)
Financing assets carrying amount	488,855	48,408	34,250	571,513
Ijarah Muntahia Bittamleek				
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk (Continued)

	31 December 2020			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Balances with Banks				
Low risks	10,830	–	–	10,830
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	10,830	–	–	10,830
Less: ECL	–	–	–	–
Balances with Banks carrying amount	10,830	–	–	10,830
Total funded exposures subject to credit risk carrying amount	991,558	62,521	36,632	1,090,711
Commitments				
Gross exposure	35,910	1,236	88	37,234
Less: ECL	(67)	(69)	–	(136)
Commitments carrying amount	35,843	1,167	88	37,098

*This includes BD 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 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2020	1,902	4,344	50,602	56,848
Transfer to Stage 1	873	(443)	(430)	–
Transfer to Stage 2	(143)	731	(588)	–
Transfer to Stage 3	(171)	(2,801)	2,972	–
Net movement between stages	559	(2,513)	1,954	–
Charge for the year (net)	952	3,891	18,184	23,027
Write-off	–	–	(38,541)	(38,541)
Foreign exchange movement	–	–	(15)	(15)
At 31 December 2020	3,413	5,722	32,184	41,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	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 individuals	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	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	26,650	–	–	–	–	–	23,712	50,362
Placements with financial institutions	44,442	–	–	–	–	–	–	44,442
Financing assets	28,466	49,800	37,748	63,108	158,678	233,713	–	571,513
Ijarah Muntahia Bittamleek	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 individuals	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	–

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

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%.

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	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

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**
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%**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

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
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%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

30. RISK MANAGEMENT (Continued)

g. Market Risk (Continued)

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.

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)	Equivalent long / (short)
	2021 BD'000	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 BD'000	Net impact on the Group's consolidated financial position BD'000	Net impact on the Group's consolidated owners' equity BD'000
Average reduction of cash reserve	–	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.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

1. Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume 2 for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory Scope of Consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

Table – 1. Statement of Financial Position (PD- 1.3.14)

	Statement of Financial position as per published financial statements 31 December 2021 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2021 BD'000	Reference
ASSETS			
Cash and balances with banks and Central Bank	**45,591**	**45,591**	
Gross placements with financial institutions	90,584	90,584	
Less: Expected credit loss (stage 3)	(3,686)	(3,686)	
Less: Expected credit loss (stage 1 and stage 2)	(4)	-	
Net placements with financial institutions	**86,894**	**86,898**	
Gross financing assets	640,084	640,084	
Less: Expected credit loss (stage 3)	(18,271)	(18,271)	
Less: Expected credit loss (stage 1 and stage 2)	(12,345)	-	
Net financing assets	**609,468**	**621,813**	
Gross investment securities	301,124	301,124	
Less: Expected credit loss (stage 3)	(26,339)	(26,339)	
Less: Expected credit loss (stage 1 and stage 2)	(161)	-	
Net investment securities	**274,624**	**274,785**	
Ijarah Muntahia Bittamleek	**259,731**	**259,731**	
Less: Expected credit loss (stage 3)	(1,205)	(1,205)	
Less: Expected credit loss (stage 1 and stage 2)	(1,144)	-	
Net Ijarah Muntahia Bittamleek	**257,382**	**258,526**	
Investment in associates	**9,314**	**9,314**	
Investment in real estate	**14,680**	**14,680**	
Property and equipment	**13,491**	**13,491**	
Other assets	**13,092**	**13,092**	
TOTAL ASSETS	**1,324,536**	**1,338,190**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

2. Statement of Financial Position Under the Regulatory Scope of Consolidation (Continued)

Table – 1. Statement of Financial Position (PD- 1.3.14) (Continued)

	Statement of Financial position as per published financial statements 31 December 2021 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2021 BD'000	Reference
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions	**133,346**	**133,346**	
Placements from non-financial institutions and individuals	**212,418**	**212,418**	
Financing from financial institutions	**56,919**	**56,919**	
Customers' current accounts	**249,749**	**249,749**	
Other liabilities	**30,114**	**29,947**	
of which: Expected credit loss - Off balance sheet exposures (stage 3)	3,130	3,130	
of which: Expected credit loss - Off balance sheet exposures (stage 1 and stage 2)	167	–	
of which: Other liabilities	26,817	26,817	
Total Liabilities	**682,546**	**682,379**	
Total Equity of Investment Accountholders	**516,230**	**516,230**	
Owners' Equity			
Share capital	**106,406**	**106,406**	**a**
Subordinated Mudaraba (AT1)	**25,000**	**25,000**	**b**
Treasury shares	**(892)**	**(892)**	**c**
Shares under employee share incentive scheme	**(289)**	**(289)**	**d**
Share premium	**206**	**206**	**e**
Statutory reserve	**5,349**	**5,349**	**f**
Real estate fair value reserve	**1,545**	**1,545**	**g**
Investment securities fair value reserve	**1,778**	**1,778**	**h**
Expected credit loss	**–**	**13,821**	**i**
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	–	8,452	**j**
of which: amount ineligible for Tier 2 capital	–	5,369	**k**
Profit for the year	**6,131**	**6,131**	**l**
Retained earnings brought forward	**(19,474)**	**(19,474)**	**m**
of which: Retained earnings as of 1 January 2021	(18,031)	(18,031)	
of which: Zakah and Donations approved	(372)	(372)	
of which: Issuance costs of AT1	(458)	(458)	
of which: Transfer to statutory reserve	(613)	(613)	
Total Owners' Equity	**125,760**	**139,581**	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**1,324,536**	**1,338,190**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

3. Capital Adequacy

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue sukuk etc.

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

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. Allocation of assets between equity shareholders and profit sharing investment accounts are based on the profit distribution on equity investment accountholders policy approved by the Board.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance, every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14)

The following table summarises the eligible capital as of 31 December 2021 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	AT1 & T2 BD'000	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	106,406	-	a
General reserves	-	-	
Legal / statutory reserves	5,349	-	f
Share premium	206	-	e
Retained earnings brought forward	(19,474)	-	m
COVID-19 concessionary measures adjustments*:			
Modification loss and Governement subsidy, net	12,897		
Aggregate ECL provision relating to stage 1 and 2 exposures	4,258		
Current year profits	6,131		l
Unrealized gains and losses on available for sale financial instruments	1,778	-	h
Less:			
Employee stock incentive program funded by the bank (outstanding)	289	-	d
Treasury shares	892	-	c
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	**116,370**	**-**	
Instruments issued by parent company (AT1 Subordinated Mudaraba)		25,000	
Assets revaluation reserve - property, plant, and equipment		1,545	g
Expected credit loss (ECL) - stages 1 & 2		8,452	j
Total Available AT1 & T2 Capital		**34,997**	
Total Capital		**151,367**	

*As per CBB circular 06/226/2020 issued on 21 June 2020 on Regulatory concessionary measures, aggregate of modification loss and incremental ECL provision for stage 1 and 2 from March to December 2020 added back to Tier 1 capital.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

3. Capital Adequacy (Continued)

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14) (Continued)

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	676,125
Total Market Risk Weighted Assets	471
Total Operational Risk Weighted Assets	117,482
Total Regulatory Risk Weighted Assets	794,078
Investment risk reserve (30% only)	-
Equalization reserve (30% only)	420
Total Adjusted Risk Weighted Exposures	793,658
TOTAL CAPITAL ADEQUACY RATIO	19.07%
Minimum requirement:	
CET 1 ratio	9.0%
Tier 1 ratio	10.5%
Total Capital ratio	12.5%
Amounts below the thresholds for dededuction	
i) Non-significant investment in capital of financial entities	3,298
ii) Significant investment in capital of financial entities	4,065
	7,363

AT1 Subordinated Mudaraba

During the year, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain. 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 on a semi-annual basis 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.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

3. Capital Adequacy (Continued)

Table – 3. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2021 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH[3] BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	22,245	23,346	45,591	5,245	-	5,245	656	-	656
Murabaha and Wakala receivables - interbank	75,498	11,400	86,898	23,126	1,048	24,174	2,891	131	3,022
Murabaha receivables*	305,373	230,097	535,470	237,681	53,727	291,408	29,710	6,716	36,426
Musharaka receivables*	49,240	37,103	86,343	41,499	9,381	50,880	5,187	1,173	6,360
Investment in Sukuk	144,740	109,060	253,800	-	-	-	-	-	-
Investment in equity and funds	20,985	-	20,985	74,606	-	74,606	9,326	-	9,326
Ijarah Muntahia Bittamleek and rental receivables*	147,435	111,091	258,526	94,662	21,398	116,060	11,833	2,675	14,508
Investment in associates	9,314	-	9,314	31,161	-	31,161	3,895	-	3,895
Investment in real estate	14,680	-	14,680	29,360	-	29,360	3,670	-	3,670
Property and equipment	13,491	-	13,491	13,491	-	13,491	1,686	-	1,686
Other assets	13,092	-	13,092	15,607	-	15,607	1,951	-	1,951
	816,093	522,097	1,338,190	566,438	85,554	651,992	70,805	10,695	81,500
Unfunded									
Commitments and contingent liabilities	140,083	-	140,083	24,133	-	24,133	3,017	-	3,017
Total Credit Risk Weighted Assets	956,176	522,097	1,478,273	590,571	85,554	676,125	73,822	10,695	84,517
Total Market Risk Weighted Assets	471	-	471	471	-	471	59	-	59
Total Operational Risk Weighted Assets	117,482	-	117,482	117,482	-	117,482	14,685	-	14,685
Total Risk Weighted Assets	1,074,129[1]	522,097[2]	1,596,226	708,524	85,554	794,078	88,566	10,695	99,261

* The risk weighted assets are net of credit risk mitigant.

[1] The exposure is gross of expected credit loss Stages 1 & 2 of BD 7,787 thousand.

[2] The exposure is gross of expected credit loss Stages 1 & 2 of BD 5,867 thousand.

[3] For assets funded through IAH only 30% of exposure is considered.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

3. Capital Adequacy (Continued)

Table – 4. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2021 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	38
Total of Market Risk - Standardised Approach	**38**
Multiplier	12.5
Risk Weighted Exposures for CAR Calculation (BD'000)	**471**
Total Market Risk Exposures (BD'000)	**471**
Total Market Risk Exposures - Capital Requirement (BD'000)	**59**

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2021 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	62,657
Multiplier	12.5
	783,213
Eligible Portion for the purpose of the calculation	15%
Total Operational Risk Exposure (BD'000)	**117,482**
Total Operational Risk Exposures - Capital Requirement (BD'000)	**14,685**

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2021 for total capital and CET 1 capital:

	Total capital ratio	T1 Capital ratio	CET 1 capital ratio
Top consolidated level	19.07%	17.81%	14.66%

4. Risk Management

4.1 Group-wide Risk Management Objectives

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

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business.

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

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.2 Strategies, Processes and Internal Controls

4.2.1 Group's risk strategy

The Group maintains a risk appetite and strategy document that is reviewed on an annual basis. It also maintains a comprehensive Risk Management Framework that is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The Risk Management Framework identifies risk objectives, policies, strategies, and risk governance both at the Board and management level.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

There are appropriate internal controls in place to ensure that the integrity of the risk management identification, monitoring and reporting systems. This is conducted through periodic internal audit, in addition to external validation, when required.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it, in addition to ongoing review of existing credit risk exposures. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group periodically carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its trading portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2021, the group does not maintain any trading portfolio.

4.2.4 Operational risk

The Group has carried out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions. Key operational risk reports are delivered to all relevant stakeholders in the Bank on a periodic basis.

The Group has a mechanism to review the policies and procedures in effect.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. Currently, acquiring additional equity investments are off-strategy.

4.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to investment accountholders is based on profit sharing agreements.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with market rates.

4.2.7 Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with competitors rates.

The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its DCR as outlined in the Group's Profit Distribution On Equity of Investment Accountholders Policy. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

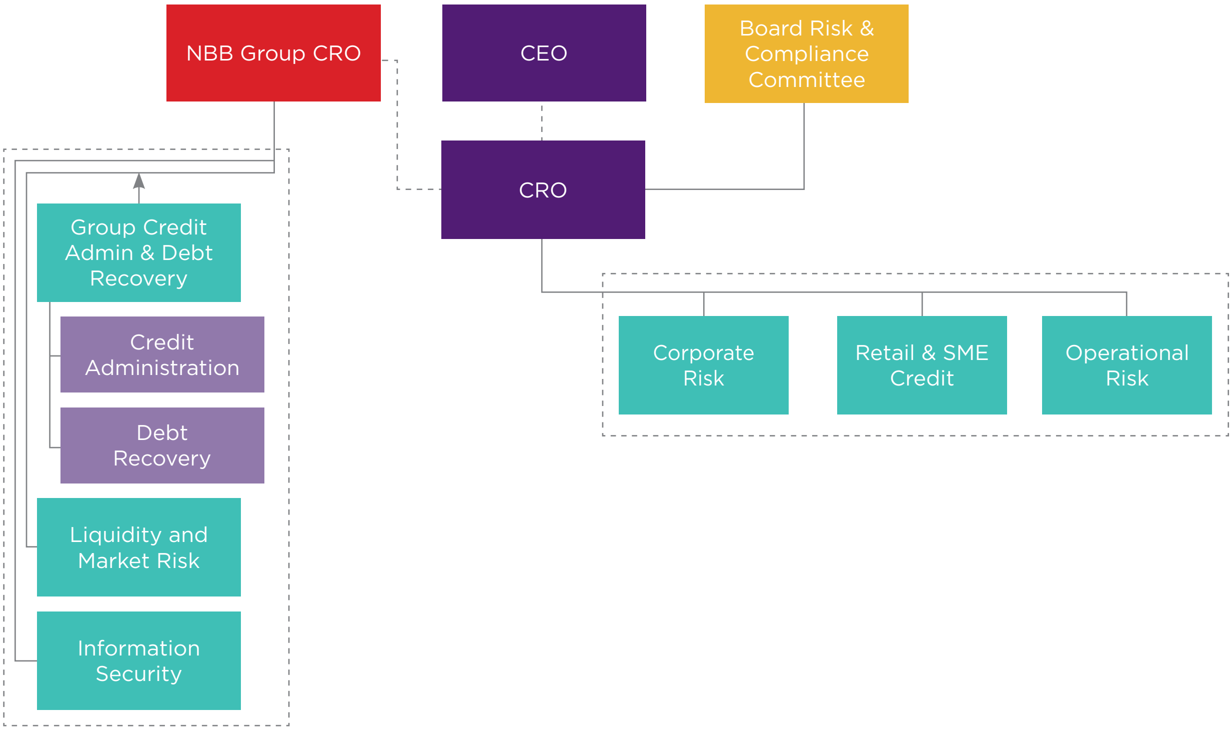
RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk & Compliance Committee, in addition to the NBB Group reporting), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



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

a Establishing overall policies and procedures; and

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

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are secured by suitable tangible collateral whereever deemed necessary.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate counterparties are regularly assesed by the use of a credit risk classification system. Counterparty limits are established after a comprehensive credit assessment and after factoring in a counterparty risk rating generated by the Credit Risk Rating System. Risk ratings are subject to regular revision by the Credit Review Unit ("CRU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, operating performance, nature of the business, quality of management, and market position, etc. The credit approval decision is made based on such risk assessment.

Retail credit is assessed by the Retail Credit Unit prior to booking as against the Bank's approved retail financing credit criteria.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate facilities are reviewed on an annual basis by CRU, or more frequently based on the client's credit condition.

4.5.2 Types of credit risk

Exposures subject to credit risk comprise of due from banks and financial institutions, murabaha receivables, musharaka, sukuk, commitments to finance and financial instruments resulting in contingencies (guarantees and letter of credit) and other assets.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured either by the object of the Murabaha contract (in case of real estate finance) or by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Credit impaired exposures

The Group defines facilities as credit impaired facilities which are overdue for a period of 90 days or more, any exposure against which specific impairment provision is held irrespective of whether the customer is currently in arrears or not, and customers which are classified in stage 3 and are in cooling off period in line with CBB guidelines. It is a Group policy to classify all facilities of a counterparty as credit impaired if one or more facilities meets the conditions for credit impaired facilities.

As a policy, the Group places any facility where there is reasonable doubt about the collectability of the receivable on a non-accrual basis, irrespective of whether the customer concerned is currently in arrears or not. In such cases, income is recognised to the extent that it is actually received.

For general and specific impairment assessments, the Group classifies its credit exposures into Stage 1, Stage 2 and Stage 3, based on impairment methodology followed, as described below:-

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

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.3 Credit impaired exposures (Continued)

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

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

Measurement of ECL

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

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure At Default (EAD).

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

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

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

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

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

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

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the internal ratings used by the Group and the corresponding internal rating is allocated to the exposure accordingly to transfer it in the Group's banking book.

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or Group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-compliance with credit contracts, through sale of collaterals, netting agreements, and guarantees. The Group uses on-balance sheet netting as a credit risk mitigation technique only if there is a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable, and is able to determine at any time those assets and liabilities with the same counterparty that are subject to the netting agreement.

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

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

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or as per the suitable valuation methodology as outlined in the Bank's Credit Risk Mitigation Policy.

Financing to value percentage of securities and list of acceptable securities to the bank are governed through Board approved policies.

The majority of the Group's current credit portfolio is secured through mortgage of real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

4.5.7.1 General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;
b. Such assets should be easily convertible into cash, if required (liquidity);
c. There should be a reasonable market for the assets (marketability); and
d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house or by an external appraiser (in the case of real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. Valuation of shares and financial securities: The Group performs in-house valuation on the following types of securities:
- For shares and securities listed in active markets, quoted bid prices are utilized;
- For unquoted shares and stakes in collective investment undertakings (CIUs), valuation is determined based on (i) present value of future cashflows and/or (ii) net asset value as and when financials are available; and
- For sukuk, collateral value is based on net realizable value.

b. Valuation of real estate and others: Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers and/or independent reports:
- Real Estate;
- Equipment and machinery; and

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators. In the case of real estate, re-evaluations are conducted at least annually by Bank approved evaluators, who must also be RERA approved.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and
b. All documents received as security or support for credit facilities should be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation (Continued)

4.5.7.2 Guarantees

In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrecoverable, and should be in line with internal policies. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3 Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodians approved by the Group. Adequate systems and controls exist to confirm the assets held with each custodian.

The release of collateral without full repayment of all related financial obligations can be done only if the approved level of security coverage is maintained post the release otherwise it requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

4.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

4.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

4.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

4.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over the other(s).

4.5.8.4 Connected counterparties

Connected counterparties' includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a Group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any unconnected counterparty (single/Group) exposure exceeds 15% of Group's Capital Base;

b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level.

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk (Continued)

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed based on commercial terms.

The Group shall not assume any exposure to its external auditors.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the audited consolidated financial statements for the year ended 31 December 2021. All related party transactions have been made on commercial terms.

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure (before deducting credit risk mitigant) as of 31 December 2021 and average gross funded and unfunded exposures over the year ended 31 December 2021:

	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded		
Cash and balances with banks and Central Bank	45,591	49,219
Placements with financial institutions	86,894	102,383
Financing assets	609,468	590,411
Investment in Sukuk	253,639	233,280
Investment in equity and funds	20,985	21,906
Ijarah Muntahia Bittamleek and rental receivables	257,382	245,716
Investment in associates	9,314	13,803
Investment in real estate	14,680	15,681
Property and equipment	13,491	13,672
Other assets	13,092	8,866
Total	1,324,536	1,294,937
Unfunded		
Commitments and contingent liabilities	140,083	137,709
Total	1,464,619	1,432,646

*Average balances are computed based on quarter end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2021, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Other BD'000	Total BD'000
Cash and balances with banks and Central Bank	4,674	527	40,374	16	45,591
Placements with financial institutions	–	–	86,894	–	86,894
Financing assets	–	–	609,468	–	609,468
Investment in Sukuk	–	–	253,639	–	253,639
Investment in equity and funds	–	–	20,985	–	20,985
Ijarah Muntahia Bittamleek and rental receivables	–	–	257,382	–	257,382
Investment in associates	–	–	9,314	–	9,314
Investment in real estate	–	–	14,680	–	14,680
Property and equipment	–	–	13,491	–	13,491
Other assets	7,656	–	5,436	–	13,092
Total	12,330	527	1,311,663	16	1,324,536
Unfunded					
Commitments and contingent liabilities	–	–	140,083	–	140,083
Total	12,330	527	1,451,746	16	1,464,619

*Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2021 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate and Construction BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	–	22,244	–	–	23,347	–	45,591
Placements with financial institutions	–	84,930	–	–	1,964	–	86,894
Financing assets	81,305	12,447	72,632	376,677	33,110	33,297	609,468
Investment in Sukuk	–	–	–	–	253,639	–	253,639
Investment in equity and funds	–	2,656	17,251	–	–	1,078	20,985
Ijarah Muntahia Bittamleek and rental receivables	3,617	–	14,037	218,590	21,020	118	257,382
Investment in associates	–	4,065	5,249	–	–	–	9,314
Investment in real estate	–	–	14,680	–	–	–	14,680
Property and equipment	–	–	–	–	–	13,491	13,491
Other assets	–	165	2,515	1,510	–	8,902	13,092
Total	84,922	126,507	126,364	596,777	333,080	56,886	1,324,536
Unfunded							
Commitments and contingent liabilities	18,425	3,433	23,574	38,080	39,809	16,761	140,083
Total	103,347	129,940	149,938	634,857	372,889	73,647	1,464,619

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2021:

	Gross BD'000	Stage 3 ECL BD'000	Net* BD'000
Counterparties			
Counterparty # 1	10,250	–	10,250
Counterparty # 2	7,132	551	6,581
Counterparty # 3	5,833	4,489	1,344
Counterparty # 4	3,532	–	3,532
Counterparty # 5	3,429	–	3,429
	30,176	5,040	25,136

*Gross of expected credit loss stage 1 and 2 of BD 1,342 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has the following exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2021:

	Gross BD'000	Stage 3 ECL BD'000	Net** BD'000
Counterparties			
Counterparty # 1*	229,871	–	229,871
Counterparty # 2	30,214	–	30,214
Counterparty # 3*	25,310	–	25,310
Counterparty # 4	23,076	–	23,076
	308,471	–	308,471

*Represents exempted large exposures.

**Gross of expected credit loss stage 1 and 2 of BD 318 thousand.

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2021. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and Central Bank	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	101,073	115,258	87,798	18,967	–	609,468
Investment in Sukuk	4,997	–	883	–	79,572	113,504	54,682	–	–	–	253,638
Investment in equity and funds	–	–	–	–	–	–	–	–	–	20,986	20,986
Ijarah Muntahia Bittamleek and rental receivables	9,521	6,794	9,218	14,110	61,581	45,930	52,761	50,904	6,563	–	257,382
Investment in associates	–	–	–	–	–	–	–	–	–	9,314	9,314
Investment real estate	–	–	–	–	–	–	–	–	–	14,680	14,680
Property and equipment	–	–	–	–	–	–	–	–	–	13,491	13,491
Other assets	38	653	794	152	702	598	–	–	(2)	10,157	13,092
Total Assets	152,196	30,836	38,925	60,282	302,653	261,105	222,701	138,702	25,528	91,608	1,324,536

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 13. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances disclosed by major industry sector as of 31 December 2021:

	Credit impaired or past due Islamic financing contracts* BD'000	Aging of credit impaired or past due Islamic financing contracts				Stage 3 ECL				Stage 1 & 2 ECL		
		Less than 3 months BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Write-offs during the year BD'000	Balance at the the end of year BD'000	Balance at the beginning of the year BD'000	Charge for the year (net)** BD'000	Balance at the the end of year BD'000
Trading and Manufacturing	43,489	39,917	608	2,964	–	10,776	486	477	10,785	2,938	4,740	7,678
Real Estate	12,787	11,880	907	–	–	116	(32)	–	84	1,743	(937)	806
Banks and Financial Institutions	76	76	–	–	–	32	(32)	–	–	191	11	202
Personal / Consumer Finance	26,107	18,280	2,688	4,065	1,074	7,883	155	167	7,871	2,032	(42)	1,990
Others	12,854	11,251	1,100	503	–	828	(92)	–	736	1,843	970	2,813
Total	**95,313**	**81,404**	**5,303**	**7,532**	**1,074**	**19,635**	**485**	**644**	**19,476**	**8,747**	**4,742**	**13,489**

*Gross of expected credit loss of BD 21,271 thousand.

**Net of transfers between stages.

Table – 14. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impariment Allowances (by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances by geographical area as of 31 December 2021:

	Credit impaired or past due or impaired Islamic financing contracts BD'000	Stage 3 ECL BD'000	Stage 1 & 2 ECL BD'000
Middle East	95,313	19,476	13,489

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured corporate financing facilities during the year as of 31 December 2021:

	Gross Outstanding BD'000	Stage 3 ECL BD'000	Net BD'000
Total Islamic Financing [(1)]	899,815	19,476	880,339
Restructured financing facilities* [(2)]	26,140	1,575	24,565
Percentage	**2.91%**	**8.09%**	**2.79%**

*Excludes facilities restructured during the year amounting to BD 1,353 thousand which are past due as of 31 December 2021. The nature of the concessions include alignment of the payment terms with the clients' expected cash flows.

[(1)] Gross of expected credit loss Stages 1 and 2 of BD 13,489 thousand.

[(2)] Gross of expected credit loss Stages 1 and 2 of BD 1,676 thousand.

Deferrals due to CBB COVID-19 concessionary measures:

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.

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.

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2021 by type of Islamic financing contract covered by Shari'a-compliant collateral eligible as per CA module of volume 2 of the CBB Rule Book:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	Others BD'000
Financing assets	**3,529**	**104,748**
Ijarah Muntahia Bittamleek and rental receivables	**–**	**29,235**
Total	**3,529**	**133,983**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 17. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2021:

	Financing assets BD'000	Ijarah Muntahia Bittamleek and rental receivables BD'000	Total BD'000
Exposures:			
Secured*	108,277	29,235	137,512
Unsecured*	501,191	228,147	729,338
Total	**609,468**	**257,382**	**866,850**
Collateral held:			
- Cash	23,184	420	23,604
- Guarantees	1,555	-	1,555
- Shares	4,463	-	4,463
- Real Estate	3,779	19,432	23,211
Total	**32,981**	**19,852**	**52,833**
Collateral as a percentage of secured exposure	**30.46%**	**67.90%**	**38.42%**

A haircut of 30% is applied on the Real Estate collateral.

*The financing assets and Ijarah Muntahia Bittamleek exposures are net of ECL.

4.6 Market Risk

4.6.1 Introduction

The Group has accepted the definition of market risk as defined by CBB as the risk of losses in on-and off-balance sheet positions arising from movements in market prices.

4.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements.

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2021, the Group did not have any trading portfolio. Currently, any new equity investments are off-strategy.

Commodity risk is defined as inherent risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring, and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

a. The Group will proactively measure and continually monitor the market risk in its portfolio;

b. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;

c. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, and maximum/stop loss limits;

d. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions; and

e. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;

b. Stop loss limits;

c. Stress Testing; and

d. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The CRMD proposes through the Board Risk and Compliance Committee (BRCC) and Board the tolerance for market risk. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

4.6.7 Breach of limits

In case a limit is breached, the escalation and approval process will follow the Board-approved delegated authority limits. The limits are revised at least annually or when deemed required.

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by the ALCO and BRCC, as per the delegated authorities approved by the Board.

4.6.9 Reporting

Risk Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates and foreign exchange rates. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

4.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	59
Minimum value capital requirement	38

4.7 Operational Risk

4.7.1 Introduction

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Insurance risk transfer is also a tool through which certain operational risks are mitigated. With respect to the management oversight process, operational risk appetite thresholds are set to control and monitor enterprise-wide operational loss.

4.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories:

a. People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

b. Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting;

c. Systems (Technology) risk which arises due to integrity of information - lacking in timeliness of information, omission and duplication of data, hardware failures due to power surge, obsolescence or low quality;

d. External risk which arises due to natural or non-natural (man made) disaster; and

e. Legal risk which arises due to contractual obligations.

4.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. Assess the effectiveness of controls associated with identified risks;

b. Regularly monitor operational risk profiles and material exposures to losses / loss events;

c. Identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks;

d. Monitoring and reporting of operational risk is through the Operational Risk Management Forum (ORMF), a management-level committee responsible for monitoring and discussing the operational risks emanating from the Group's activities; and

e. Effecting appropriate contingency and business continuity planning that takes into account the operational risks facing the Group, and providing BCP and operational risk training at a Bank-wide level on the same to ensure that this is fostered across the organization.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management to highlight operational risks through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The Group has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the Group on a day to day basis. The department also liaises with external lawyers for legal cases filed by the Group against delinquent accounts for recovery or any legal cases filed against the Group.

4.7.5 Operational risk mitigation and control

For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. The Group deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

As of 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.

As of 31 December 2021, except for the claim from the Official Committee Of Unsecured Creditors Of Arcapita Bank B.S.C. (c) against the Bank, the Group did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

Table - 19. Operational Risk Exposure (PD-1.3.30 (a) & (b))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2020 BD'000	2019 BD'000	2018 BD'000
Total Gross Income	**53,977**	**68,242**	**65,752**
Indicators of operational risk			
Average Gross income (BD'000)			**62,657**
Multiplier			**12.5**
			783,213
Eligible Portion for the purpose of the calculation			**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			**117,482**

As at 31 December 2021, there are no significant shari'a audit observations.

4.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. To date, the Bank does not carry significant equity position risk in its banking book.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2021. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))

The following table summarises the amount of total and average gross exposure of equity investments and funds as of 31 December 2021:

	Total gross exposure [1] BD'000	Average gross exposure [2] BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital requirements BD'000
Equity investments	34,318	34,306	–	34,318	73,952	**9,244**
Funds	436	436	–	436	654	**82**
Total	**34,754**	**34,742**	**–**	**34,754**	**74,606**	**9,326**

[1] Balances are gross of provision of BD 13,769 thousand.

[2] Average balances are computed based on quarter end balances.

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended 31 December 2021:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting year	**-**
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	**-**
Unrealised gains included in CET 1 Capital	**1,778**
Unrealised gains included in Tier 2 Capital	**-**

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase losses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds; however, the Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contracts. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year, the Group waived 13% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

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

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

These accounts are made available to customers through Retail Banking (to include the Thuraya Banking segment), in addition to the Group's Corporate and Institutional Banking division. The Group has designed a Customer Experience and Process Governance Unit to address customer dissatisfaction which reports to Chief Retail Banking. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal. This is made available to both retail and corporate customers.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group has written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the comingled pool. The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH account holders can withdraw funds on a premature basis by paying a nominal amount of fees / penalty; such penalties are offered for charity.

Additional disclosures such as the below are disclosed in the Bank's website:

a. Characteristics of investors for whom investment account may be appropriate
b. Purchase redemption and distribution procedures
c. Product information and the manner in which the products are made available to investors

Governance of IAH

a. Shariah review of allocation of assets and resultant income;
b. Disclosure of profit rates on deposit products and mudaraba fees either in the branch or website;
c. ALCO discusses the profit rate to be offered to URIA accounts. Any exceptional profit rates offered to customers are subject to approval by the relevant authority.

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2021:

	BD'000
Banks and financial institutions	42,239
Individuals and non-financial institutions	473,991
Total	**516,230**

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2021:

Profit Paid on Average IAH Assets *	0.69%
Mudarib Fee to Total income from jointly financed assets	36.52%

*Average assets funded by IAH have been calculated using month end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2021:

	Average declared rate of return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including VEVO)	0.06%	3.08%	32.26%
Defined accounts - 1 month	0.28%	0.28%	0.63%
Defined accounts - 3 months	0.28%	0.10%	0.24%
Defined accounts - 6 months	0.33%	0.17%	0.34%
Defined accounts - 9 months	0.43%	0.00%	0.01%
Defined accounts - 1 year	0.48%	1.51%	2.11%
Investment certificates	2.83%	0.00%	0.00%
IQRA	1.15%	1.69%	0.98%
Tejoori	0.06%	3.22%	33.89%
Customer special deposits	1.30%	28.92%	10.31%
Wakala - Financial institutions	0.73%	5.75%	10.34%
Wakala - Non-financial institutions and individuals	3.63%	55.27%	8.89%
		100%	100%

The calculation and distribution of profits was based on quarterly average balances.

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2021:

	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	305,373	57.03%	230,097	42.97%	535,470	100.00%
Corporate	140,361	57.03%	105,762	42.97%	246,123	100.00%
Retail	165,012	57.03%	124,335	42.97%	289,347	100.00%
Musharakah	49,240	57.03%	37,103	42.97%	86,343	100.00%
Corporate	1,625	57.03%	1,225	42.97%	2,850	100.00%
Retail	47,615	57.03%	35,878	42.97%	83,493	100.00%
Total	354,613	57.03%	267,200	42.97%	621,813	100.00%
Gross Ijarah Muntahia Bittamleek and rental receivables and rental receivables**						
Corporate	22,280	57.03%	16,787	42.97%	39,067	100.00%
Retail	125,155	57.03%	94,304	42.97%	219,459	100.00%
Total	147,435	57.03%	111,091	42.97%	258,526	100.00%
ECL Stage 1 and 2	(7,693)	57.04%	(5,796)	42.96%	(13,489)	100.00%
Total	494,355	57.03%	372,495	42.97%	866,850	100.00%

*Net of expected credit loss (Stage 3) of BD 18,271 thousands.

**Net of expected credit loss (Stage 3) of BD 1,205 thousands.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (d) (l) (m) & (n))

	Gross return on equity of IAH BD'000	Transfer to equalization reserve BD'000	Average mudaraba %	Mudarib fees BD'000	Release from IRR BD'000	Profit paid to IAH BD'000	Ratio of PER to IAH %
Account Type	**A**	**B**		**C**	**D**	**(A-B-C+D)**	
Tejoori	7,940	46	98.00%	7,780	–	114	0.89%
Saving	6,654	39	97.99%	6,520	–	95	1.07%
Vevo	852	5	97.93%	835	–	12	8.33%
IQRA Deposits	257	–	77.01%	198	–	59	27.65%
Defined deposit	3,359	–	67.70%	2,274	–	1,085	2.11%
Wakala	4,917	–	56.56%	2,781	–	2,136	1.44%
	23,979	90		20,388	–	3,501	

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2021:

Share of profit allocated to IAH before transfer to/from reserves - BD '000	23,979
Percentage share of profit earned by IAH before transfer to/from reserves	4.65%
Net return on equity of IAH - BD '000	3,591
Share of profit paid to IAH after transfer to/from reserves - BD '000	3,501
Percentage share of profit paid to IAH after transfer to/from reserves	0.68%
Share of profit paid to Bank as mudarib - BD '000	20,388

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2021:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to IAH	2.10%	2.82%	2.37%	5.74%

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders (“IAH”) (Continued)

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2021:

	As of 30 June 21 BD’000	Movement during the year BD’000	As of 31 December 21 BD’000
Cash and balances with banks and Central Bank	24,628	(1,282)	23,346
Murabaha and Wakala receivables - interbank	8,703	2,697	11,400
Gross financing assets*	278,218	(11,018)	267,200
Gross Ijarah Muntahia Bittamleek and rental receivables*	117,503	(6,412)	111,091
Investment securities	107,482	1,578	109,060
Expected credit loss (Stage 1 and 2)	(4,934)	(933)	(5,867)
Total	**531,600**	**(15,370)**	**516,230**

* Net of ECL stage 3.

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD’000	%	BD’000	%
2021	**55,834**	**4.62%**	**3,501**	**0.68%**
2020	53,169	4.92%	4,009	0.81%
2019	57,396	5.37%	12,685	2.97%
2018	53,939	4.86%	13,939	1.77%
2017	47,315	4.51%	11,364	1.43%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD’000	RWA BD’000	RWA for Capital Adequacy Purposes BD’000	Capital Requirements BD’000
Cash and balances with banks and Central Bank	23,346	–	–	–
Murabaha and Wakala receivables - interbank	11,400	3,493	1,048	131
Financing assets [1]	267,200	210,360	63,108	7,888
Investment in Sukuk [2]	109,060	–	–	–
Ijarah Muntahia Bittamleek and rental receivables [1]	111,091	71,327	21,398	2,675
	522,097	**285,180**	**85,554**	**10,694**

[1] The exposure is gross of ECL stage 1 and 2 of BD 5,796 thousand.

[2] The exposure is gross of ECL stage 1 and 2 of BD 69 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. Call risk is the risk of crystallisation of a contingent liability; and

c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Liquidity Risk Management Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

4.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over various time buckets to include short term, medium term, and long-term buckets. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Group manages funding requirements through the following sources: Current accounts, savings accounts, other URIA accounts, interbank lines, and borrowing by leverage of Sukuk portfolio. Appropriate thresholds are set for attaining funding from each source in the Group's Risk Appetite Framework.

In fulfilment of Basel III and regulatory requirements, the Group reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a monthly and quarterly basis, respectively. In efforts to maintain both metrics above the regulatory and internal limits, the Bank adopts the following strategies:

LCR: The Bank intends on maintaining its LCR within the prescribed regulatory and internal limits through the gradual build up of its customer deposit base and uncumbered High Quality Liquid Assets ("HQLA"), predominantly through sovereign bonds and high grade fixed income assets.

NSFR: The Bank intends on building a stable funding profile by maintaining a balanced trade-off between available and required stable funding, specifically focusing on building its retail deposit base and build up of capital, with particular focus on stable funding to build its longer-term liquidity.

4.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO.

4.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAH accounts.

4.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits; and

b. Liquidity Ratio limits.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

4.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2021	2020	2019	2018	2017
Due from banks and financial institutions / Total Assets	**6.56%**	3.67%	6.22%	10.74%	6.58%
Islamic Financing / Customer Deposits [1]	**82.63%**	75.81%	80.92%	83.31%	80.04%
Customer Deposits [1] / Total Assets	**79.19%**	85.30%	78.71%	71.85%	75.32%
Short term assets [2] / Short term liabilities [3]	**11.44%**	8.94%	16.59%	22.97%	20.35%
Liquid Assets [4] / Total Assets	**8.08%**	5.66%	8.15%	13.11%	9.38%
Growth in Customer Deposits	**1.47%**	7.29%	3.00%	(0.67%)	17.62%
Leverage ratio	**13.88%**	12.02%	12.00%	14.30%	15.91%

[1] Customer deposits include customer current accounts, commodity murabaha deposits from financial institutions, placements from non-financial institutions and individuals and IAH.

[2] Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

[3] Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

[4] Liquid assets includes cash and balances with banks and Central Bank (excluding CBB reserve) and placements with financial institutions (maturing in a year).

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

Table – 33. Maturity Analysis (PD-1.3.37, PD-1.3.38)

The following table summarises the maturity profile of the total assets, total liabilities and equity of investment accountholders based on contractual maturities as at 31 December 2021. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets							
Cash and balances with banks and Central Bank	22,611	–	–	–	–	22,980	45,591
Placements with financial institutions	86,894	–	–	–	–	–	86,894
Financing assets	51,524	28,030	46,020	160,798	323,096	–	609,468
Investment in Sukuk	4,997	883	–	79,572	168,186	–	253,638
Investment in equity and funds	–	–	–	–	–	20,986	20,986
Ijarah Muntahia Bittamleek and rental receivables	16,315	9,218	14,110	61,581	156,158	–	257,382
Investment in associates	–	–	–	–	–	9,314	9,314
Investment real estate	–	–	–	–	–	14,680	14,680
Property and equipment	–	–	–	–	–	13,491	13,491
Other assets	691	794	152	702	596	10,157	13,092
Total Assets	183,032	38,925	60,282	302,653	648,036	91,608	1,324,536
Liabilities And Equity Of Investment Accountholders							
Placements from financial institutions	98,503	10,943	10,965	12,935	–	–	133,346
Placements from non-financial institutions and individuals	105,892	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	30,115	–	–	–	–	–	30,115
Equity of investment accountholders	437,727	21,377	34,507	21,214	1,405	–	516,230
Total Liabilities and IAH	941,145	90,518	126,903	38,806	1,405	–	1,198,777

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The transition impact assessment was conducted in line with regulatory requirements.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;
b. Wakala transactions;
c. Ijarah Muntahia Bittamleek;
d. Sukuk; and
e. Musharaka investments.

The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

4.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;
b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;
c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy

The Group is subject to profit rate risk on its financial assets and financial liabilities. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;
b. has established a structure to monitor and control the profit rate risk of the Group;
c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and
d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

4.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the profit rate gap position as of 31 December 2021:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	86,894	-	-	-	-	86,894
Financing assets	51,524	28,030	46,020	160,798	323,096	609,468
Ijara Muntahia Bittamleek	16,315	9,218	14,110	61,581	156,158	257,382
Investment in Sukuk	4,997	883	-	79,572	168,186	253,638
Total profit rate sensitive assets	**159,730**	**38,131**	**60,130**	**301,951**	**647,440**	**1,207,382**
Liabilities And Equity Of Investment Accountholders						
Placements from financial institutions*	98,503	10,943	10,965	12,935	-	133,346
Placements from non-financial institutions and individuals	105,892	58,198	43,671	4,657	-	212,418
Financing from financial institutions	19,159	-	37,760	-	-	56,919
Equity of investment accountholders**	437,727	21,377	34,507	21,214	1,405	516,230
Total profit rate sensitive liabilities and IAH	**661,281**	**90,518**	**126,903**	**38,806**	**1,405**	**918,913**
Profit rate gap	**(501,551)**	**(52,387)**	**(66,773)**	**263,145**	**646,035**	**288,469**

*Placements from financial institutions includes frozen accounts of BD 9,175 thousand.

**The Bank uses expected withdrawal pattern to classify its saving accounts into different maturity buckets. The remaining IAH balances are disclosed on a contractual basis.

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2021:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks:	(4,185)	14,827	10,642
Downward rate shocks:	4,185	(14,827)	(10,642)

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Table – 35. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2021	2020	2019	2018	2017
Return on average equity	**5.53%**	(11.58%)	5.21%	9.48%	8.50%
Return on average assets	**0.48%**	(1.03%)	0.50%	0.91%	0.90%
Cost to Income Ratio	**47.10%**	60.00%	59.30%	55.47%	61.92%

Table – 36. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts (PSIA) for the last five years:

	2021 BD'000	2020 BD'000	2019 BD'000	2018 BD'000	2017 BD'000
Allocated income to IAH	**23,979**	16,551	35,686	41,162	36,010
Distributed profit	**3,501**	4,009	12,685	13,939	11,364
Mudarib fees	**20,388**	12,476	23,001	27,223	24,646

	2021	2020	2019	2018	2017
Balances (BD '000s):					
Profit Equalization Reserve (PER)	**1,400**	1,310	1,245	1,245	1,245
Investment Risk Reserve (IRR)	**–**	–	–	1,177	1,177
PER Movement	**90**	66	–	–	–
IRR Movement	**–**	–	(1,177)	–	420
Ratios (%):					
Income allocated to IAH / Mudarabah assets %	**1.99%**	1.53%	3.34%	3.71%	3.43%
Mudarabah fees / Mudarabah assets %	**1.69%**	1.16%	2.15%	2.45%	2.35%
Distributed profit / Mudarabah assets %	**0.29%**	0.38%	1.19%	1.26%	1.08%
Rate of Return on average IAH %	**0.86%**	0.98%	1.70%	1.76%	1.57%
Profit Equalization Reserve / IAH %	**0.33%**	0.32%	0.29%	0.16%	0.16%
Investment Risk Reserve / IAH %	**–**	–	–	0.15%	0.15%

4.12 CBB Penalties (PD 1.3.44)

During the year, the CBB imposed financial penalties of BD 50,620 regarding CBB Directives on EFTS and BD 50 regarding Bahrain Credit Reference Bureau records.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2021

5 Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
BRCC	Board Risk and Compliance Committee
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
ECL	Expected Credit Losses
Excom	Executive Committee
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
L/C	Letter of Credit
L/G	Letter of Guarantee
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk

GRI CONTENT INDEX

This report has been prepared in accordance with the Global Reporting Initiative (GRI) standards: core option.

The references for the GRI content in the report can be found in pages 214 - 218

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