Working Towards a Brighter Future

GFH Report & Accounts 2020

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, Prime Minister &
Deputy Supreme Commander
Kingdom of Bahrain

Bright, Focused
& Clear Vision

Although 2020 was a bleak year for many, there have been glimmers of brightness along the way. We have been witness to phenomenal changes in our business, our beloved Kingdom and across the globe.

We are blessed to have a light at the end of the tunnel and today we are stronger, humbler and more connected than ever before.

Driven by a bold ambition and armed with a pragmatic strategy, we are ready to take on any challenge the future throws our way.

GFH Financial Group Profile
A Shining Light in the Financial Industry

The Group pursues a diversified asset allocation strategy to adapt to the multitude of challenges in an ever-changing macro environment whilst working closely with our stakeholders to realistically meet expectations.

GFH is a well renowned financial group in the GCC region, with a diversified offering and pioneering track record. Headquartered in Bahrain, GFH's innovative approach to Islamic investment banking services has been recognized internationally for over a decade. GFH has developed a strong and consistent ability to identify, successfully bring to market and capitalize on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. This approach signifies the Group's investment insights and commitment to increase the value of its assets, and financial returns to its investors and shareholders.

Since the Group's inception in 1999, GFH has raised over US$ 12 billion in assets and fund under management from its strong client base across four main activities:

- Investment Management
- Commercial Banking
- Real Estate Development
- Treasury & Proprietary Investments

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market (DFM), where it is one of the most liquid and actively traded stocks. GFH's operations are principally focused across the GCC, North Africa and India, along with strategic investments in the U.S., Europe and U.K.

12 Bil

Since the Group's inception in 1999, GFH has raised over US$ 12 billion in assets and funds under management.

Creation

As an innovative financial Group, GFH has an enviable track record in conceptualizing and establishing a large number of pioneering financial institutions in the GCC. GFH was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively on the energy sector. The Group also established various cross-border entities including Khaleeji Commercial Bank in Bahrain, Arab Finance House in Lebanon, First Leasing Bank in Bahrain, Asia Finance Bank in Malaysia, and Gulf Holding Company in Kuwait. GFH has also successfully conceived, funded and developed large, complex and innovative real estate and infrastructure projects in the GCC, MENA and India including residential and commercial projects such as Bahrain and Tunisia's iconic Financial Harbours. The Group has also acted as the master developer for luxury lifestyle developments such as Royal Ranches of Marrakech in Morocco. More recently, the Group has led on the development of prestigious Bahrain-based developments such as the revival of the multi-million dollar Villamar project, and the centrally located waterfront The Harbour Row project.

Diversification

As part of GFH's vision, the Group adopts a dynamic, entrepreneurial investment approach underpinned by solid professional credentials. Furthermore, the Group pursues a diversified asset allocation strategy to adapt to the multitude of challenges in an ever changing macro environment whilst working closely with our stakeholders to realistically meet expectations. In terms of asset class diversification, GFH has participated in and brought privileged access to unique private equity investments in wide-ranging sectors such as real estate, hospitality, retail, healthcare, industrial, education, and technology. Geographically, GFH initially had an investment focus on the Middle East, North Africa and India, but in recent years the Group has further diversified its holdings across the U.S. and U.K. to take advantage of emerging opportunities in these markets.

GFH Financial Group Profile Achievements & Recognition

2004

Most Innovative Islamic Finance House
Islamic Finance Awards

2006

Best Investment Bank
Euromoney

2012

Best Islamic Investment Bank (Bahrain)
Capital Finance International (CFI)

2005

Best Islamic Investment Bank
Best Investment Bank
Euromoney

2008

Deal of the Year
Banker Middle East

2014

Fastest Growing Bank (Bahrain)
CPI Financial
Best Wealth Management Firm
Banker Middle East

GFH has consistently been widely recognized by various industry stakeholders for its innovative approach, investment prudence and overall achievements in Islamic finance, real estate development and investment management.

2015

Best Investment Bank (Middle East)
Islamic Business & Finance Awards
Best Wealth Management Firm
CPI Financial Bankers Middle East

2017

Fastest Growing Bank (Middle East)
Banker Middle East Awards

2019

Best Islamic Investment Bank
WIBC Performance Awards
Best Investment Management Services
Banker Middle East Awards

2016

Best Islamic Financial Group
Global Brands Magazine
Best Investment Bank
Middle East Industry Award

2018

Best Investment Bank (Middle East)
Banker Middle East Awards
Best Investment Bank
Islamic Business & Finance Awards EMEA

2020

Best Private Bank
Best Investment Management Firm
MEA Finance Awards
Best Investment Bank (Middle East)
International Business Magazine
Most Innovative Diversified Investment Portfolio
Global Business Outlook

Driven by a Bright Vision

Our vision has transformed over the years; today we are driven by a new, ambitious motto:

To discover, innovate and realise value potential

Illuminated by our Values

We find the world a curious place; its challenges and opportunities entertain our minds. Our rich experience is balanced with a restless inquisitiveness that drives us to find and innovate unique opportunities.

We believe in being open, transparent and straightforward in every aspect of our business. We gain trust by providing reliable information about the things which affect our business's performance.

Our deepest commitment is to realising our ambition. A natural perseverance is the foundation on which we have grown. We focus deeply into the detail, ensuring we get extraordinary results. Our success is the direct result of our tenacity.

Casting Light on our Diversity Strategy

Our investment impact goes beyond just balance sheets and financial reports. It transforms the daily lives of the communities we're a part of. By diversifying our portfolio, we're not just creating sustainable wealth for our investors, we're bringing new homes, schools, hospitals, and entertainment platforms to the world around us.


Real Estate

Education

Technology

Healthcare

Real Estate

The demand for bright real estate solutions continues to prevail, supporting the productiveness of this platform within our investment portfolio.

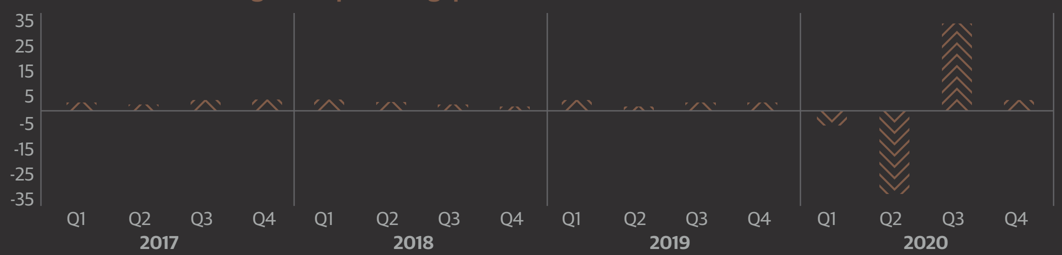
As the effects of COVID-19 are felt around the world, real estate companies are being impacted in different ways, largely dependent on region and asset class. GFH's robust real estate platform offers our clients stable and above-market returns.

GFH has invested in several types of real estate, including residential, industrial, office, hospitality and data centers. We have applied our strategy of dynamic diversification into each of these investments. With GFH's structured approach, our real estate investments have been rewarding - capitalising on attractive leverage, tax efficiencies, stabilised cashflow streams as well as value-creation opportunities. Given GFH's expertise in real estate over the last 20 years, the Group has experienced market cycles, taking advantage of the peaks and troughs of the real estate market to ensure execution of attractive acquisitions and exits. The need for real estate has been and will continue to prevail, supporting the effectiveness of real estate investment within any investment portfolio. Certain niches within real estate subsectors have displayed resilience throughout adverse market swings. We remain confident in our focus on strong, defensive sectors in selective real estate markets with attractive cash yields and growth potential. GFH has built a robust real estate investment platform, offering our clients stabilised, above market returns. We have focused our investments on portfolios situated across major cities in the US, Europe and UK. We continue to seek opportunities in other developed markets in the EU region centered around Germany, France, Netherlands, Spain and other key markets – all of which have been at the core of economic development in Europe. The strength of our platform has risen over the foundation of high-occupancy properties and a strong, credit-rated tenant base with long-term contracts to secure cash flows and dividend payments over the investment horizon.

US Economy

The global COVID-19 pandemic struck the US in March 2020. The US economy felt its full effects during Q2 2020 following government mandated shutdowns. By December 2020, the US unemployment rate stood at 6.7% compared to 3.7% the prior year. US real GDP ended 2020 down to about 4.0%, which is expected to recover to 4.5% in 2021. Despite the impact of COVID-19, the US posted a record-high quarterly real GDP growth of 33% in the third quarter of 2020 as a result of stimulus measures, thus partially negating the impact of the pandemic. CBRE forecasts that the strongest growth of 2021 will occur in Q2 and Q3 – 5.5% and 5.6%, respectively, on an annualized basis – bringing US real GDP back to pre-COVID levels in Q3.

Real GDP: Percent change from preceding quarter



Source: US Bureau of Economics Analysis

Seasonally adjusted annual rates

US Office Market

▲ Vacancy Rate 15.0%	▼ Net Absorption -28.4 PSF
▼ Gross Asking Rent US$ 32.99 PSF	▼ Completions 7.9 MSF

Although the recession that began in March 2020, triggered by COVID-19, was short and steep, its impact was still being felt in the US office market through the fourth quarter. After economic activity had collapsed at a record pace in Q2, it rebounded almost as sharply in Q3. By the fourth quarter, the pace of recovery had slowed some, and by most measures, economic performance was still below pre-recession levels. Although sentiment on the recovery of the economy improved during the quarter as effective vaccines were approved and began to be distributed, the number of new COVID-19 cases continued to rise and occupiers continued to shed space, pushing up vacancy. In addition, the amount of sublease space on the market had risen sharply – a phenomenon which has put downward pressure on rents in the past.

US Industrial Real Estate

Despite the COVID-19 pandemic and nationwide economic uncertainty, industrial leasing activity in the US continued to set new records in 2020. Shifts in online shopping made e-commerce the primary driver of leasing this year with other industries rising to the challenge to meet consumer demand. Tenant touring activity and move-in's increased toward the second half of the year pushing net absorption past the 250m sf threshold. With increased demand and a stable supply, leasing fundamentals ended the year on a high note.

US Hospitality Market

Year-over-year total US Revenue per Average Room ("RevPAR") dropped by nearly half, down 47.5% to US$ 45.5 in 2020. The uniquely challenging year's cause and effect was clear, as the World Health Organization declared COVID-19 a global pandemic in March, causing RevPAR to immediately fall by 80% in April.

Amid the COVID-19 pandemic, the hotel industry hit record lows as lockdowns and social distancing initiatives drove performance to bottom out. The hotel industry is the single most impacted sector by COVID-19, thus marking the year as the single worst year for the sector in the 30-year history of the Smith Travel Report ("STR"), as figures for both occupancy and RevPAR mark all-time lows. The US hotel industry surpassed 1 billion unsold room nights for the first time ever. The previous high-water mark for that statistic was 786 million unsold room nights during the depths of the Great Recession in 2009.

US Senior Healthcare Market

A Marcus & Millichap research suggests that there is strong underlying demand despite the pandemic. The study found that the number of households with residents between the ages of 75 and 79 will increase by approximately 4.7 million over the next 20 years, up by 78%, while those having residents aged 80 and older will grow at an even faster pace. Approximately 17.5 million heads of households in the US will be 80 years or older by 2038, more than double the 2018 total, as the average age of Americans continues to increase.

The arrival of COVID-19 vaccines is having a positive impact on customer confidence in senior housing. More than 2.7 million doses of COVID-19 vaccines have been administered to residents in nursing homes, assisted living facilities and other senior living settings as of January 2021, according to the latest executive survey insights report conducted by the National Investment Center for Seniors Housing & Care (NIC).

UK Office Market

- Take-up for office space in the UK Markets during Q4 2020 totalled 1.1m sf, an increase of 138% compared to Q3. However, this remained below Q4 2019 where take-up reached 2m sf.
- This brought take-up for the year to 3.9m sf, a decline of 40% on the five-year average demonstrating the impact of COVID-19.
- The largest deal of the quarter and second of the year saw BT prelet 175,680 sf at 4 New Bailey, Chapel Street, Manchester. BT were also responsible for the largest deal of the year in which they pre-let a further 280,000 sf Birmingham.
- As a result, creative industries were responsible for the largest share of take-up.

UK Economy

The UK economy grew by 1% in the fourth quarter of 2020. Monthly growth in December 2020 stood at 1.2%, despite the local tiered system keeping much of the country in lockdown. This reflects how business and people are continuing to adapt to restrictions.

The labor market remains under pressure, but there continues to be some tentative positive signs. In the three months ended December 2020, redundancies reached a peak of 395,000. In addition, since February 2020, the number of payroll employees has now fallen by 827,000. These figures reflect the tightening of restrictions in Q4 2020.

US Data Center

Absorption among primary US data center markets (Atlanta, Chicago, Dallas/Ft. Worth, New York Tri-State, Northern Virginia, Phoenix and Silicon Valley) totaled 134.9 MW in H1 2020. Hyperscale companies, large cloud service providers and content providers leased space in wholesale colocation facilities to meet a spike in demand from their customers during the COVID-19 pandemic.

Hyperscale activity likely will level out in 2021 as demand drivers that spiked in 2020 begin to plateau, including enterprise clients leveraging hybrid IT solutions to accommodate remote working mandates. This trend likely will continue, albeit at a slower pace than in 2020. With more than 373 MW of wholesale colocation currently under construction across the seven primary markets, data center supply is expected to grow next year.

Education

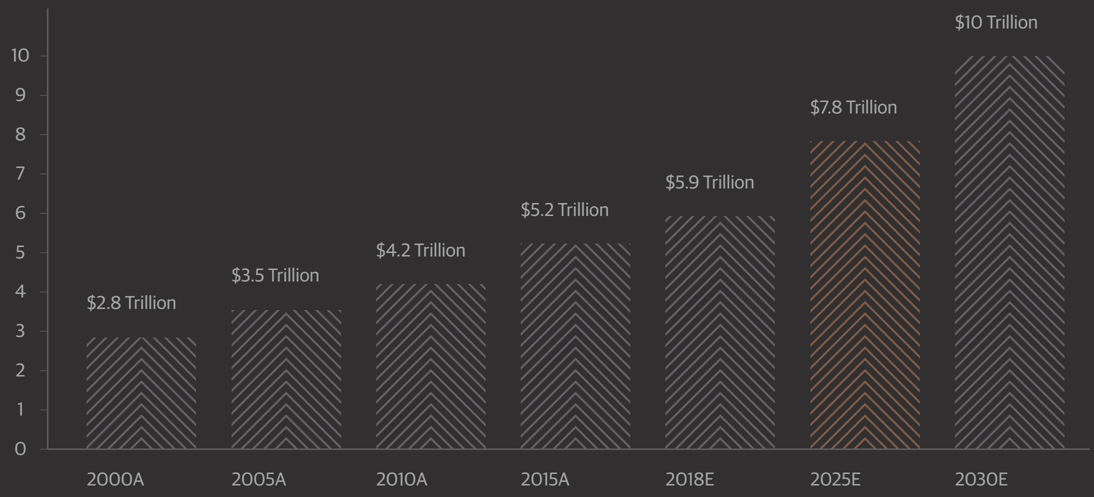
Our strategy for Britus Education continues to focus on the acquisition and improvement of mid-market schools in the MENA region that offer world-class curricula. The affordable fee segment is one of the fastest-growing subsectors in the industry, catering to a booming middle class in the region.


E

The pandemic has undoubtedly affected the social fabric of the world community at an unprecedented scale. Apart from the tremendous toll on lives and livelihoods, experts say the repercussions are likely to have an impact on students worldwide.

Education is a multi-trillion dollar industry, poised to continue growth for decades to come. Expenditure on education and training from governments, parents, individuals and corporates continues to grow to historic levels, and is expected to reach US$ 10 trillion by 2030.

Total Global Education Expenditure in US$ trillions



Source: HolonIQ, Smart Estimates™ January 2019

Developed and emerging markets have seen a surge in private education during the last decade. Population growth and macroeconomic gains have supported this trend. Rising affluence has contributed to increased enrollment across education sectors. The trend of growth in private education demand is expected to continue unabated given economic growth, demographic trends and cultural shift.

26 Bil

The K-12 private education market in the GCC countries has become a magnet for investors and school operators. This market is expected to double over the next five years, from $ 13 billion to $ 26 billion by 2023.

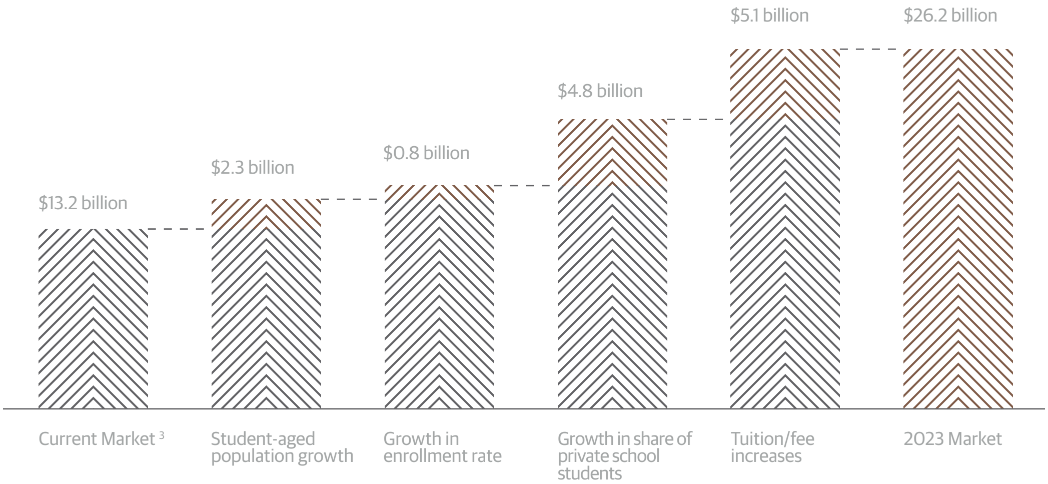
However, in 2020, the COVID-19 pandemic has created the most severe disruption to global education systems in history, forcing more than 1.6 billion learners in over 190 countries out of school at the peak of the crisis[1]. It forced institutions to adopt and improve distance learning methodologies.

The coronavirus pandemic has had a profound impact on higher education in the GCC, with many institutions making radical and potentially permanent changes to both teaching methods and business models. While this broad-based shift towards digital approaches has largely been reactive, in many cases it accelerated an existing transition towards a more blended and technologically oriented approach.

The GCC has taken several measures to ensure education continuity: Bahrain set up a dedicated electronic education portal, set up by the Ministry of Education and the Bahrain Information and eGovernment Authority, in conjunction with cloud computing platform Amazon Web Services. KSA has launched a new remote teaching award to promote excellence in remote teaching and assessment. Meanwhile, Kuwait has introduced changes to the academic calendar while Oman has introduced digital solutions to aid in distance learning through televised lessons.

Despite the temporary impacts of the COVID-19 pandemic, the K-12 private education market in the GCC countries has become a magnet for investors and school operators. This market is expected to double over the next five years, from $ 13 billion to $ 26 billion by 2023[2].

Primary Growth Drivers in GCC's K-12 Private Education Market

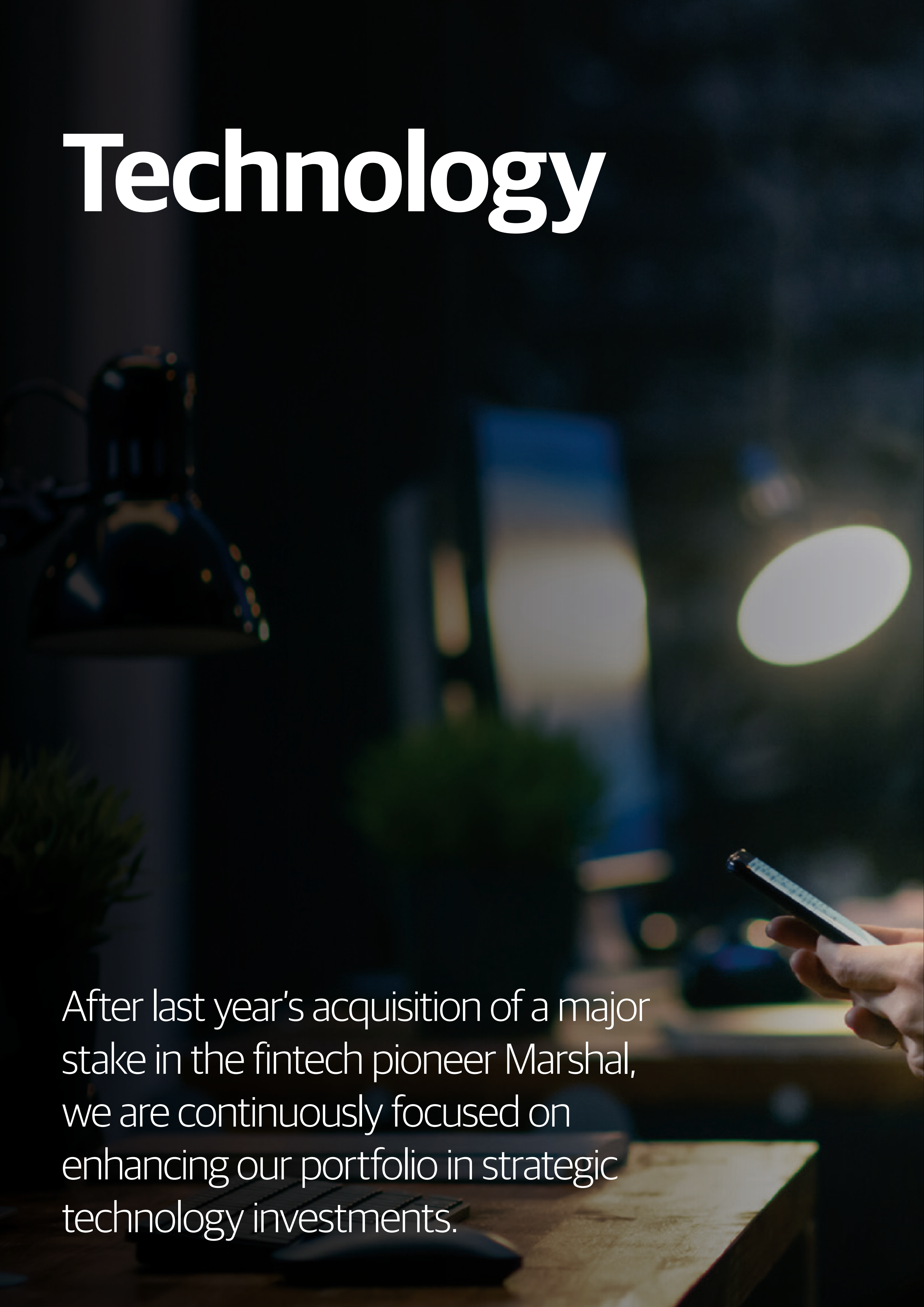


Source: Kuwait Statistics Authority; World Bank; Saudi Arabia Ministry of Education (MoE) data; Qatar MoE data; Dubai Statistics Center; Vision 2021.ae; Knowledge and Human Development Authority (KHDA); UAE MoE data; FXExchageRate.com; ADEK Annual 2016-2017 Report; Edarabia; Ministry of Information Affairs Bahrain; Bahrain in Figures 2016; BCG analysis.

[1] *UNESCO Education Response*

[2] *BCG Where to Invest now in GCC Private Education*

[3] *Bahrain and Kuwait data for 2016; UAE data for 2017; all others for 2016.*



Technology

After last year's acquisition of a major stake in the fintech pioneer Marshal, we are continuously focused on enhancing our portfolio in strategic technology investments.

If tech once prided itself on 'disrupting' other industries, 2020 saw it stepping up to help the world manage the crisis. The rapid changes the world was forced to make rely on technology to keep us productive, connected, informed, and entertained.

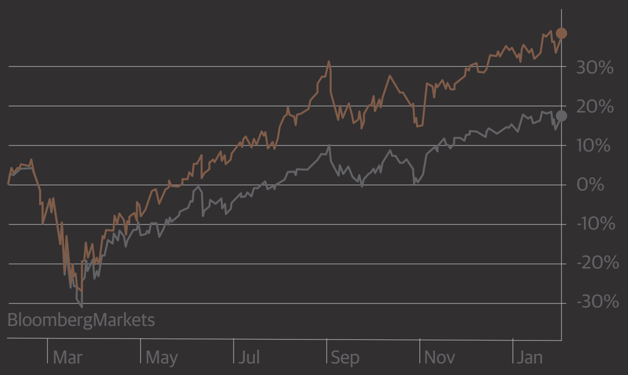
The Technology sector has been one of the best performing sectors over the last decade. Further, consumers and businesses have significantly accelerated tech adoption during recent times and this trend is expected to gain more traction. Global technology, media, and telecommunications companies focused on responding to the global pandemic and its immediate repercussions, whilst pivoting towards recovery from the crisis and setting themselves up to thrive in the next era.

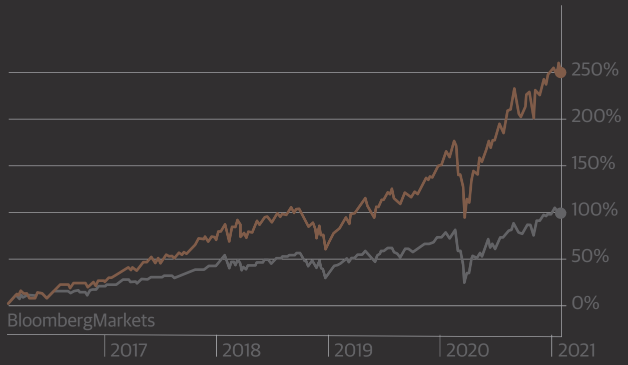
Today's technology networks are more complex than ever before. In 2021, it will be critical for companies to find ways to address these vulnerabilities while also reducing their environmental impact and remaining flexible enough to manage a challenging geopolitical environment.

Over the last year, we have witnessed significant activity around mergers, acquisitions, and divestitures. Many technology companies have capital to invest, and some are looking to augment their technology stack or acquire critical talent. In 2021, we believe there's much more to come, based on early indications of how companies are talking about potential transactions. Our aim is to harness this growth, and capture all the upside by investing in these companies at an early stage.

The Technology industry has proved to be more resilient over the years including during COVID-19 and has yielded premium returns versus benchmark indices.

S&P 500 Information Technology (S&P IT) vs S&P 500 Index (S&P) – Year-to-Date & 5 Year Performance



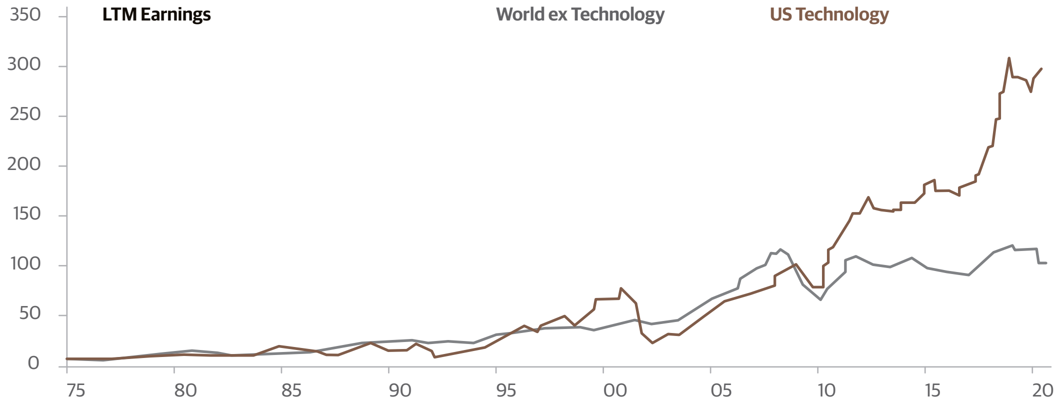


1.
S&P IT significantly outperformed broader S&P index, depicting a strong secular sector trend. In the past 12 months period ended January 2021, S&P IT provided a return of c. 39% vs S&P return of c. 18%. S&P IT also significantly outperformed over past 5 years ended January 2021.

2.
When stock markets fell amid the pandemic, S&P IT declined by less than S&P, implying strong resilience to negative events.

3.
Further, recovery of technology stocks has been fastest, implying markets' confidence in the sector.

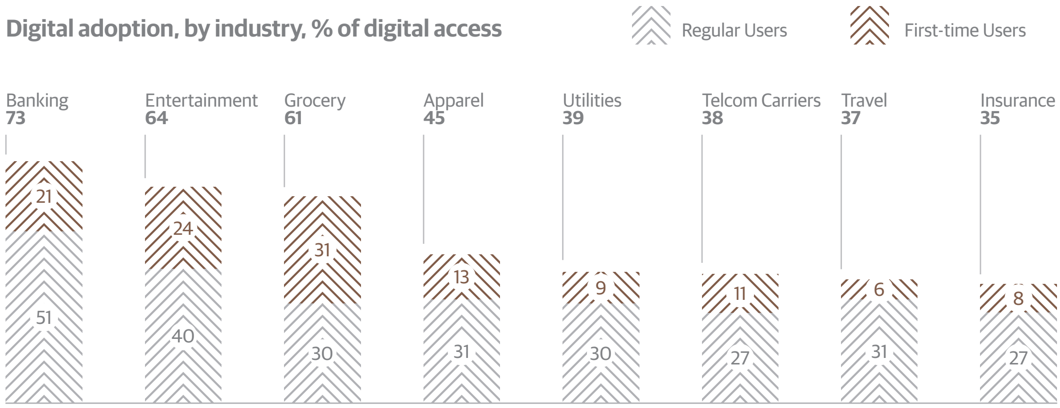
Technology earnings have outpaced the rest of the World, amidst COVID-19 related uncertainty:



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Digital disruptions are happening faster than ever, with the largest shifts also the most likely to stick through the recovery. Digital transformation and migration to tech has been accelerated by the pandemic and this trend is expected to continue during and post recovery.

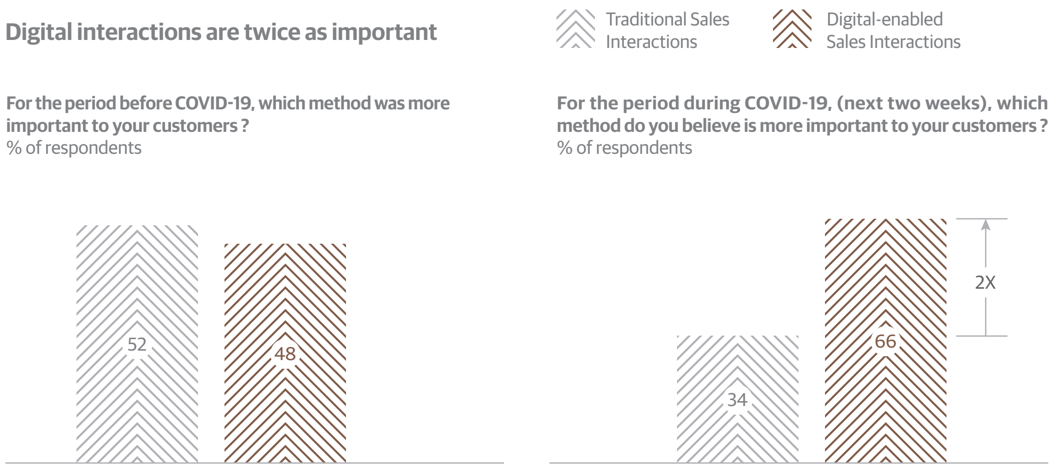
Digital adoption, by industry, % of digital access



Consumers and businesses are accelerating adoption of digital, a trend seen across global regions.

Note: Figures may not sum to listed totals, because of rounding.
Source: McKinsey COVID-19 US Digital Sentiment Survey, Apr 25-28, 2020.

Digital interactions are twice as important



Traditional sales interaction methods pre-COVID-19 are transforming to Digital. Digital interactions are now twice the traditional sales interactions.

Sources: Deloitte COVID-19 outlook US technology May 2020, PWC COVID-19 and the Technology industry, Deloitte 2021 Technology Industry Outlook

Healthcare

Our investment continues to shine a light on unique, market-leading and digitally-enabled healthcare services. This highlights not just the financial effectiveness of this investment platform for GFH but also our commitment and responsibility towards the communities we're a part of.

As entire societies hold their collective breath over the full human and geographical impact of COVID-19, one consideration is to what extent supply is meeting demand in countries that adopt a predominantly private healthcare model.

With global healthcare spending expected to rise at a CAGR of 5% in 2019-23, healthcare will continue to be a large sector with many opportunities going forward. While there will be uncertainties, many of them brought about by the pandemic, stakeholders can navigate them by factoring in historic and current drivers of change when strategizing.

The COVID-19 pandemic is placing enormous strain on the global healthcare sector's workforce, infrastructure, and supply chain, and exposing social inequities in health and care. COVID-19 is also accelerating change across the ecosystem and forcing public and private health systems to adapt and innovate in a short period.

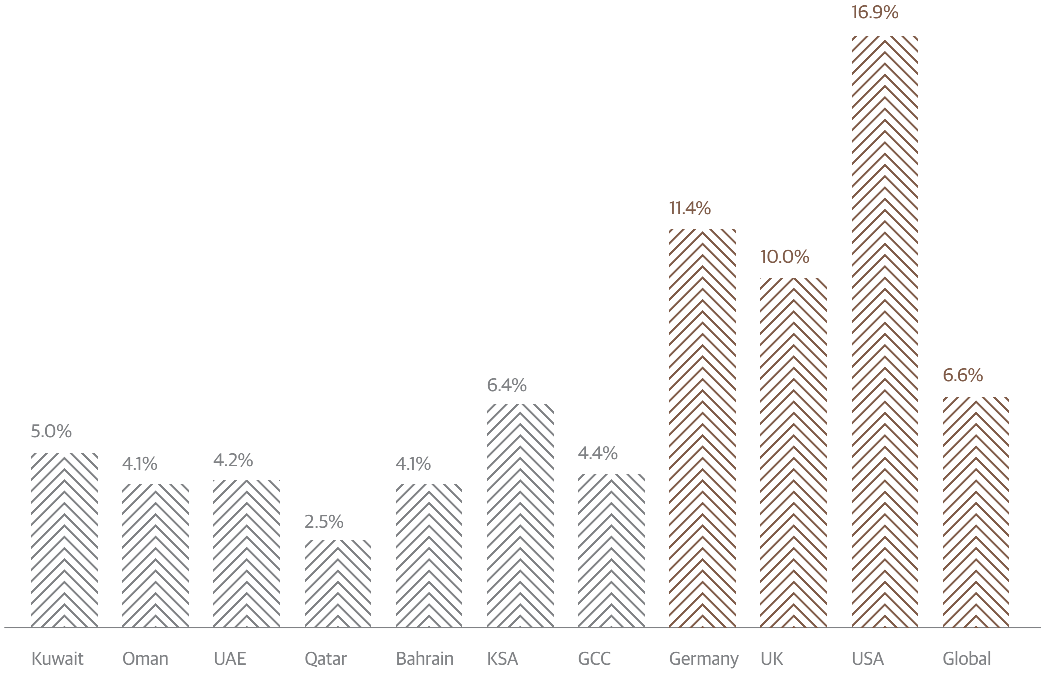
A number of foundational shifts are arising from and being exacerbated by COVID-19's spread. This includes consumers' increasing involvement in healthcare decision-making, the rapid adoption of virtual healthcare and other digital innovations, and unprecedented public-private collaborations in vaccine and therapeutics development. Amid these dynamics, governments, healthcare providers, payers, and other stakeholders around the globe are being challenged to quickly pivot, adapt, and innovate.

In the GCC, amidst an ageing and expanding population, and the increasing prevalence of lifestyle diseases, the healthcare sector is fast emerging as a priority for GCC countries as they work to diversify their economies away from a reliance on oil production.

Various national transformation plans and policy programmes, such as the UAE Vision 2021 and the Saudi Vision 2030, are outlining long-term government strategies to expand the role of the private healthcare sector and create additional capacity for their growing markets. In turn, increasing investments by these sectors is expected to create a strong demand for pharmaceutical products, medical equipment and supplies, hospital services and healthcare professional - thereby easing demand on the public sector.

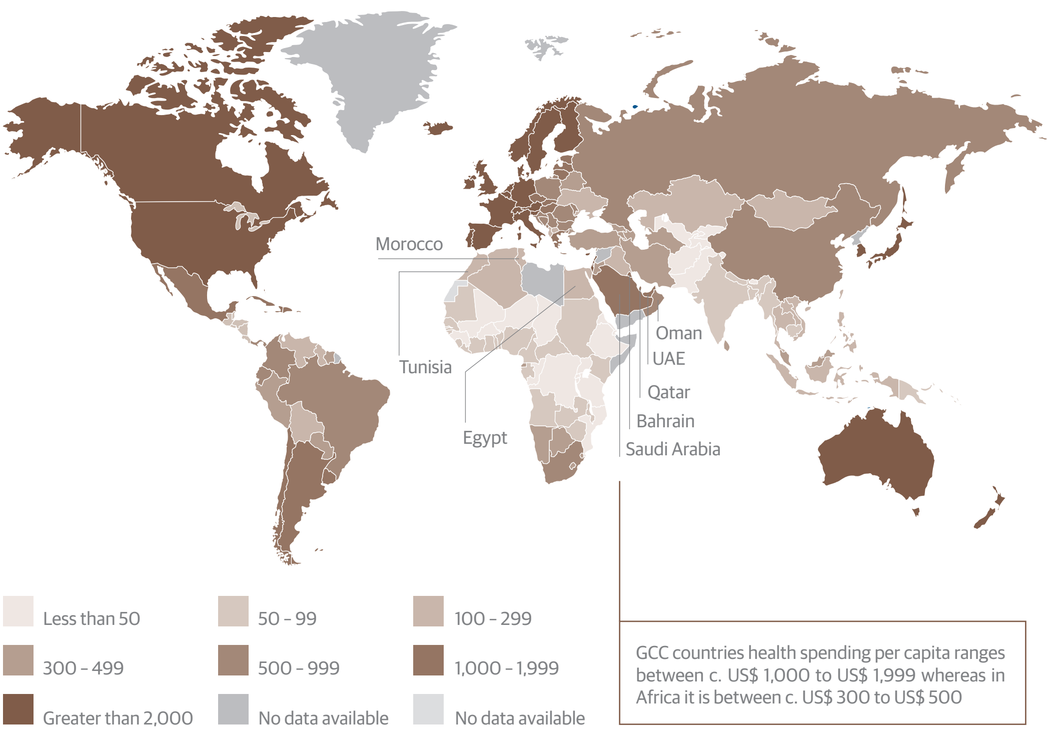
MENA's average healthcare spending per capita range from US$ 400 to US$ 1,500 which is less than OECD's average of US$ 4,000. In the backdrop of structural changes, MENA's healthcare sector presents a compelling opportunity. Within the GCC, an aging population, high prevalence of non-communicable diseases, mandatory healthcare insurance, an overburdened public healthcare system and technology are some of the key drivers for growth in private healthcare spending.

Current healthcare expenditure (CHE) as % of GDP (2018):



Source: Deloitte 2021 Global Healthcare Outlook, Arab Health Online

Health spending per capita by country, US$, 2018



GCC countries health spending per capita ranges between c. US$ 1,000 to US$ 1,999 whereas in Africa it is between c. US$ 300 to US$ 500

Operational Review

2020 was a year unlike any other in our 21 years of successful operation in Bahrain and beyond. Working together, under the illuminating guidance of our leaders, we overcame the adversities and lived up to our reputation.

1

Board of Directors Torch-Bearers of Excellence

Through decades of excellence in a wide range of fields, our Board of Directors' vision provides the solid foundation that inform our decision-making, growth and long-term prosperity. Their foresight and acumen embody the steady hand that commands our bold strategy and expansive diversification.

232 Years

GFH's Board of Directors' breadth of experience combined reaches 232 years and spans the fields of international business, law, finance, economy, engineering, construction and business administration.

Jassim Alseddiqi

Chairman, Non-Executive Director

Jassim Alseddiqi is the Chairman of GFH Financial Group and the Group Chief Executive Officer of SHUAA Capital, the leading asset management and investment banking platform, with c. US$ 14 billion in assets under management. With 16 years of experience, Jassim is known for his dynamic and innovative approach, having pioneered many investment strategies in the region. He is also the Chairman of Islamic Arab Insurance Company (SALAMA), Eshraq Investments, Khaleeji Commercial Bank and The Entertainer. He also serves on the boards of First Abu Dhabi Bank (FAB), ADNOC Distribution and Dana Gas.

Jassim holds a BSc in Electrical Engineering from the University of Wisconsin-Madison and an MSc in Electrical Engineering from Cornell University. He has also served as a noted lecturer at the Abu Dhabi-based The Petroleum Institute.

14 Bil

Jassim Alseddiqi is the Chairman of GFH Financial Group and the Group Chief Executive Officer of SHUAA Capital, a leading asset management and investment banking platform, with c. US$ 14 billion in assets under management.

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa *
Vice Chairman, Executive Director

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa is a leading business figure in Bahrain who brings to the Group 27 years of experience in banking, public and private advisory, and key ministerial roles. He is currently the Chairman of GFH Capital and Vice Chairman of GFH Financial Group. Previously, Shaikh Ahmed was the Advisor for Community Affairs at the Crown Prince Court (Rank of Minister) and for His Royal Highness the Crown Prince (Rank of Minister) (2009). He was also the Secretary General of Supreme Council for Defence (Rank of Minister) (2006) and served as the Kingdom of Bahrain's ambassador to the United Arab Emirates during the period 2000 to 2006. Prior to these roles he was the Head of the Arab Banking Corporation (ABC) office in Abu Dhabi.

He holds a bachelor's degree in computer science and accounting from the University of Bahrain, a certificate from the College of Science of King Fahad University of Petroleum and Minerals, a Global Credit Analysis certificate from BPP Training and Consultancy – London, and a Gulf Executive Management and Strategic Leadership certificate from Colombia University New York.

**Sh. Ahmed resigned from his role within the Board on the 25th of February 2021.*

Hisham Alrayes
Member & Group CEO, Executive Director

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services. With over 20 years of experience, Hisham brings extensive expertise to the Group and an in-depth knowledge of GFH. He was instrumental in driving the development and execution of the Group's regional and international investment strategy and managed the bank's liabilities as Chief Investment Officer prior to his appointment as Group CEO in 2012, and since his appointment as CEO, has driven the development and execution of the Group's regional and international diversification strategy.

Prior to joining the Group in 2007, Hisham was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain where he was responsible for a number of key projects and new venture initiatives. He currently chairs and holds a number of directorships in financial, industrial and real estate companies including Esterad Investment Company, Khaleeji Commercial Bank and GFH Capital.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. Hisham was awarded 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy which has seen the Group expand its business lines and geographic reach, while remaining resilient in the face of unprecedented market conditions. He was also ranked one of the top CEOs in Financial Services & Investments in 2019, and named 'Investment Bank CEO of the Year' at CEO Middle East 2019.

Rashid Nasser Al Kaabi

Member, Non-Executive Director

Rashid Nasser Sraiya Al Kaabi is a member of the Board of Directors at Qatar Chamber of Commerce and Industry (QCCI) and Chairman of the industry committee at QCCI. With over 20 years of experience, Rashid has become one of the most outstanding and youngest Qatari Businessmen to achieve an esteemed reputation both nationally and internationally. His business career started in 1995 and by 2019, he has managed to expand the business well into new horizons. With his keen expertise new businesses have been launched across Qatar, USA, United Kingdom, Germany, Poland, Turkey, UAE and Oman across all 5 sectors of Al Sraiya Holding's engineering, hospitality, industrial, trading, education and general services groups.

Rashid believes administrative and legitimate expertise are essential for the success of a business. Smart, reliable, profitable and consistent business decisions are the outcome of Rashid's eye for business opportunities, expertise in negotiations, wealth of knowledge, integrity, values, and a drive for a better future. As a visionary business man, Rashid is always on the lookout for future business opportunities that will enlarge the Group's portfolio. As a vivid man of values, the importance of family owned and managed companies is held high as he believes they play a major role in managing private economic enterprises in Qatar, the Gulf region, and beyond. Family owned businesses adhere to the quality of administrative and financial systems compatible with the standards of transparency and responsibility towards society, as a family is towards itself. It is the family company that guarantees survival and sustainability across time because of the shared appreciation of the journey of noble success through dedication, inspiration, innovation, virtue, and wisdom.

Mustafa Kheriba *

Member, Executive Director

Mustafa Kheriba is the Deputy Chief Executive Officer and Group Head of Asset Management of SHUAA Capital. Bringing 25 years of experience to his role at SHUAA, he leads the investment activities and business development aspects of the Group. He also oversees deal origination, fundraising activities and directly manages key investments for the Group. Prior to SHUAA, Mustafa held senior positions in financial services and investment companies in the GCC, US and Canada. He was ranked among the top 50 MENA Fund Managers in MENA FM Magazine's annual survey. Mustafa holds a BA from the University of Toronto and an MBA from Ohio Dominican University with Magna Cum Laude honors.

**Mr. Kheriba resigned from his role within the Board on the 24th of December 2020.*

Ghazi Faisal Ebrahim AlHajeri

Member, Independent Director

Mr. Ghazi Al Hajeri is the CEO of Wafra International Investment Company, a Kuwait-based asset management company with $ 7BN in AUM. Bringing 21 years of experience to his role, he is in charge of overall corporate direction and proprietary investments, Mr Al Hajeri leads the company's transformational growth strategy. Prior to that, Mr Al Hajeri occupied the role of deputy CEO at Touristic Enterprises Co., an entity owned by the Kuwait Investment Authority and the oldest and largest provider of recreation and entertainment in the State of Kuwait. Mr. Al Hajeri was responsible for the group's facility operations and development.

Mr. Ghazi Al Hajeri held the position of Managing Director for Wafra InterVest Corp. He established Wafra's regional office in 2007 and remained its Regional Director until 2017. Mr. Al Hajeri was responsible for firm's regional business strategy and product development and served as a corporate liaison with the firm's largest clients. Mr. Ghazi Al Hajeri was responsible for directing the firm's largest client relationships. He devised strategic plans to grow the firm's expansion in assets from $ 7 billion to $ 20 billion in a period of 10 years. Mr. Al Hajeri managed complex projects for sovereign wealth and pension clients that included asset allocation, business development and investment planning. Mr. Al Hajeri was a member of the Alternative Investments Division Investment Committee and responsible for reviewing and monitoring external investment managers while directing departmental strategy at Wafra Investment Advisory Group in New York from 2000 – 2006. Mr. Al Hajeri holds a Bachelor degree in Science in Business Administration from the University of Denver.

Ali Murad *

Member, Independent Director

Mr. Ali Murad is the Managing Director and Co-Founder of Pinnacle W.L.L., Bahrain. He also serves as a board member in several companies including C5 Accelerate W.L.L., EAT App, Wavepoint Publishing W.L.L. Throughout the 19 years of experience in his career, Mr. Murad occupied several positions in the banking sectors before he moved into the private sector. He commenced his banking career at Arab Banking Corporation where he remained for five years. During this time, he held the position of credit analyst of ABC Islamic Bank EC, money market dealer and thereafter, as a deputy manager of the Treasury and Marketable Securities Department. Mr. Murad then joined Unicorn Investment Bank (now, Bank Alkhair) in the Investment Development and Distribution Department and later First Energy Bank as a director in Investment Placement, where he placed numerous financial products and services to high-net-worth individuals, governments and quasi-governmental Organizations, publicly listed and unlisted companies, as well as private banking clients.

Mr. Murad was part of the investment team, where he also worked on tailoring customized investment products catering to the tough market conditions at the time. In 2010, Mr. Murad embarked in a career in the private sector and founded Pinnacle W.L.L. as a holding company for stakes in various sectors including technology, music publishing, real estate to name a few. He continues to explore, review and monitor active and potential investments both regionally and internationally. Mr. Murad holds a Bachelor of Science and Business Administration in Marketing from Suffolk University, Boston, Massachusetts.

** Mr. Murad joined GFH's board on the 9th of April 2020.*

Ahmed Abdulhamid Al Ahmadi *

Member, Independent Director

Ahmed AlAhmadi serves as an Independent Director on the Board of GFH Financial Group. Bringing six years of experience to his role, he is an Associate at Mubadala Investment Company in Mergers & Acquisitions, where he supports business units across the Group in sourcing deals and executing transactions. Prior to his current role, Ahmed worked in the energy and power industries in a portfolio management context under Mubadala's Petroleum and Petrochemicals platform, and an advisory capacity with Rothschild & Co. He previously served as a Director on the Board of SHUAA Capital PSC and Integrated Capital.

Ahmed is a CFA charter holder. He holds a First Class Honours degree in Chemical Engineering (BEng) from University College London, and a Master's degree with Merit in Risk Management and Financial Engineering (MSc) from Imperial College London.

** Mr. Al Ahmadi joined GFH's Board on the 9th of April 2020.*

Alia Al Falasi *

Member, Independent Director

Alia Al Falasi serves as Legal Counsel in the financial investment arm of one the UAE's leading sovereign wealth funds, with an AUM of over $ 200bn. With 14 years of working experience, she is responsible for transaction execution and the oversight of investments, from a legal and governance perspective, with a focus on investing in China, France and Russia. Within this geographic focus, Alia has experience investing across a variety of asset classes, including publicly traded equities, private equity, venture capital and real estate, in addition to experience with working across a broad range of industries such as healthcare, TMT, financial services and consumer goods, among others.

In the past two years alone, Alia was a leading member of a team that closed deals with an invested amount greater than $ 1bn. Alia has served as an Investment Committee member, responsible for screening opportunities, portfolio management and making strategic and investment decisions within the broader business unit she serves at, overseeing an investment portfolio of more than $ 20bn. Alia is admitted as a solicitor in the Senior Courts of England and Wales. She holds a BSc in Management with Law from the University of London, in association with The London School of Economics and Political Science.

** Ms. AlFalasi joined GFH's board on the 30th of September 2020.*

Fawaz Talal Al Tamimi *

Member, Independent Director

Holding a BSc. in Marketing from California State University in Los Angeles, Mr. Fawaz Al Tamimi is the Senior Vice President of Finance and Investment at Tamimi Holding with 11 years of working experience. Mr. Al Tamimi is a Board member at Tamimi Group, Gulf Islamic Investment Company, Specialized Industrial Casting Company, Kingdom Holding Gulf Union Insurance, and Tamimi Markets, amongst others.

** Mr. Al Tamimi joined GFH's board on the 30th of September 2020.*

Amro Saad Omar Al Menhali *

Member, Independent Director

Amro AlMenhali is an Independent Director of GFH Financial Group and the Chief Executive Officer of Waha Capital PJSC, a leading investment company based in Abu Dhabi. With a solid track record and over 20 years of experience across a number of executive positions in the financial services industry, including as CEO of a leading UAE bank, Mr. AlMenhali has built strong leadership skills and expertise in strategy, finance, risk, credit and corporate governance. Throughout his career, Mr. AlMenhali has led several strategic transformation projects, developing high performance businesses to achieve sustainable growth.

He is a Board member of several international public companies, including SDX Energy (AIM listed), NESR (NASDAQ listed) and Deem Finance as well as being Chairman of Waha Investment PrJSC, Waha Land LLC and Anglo Arabian Healthcare LLC. He was previously a Board member of the UAE Banks Federation and Abu Dhabi Finance. Mr. AlMenhali holds a Bachelor in Business Administration (Honours) from Higher Colleges of Technology and is an alumnus of Harvard Business School's General Management Program.

** Mr. Al Menhali's term ended on the 30th of September 2020.*

Mazen Bin Mohammed Al Saeed *

Member, Independent Director

Mazin Al Saeed brings to the Group 28 years of leadership and management experience across a diverse array of sectors. He has served as a member of GFH's Board of Directors since March 2017 and is the Chairman and Chief Executive Officer of Mazen M. Al Saeed Holding Company (MASHCO), a company based in Khobar, Saudi Arabia that has business interests across a number of industries. He has held a number of key roles during his extensive career including a position at Mohammed Abdulrahman Al Saeed & Sons Co. He was also a partner in Maher and Mazen Al Saeed Co. and served as Chairman in Mazen Mohammed Saeed Development Group from 2000 to 2006. Currently he is on the Board of Directors for Aseer Trading Co., Al Mutaqadima Petrochemical Co., Mena Capital Co., the Saudi Cancer Society, Tawfeer Food Co., Easter Province Imara and Patient Friend's Society. He holds a bachelor's degree in Architectural Design from King Fahad University of Petroleum and Minerals.

** Mr. Al Saeed's term ended on the 30th September 2020.*

Mosabah Saif Al Mutairy *

Member, Independent Director

Mr. Mosabah Al Mutairy brings extensive financial expertise amassed throughout his 29 -year career in the fields of investment, finance, and accounting. He is currently a member of several boards across different organizations including the Board and Investment Committee of Royal Guard of Oman Pension Fund, in which he plays a pivotal role in managing funds. He is also a member of the Board of Directors at the Hotels Management Co, Int, Bank Nizwa, Oman Munition Production Company, Takaful Oman Insurance, Oman National Investments Development Company and a member of others.

Mr. Al Mutairy currently holds a Master of Business Administration (Finance) from the University of Lincolnshire and Humberside and a Bachelor's degree in Accounting from South West London College in the UK. In addition, he holds several internationally recognized accounting qualifications.

** Mr. Al Muttairy's term ended on the 30th of September 2020.*

Bashar Mohamed Al Mutawa *

Member, Independent Director

Bashar Al Mutawa is a knowledgeable and prominent businessman who brings 20 years of experience driving the strategic success of organisations. His extensive involvement in the financial services industry includes key executive and consultancy roles in the Kingdom of Bahrain. These include Managing Director of Noon Investment Company, a real estate focused Investment Company, and Consultant with KPMG's Corporate Advisory Department, where he was responsible for providing corporate advisory to prominent organisations and institutions in the public and private sector, including financial institutions, real estate companies, industrial organisations and government entities.

He currently is a member of the board of directors for Al Jazeera Tourism Company, Naseej BSC©, Buildscom Construction, Bahrain Film production Company and Saar Investment Company. Bashar holds a Bachelor of Science degree in Finance and Economics from Babson College, Boston, MA.

** Mr. Al Mutawa resigned from his role within the Board on the 1st of April 2020.*

Edris Mohammed Rafi AlRafi *

Member, Independent Director

Edris Al-Rafi is the Head of Middle East & Africa at Aberdeen Standard Investments and prior to that he served as Chief Executive Officer at Dubai Holding LLC. Edris is also the Chairman of Aurum Leasing Limited, and has held various senior leadership roles such as the Chief Commercial Officer at Meraas Holding and the Head of UAE at Goldman Sachs. He joined Goldman Sachs in 2008 to manage Sovereign Wealth Funds, UAE Commercial Banks & large UAE corporate clients including GREs for Investment Banking and Securities businesses. Before that, he served as General Manager at First Gulf Bank and he was also on the Board of Noor Bank PJSC & Emaar Industries & Investments (Pvt) JSC. Mr. Al-Rafi has more than 20 years of experience in investment banking, private equity, hospitality and real estate development. Edris holds a Finance degree from Higher Colleges of Technology.

** Mr. AlRafi joined GFH's Board on the 24th of December 2020.*

Sharia
Supervisory Board

GFH Financial Group is guided by an independent Sharia Supervisory Board consisting of four distinguished scholars with knowledge and expertise in Islamic jurisprudence.

The Sharia Supervisory Board reviews the Group's activities and products to ensure that all innovative products and investment transactions comply fully with the rules and principles of Islamic Sharia, provides the Group with pragmatic Sharia opinions, approves the Group's financial statements, and participates with management in the development of suitable investment products and services that support the Group's vision to develop a high-growth, diversified investment and commercial portfolio.

The Sharia Supervisory Board has full access to the Board and management personnel of the Group. This includes access to the Sharia Internal Audit department and Sharia Coordination and Implementation department whom are proactively involved in reviewing and advising on the Sharia compliance of all products and investment projects, auditing the operations of the Group from a Sharia point of view, and producing reports to the Sharia Supervisory Board in order to ensure that the Group's activities are under oversight of Sharia guidelines.

The existence of the Sharia Supervisory Board contributes towards the assurance of our shareholders and investors, and without any doubt, their confidence which is one of the most important success factors for the Group.

Shaikh Abdulla bin Sulaiman Al-Maine
Chairman

Consultant to His Majesty the Custodian of the Two Holy Mosques with the rank of Minister, member of Grand Scholars Panel, Kingdom of Saudi Arabia and an expert of the Islamic Fiqh Academy. He is also a retired judge of the Supreme Court in Makkah Al-Mukarramah in the Kingdom of Saudi Arabia, and a member of the Sharia supervisory boards of a number of Islamic banks and financial institutions.

Dr. Fareed Mohammed Hadi
Executive Member

Dr. Fareed is Assistant Professor at the College of Arts in the Department of Arabic and Islamic Studies at the University of Bahrain. He holds a PhD in Ibn Hazm's Methodology of Jahala from Edinburgh University and a PhD in Al-Bukhari's Methodology from the University of Mohammed V in Morocco. Dr. Fareed is also a member of the Sharia supervisory boards of a number of leading Islamic banks.

Shaikh Nidham Mohammed Saleh Yaquby
Executive Member

Sh. Nidham holds a number of memberships on different Sharia board of different institutions such as: executive member of Abu Dhabi Islamic Bank, member of Bahrain Islamic Bank, Shamil Bank, a board member of the Dow Jones Islamic Index and a member of a number of other leading Islamic banks.

Dr. Abdulaziz Khalifa Al-Qassar
Member

A Professor at the College of Fiqh and Department of Sharia and Islamic Studies at the University of Kuwait, Dr. Al Qassar holds a PhD in law and Sharia from Al-Azhar University in Cairo. He is also a member of the Fatwa and Sharia supervisory boards of a number of institutions in Kuwait.

Bold Ambitions
Inspired Vision

Our Executive Team Blazing the Trail to Success

Our Executive Management and Senior Leadership Team represent a renowned group of financial and managerial specialists. Their combined international experience and deep-rooted regional expertise underpin the confidence and ambition with which we continue to build our diversified structure.

337 Years

Our senior leadership brings to GFH 337 years of combined expertise in managing financial services. Together with their teams they function as the taskforce that works daily to realise GFH's expansive growth strategy. We owe our success over the past 20 years to their exemplary leadership, diligence and resilience.

Hisham Alrayes
Chief Executive Officer & Board Member, GFH Financial Group

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services. With over 20 years of experience, Hisham brings extensive expertise to the Group and an in-depth knowledge of GFH. He was instrumental in driving the development and execution of the Group's regional and international investment strategy and managed the bank's liabilities as Chief Investment Officer prior to his appointment as Group CEO in 2012, and since his appointment as CEO, has driven the development and execution of the Group's regional and international diversification strategy.

Prior to joining the Group in 2007, Hisham was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain where he was responsible for a number of key projects and new venture initiatives. He currently chairs and holds a number of directorships in financial, industrial and real estate companies including Esterad Investment Company, Khaleeji Commercial Bank and GFH Capital.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. Hisham was awarded 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy which has seen the Group expand its business lines and geographic reach, while remaining resilient in the face of unprecedented market conditions. He was also ranked one of the top CEOs in Financial Services & Investments in 2019, and named 'Investment Bank CEO of the Year' at CEO Middle East 2019.

Sattam Sulaiman Algosaibi

Chief Executive Officer, Khaleeji Commercial Bank

Sattam Algosaibi has over 22 years of banking experience occupying senior posts across several roles and responsibilities. In his experience, spanning some of the most critical years for the banking sector in Bahrain, he's come to witness changing economic environments and evolving regulatory mindsets. This allowed him to have an in-depth understanding and practical knowledge in Islamic Banking and conventional commercial banking's best practices. Before joining KHCB, Sattam was appointed as Chief Executive Officer for Bahrain Development Bank Group in 2017 and prior to that, he spent over 12 years in Kuwait Finance House Bahrain BSC as an Executive Manager and Head of the Corporate Banking Group. Mr. Algosaibi is a Board Member and Chairman of the Executive Committee of Seef Properties B.S.C. (c), Board Member of Binaa Al Bahrain BSC, Board Member of Lama Real Estate WLL, Board Member of Gulf Holding Company, Board Member of Gulf Real Estate Company and Vice Chairman of Capital Real Estate Company.

He is also a member of the Board of Trustees of Ibn Khuldoon National School and sits on the Board of INJAZ Bahrain, a non-profit organization that aims to prepare and inspire the youth to succeed in the global economy. Mr. AlGosaibi holds a Bachelor degree in Accounting from 'King Fahad University of Petroleum and Minerals' and an MBA degree from 'DePaul University'.

Talal Al Mahroos

Acting CEO, GFH Properties

Talal Al Mahroos is currently the Acting Chief Executive Officer of GFH Properties, bringing more than 16 years of experience in Banking, Strategic Investments and Financial experience to the organization. Alongside his current position, he is heading the Infrastructure Investments at GFH Financial Group with a portfolio size of US $ 700 million under management. Previous to joining the Group, Talal served as the Assistant General Manager of Investments in Khaleeji Commercial Bank (KHCB) where he was responsible for managing investment transactions and restructurings of corporate banking assets. Talal currently holds a number of Board directorships in Industrial and Real Estate companies including Balxeco, Gulf Holding Company (Kuwait), Falcon Cement Company and Capital Real Estate Projects Company.

Talal holds a Bachelor of Science in Banking and Finance from the University of Bahrain. He also received various executive training in Leadership and Finance from various educational institutes including London Business School (UK), Darden School of Business (USA) and Redcliffe Training Associates (UK).

Salah Sharif
Chief Administrative Officer

A key player in the strategic management of the Group's core operational functions, Salah Sharif, Chief Administrative Officer, is also responsible for ensuring the highest standards of operational excellence across the Group's Special Purpose Vehicles and project companies. He has more than 30 years of regional and international exposure to conventional and Islamic banking and finance with experience across commercial and wholesale banking and in industrial and infrastructure advisory sectors. In addition to his executive role at the Group, Salah also serves on a number of investee company boards. He is the Chairman of Falcon Cement Company, Vice Chairman of GFH Properties and Vice Chairman of Gulf Holding Company, and a Board member of Khaleeji Commercial Bank.

Prior to his current role in GFH, Salah was seconded as the CEO of Cemena Holding Company (CHC), an industrial subsidiary of the Group, which is one of the largest cement holding companies in the MENA region. Previously, he held a number of senior roles in leading, global financial institutions, including American Express and Standard Chartered Bank where he held key executive positions. Salah holds an MBA from the University of South Wales, UK.

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia'a and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all Group transactions to ensure they are conducted in compliance and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Abdulsalam assumes the fiduciary duty of maintaining all records, meetings and minutes of GFH's Board and its committees in addition to moderating meetings, and managing all record keeping activities for GFH's project companies. He joined the Group in 2006 with 18 years of Sharia experience. Prior to GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

Dr. Abdulsalam obtained his bachelor's degree in Islamic Accounting in 2003 from Al-Imam Mohammed Ibn Saud University. He also holds an MBA in Accounting and Financial Control and a Ph.D. in Accounting from the United States, California. He has also pursued additional qualifications including a Masters of Sharia and Accounting Standards from AAOIFI, courses in Sharia Control Fatwa for Islamic banks as well as successfully completing the third module of the International Arbitration Certificate from Bahrain Chamber for Dispute Resolution (BCDR-AAA) in 2014. Passionate about his field, Dr. Abdulsalam regularly attends specialized courses covering topics such as: Sharia Auditing, Sharia Standards, Sharia Products and many others in order to expand his knowledge of Islamic finance on an ongoing basis.

Baha Al-Marzooq
Chief Internal Audit

Baha Al-Marzooq, Chief Internal Audit, supports the Group's strategic success by ensuring a systematic and disciplined approach to internal control, risk management and governance processes; reporting to the Board Audit & Risk Committee to maintain the internal audit function independency from the Group's management. Baha has more than two decades of auditing and banking experience, and for the last few years has supported the Group's recovery efforts that were remarkably concluded with total income above US$ 500 million. Prior to joining the Group, Baha worked with Ernst & Young (EY) – Bahrain, one of the 'Big Four' global auditing firms, as Manager in the Assurance Services during which he also served in other regional offices of EY such as Kuwait, Qatar and Houston Texas – USA. During his tenor with EY, Baha was in charge of auditing a number of clients from different sectors namely Islamic Banks, Conventional Banks, Investment funds, Insurance, Oil & Gas, Hospitality and Government sectors.

He holds a B.Sc. in Accounting from Bahrain University and is a Certified Public Accountant (CPA) California, USA in 2001. He holds an Executive MBA from the University of Bahrain in addition to a number of specialized professional qualifications including, Certified Internal Auditor, Chartered Global Management Accountant and has a Certification in Risk Management Assurance. He has also participated in several technical, business and leadership programs and lately completed the Senior Executive Leadership Program from Harvard Business School.

Suryanarayanan Hariharan
Head of Financial Control

Suryanarayanan Hariharan, Head of Financial Control, works closely with the Group's executive management team and is responsible for the accounting, financial planning and analysis, and stakeholder reporting, including regulatory reporting, for the Group and its owned subsidiaries. Surya has more than 16 years' experience in stakeholder reporting, audit services, business process improvement and transition and risk advisory. Prior to his appointment at GFH, he was the Head of Finance for a private equity venture in Abu Dhabi backed by sovereign wealth funds and ultra high net worth individuals. Previous to this he was in audit services and real estate domain at KPMG in both Bahrain and Qatar, and Pricewaterhouse Coopers in India.

He holds a bachelor's degree in Commerce from the University of Mumbai, India, and is a Chartered Accountant (CA) from the Institute of Chartered Accountants of India, and a Certified Management Accountant, USA.

Salem Patel
Head of Asset Management

Salem Patel is Head of Asset Management for GFH Financial Group. He is responsible for managing the bank's proprietary assets as well as clients investments in equity and fixed income funds. Salem is also a member of the bank's Management Investment Committee and ALCO. He brings over 20 years of extensive local and international financial industry experience to the Group having previously worked in the Financial Services Division with Accenture in London and prior to this as a Financial Analyst with LongView Partners, London. Salem began his career working in Equity Research at UBS and Societe Generale.

Salem currently holds a number of Directorships including Falcon Cement Company and Roebuck Asset Management. He graduated from the City University Business School in London with a B.S.C (Hons) in Business Studies specializing in Finance and has obtained a number of certifications including: the Islamic Finance Qualification (IFQ) and the Securities and Futures Authorities Registered Representative (SFA). He has also passed all three levels of the Chartered Financial Analyst (CFA) program and recently completed the Senior Executive Leadership Program at Harvard Business School.

Hammad Younas
Chief Investment Officer – Private Equity

Hammad Younas is the Chief Investment Officer – Private Equity and leads the overall investment business of the Group including Private Equity, Corporate Investment and Asset Management. Hammad has more than 20 years of experience in corporate finance, investment banking, private equity, real estate, and asset management, and throughout his career he has led various regional and cross-border transactions in MENA, US, Europe and South Asia across multiple sectors and asset classes. His transaction experience includes mergers and acquisitions, IPOs, listings, secondary offerings, private placements and debt raising. In addition, he is a growth strategy and business development expert.

Prior to joining GFH in 2016, Hammad was a Partner at Ernst & Young MENA and their Transaction Advisory Leader for Bahrain. He was also the CEO of Ernst & Young Corporate Finance, Bahrain. Hammad spent more than 13 years with Ernst & Young advising a wide range of clients including financial institutions, sovereign wealth funds, private equity and real estate investment firms, governments, family businesses and high net worth individuals on their investment, capital raising, performance improvement, restructuring and strategy. Hammad is a CFA charter holder from the CFA Institute USA, an ACCA from the Association of Chartered Certified Accountants of the UK, and ACA from the Institute of Chartered Accountants of Pakistan.

Nael Mustafa

Co-Chief Investment Officer – Real Estate

Nael Mustafa is Co-Chief Investment Officer – Real Estate. He is responsible for developing and executing the Group's global real estate investment strategy and oversight of its growing portfolio of assets across the Middle East, Europe and the US. Nael has more than 30 years of experience in investment banking with a proven record in regional and international investments. This includes deep expertise in capital markets, corporate finance as well as Sharia compliant alternative investments in North America, Europe and the Middle East.

Prior to joining GFH in October 2020, Nael spent 17 years at Arcapita in a number of senior positions. Most recently, he was Managing Director for Strategic Investments & Business Development, Member of the Global Investment Committee and Board Member on Real Estate Funds and Private Equity. In his role, he focused on expanding the firm's geographic footprint and product offering including managing strategic acquisitions of asset managers and specialised real estate general partners in Europe and Asia, strategic tie-ups and placement agents in Europe, Central Asia and Asia as well as have been responsible for the launch of the firm's Sukuk and liquidity platforms. During his tenure, he also served as Arcapita's Head of MENA Investments, Head of Real Estate and Head of Real Estate – MENA. Previously, Nael was the Head of Corporate Finance at SICO Bank in addition to working with BNP Paribas and GM TAIB Securities in Bahrain. Nael is a Charted Financial Analyst and holds a B.Sc in Accounting and Finance from the University of Bahrain and an MBA from Edinburgh Business School.

Fatema Kamal

Head of Investment- Britus Education

Fatema Kamal is the Head of Investment at Britus Education and is an Executive Director at GFH Financial Group ("GFH or the Group"), leading on the Group's education investments. She has played an instrumental role in the operational transformation of the British School of Bahrain and other education assets in GFH's portfolio. Fatema has 18 years of working experience and a strong track record of sourcing, structuring, advising and managing private equity. She has in depth field experience in the financial sector specializing in investment structuring, strategic and organizational planning, tax structuring oversight, Sharia product structuring, joint venture negotiation, business development and project management.

Prior to joining GFH, Fatema was holding the position of Senior Executive Director of Investment Banking in Global Banking Corporation BSC. She also worked as an auditor with KPMG Bahrain. Fatema holds a master's degree with honors in Business Administration from the University of Strathclyde, Glasgow, United Kingdom, and a bachelor's degree in Accounting with honors from the University of Bahrain. Fatema is also a qualified and licensed CPA from The American Institute of Certified Public Accountants, and CIA from The Institute of Internal Auditors.

Abesh Chatterjee

Head of Risk Management

Abesh Chatterjee is the Head of Risk Management at GFH Financial Group. He has over 12 years of experience in Risk management. As Head of Risk Management he is responsible for managing all type of risk including Credit, Market, Liquidity and Operational Risk across the Group and ensuring that the risk framework is effective. He is a part of Management Committee and works closely with the Group's CEO and other members of the executive management team, while reporting independently to the Chairman of the Board Audit & Risk Committee of GFH.

Abesh began his journey as a risk management professional in India with ICICI Bank, the largest private sector bank in India. Later he shifted to Bahrain and managed the Risk management function of ICICI Bank Bahrain. He also worked as Head of Risk management in International Investment Bank, Bahrain. Besides Risk management, Abesh has also worked on other areas like ERP system development and Engineering during his stint with Infosys Technologies Limited and Larsen & Toubro Limited, two of the most prestigious companies in India. Abesh holds a post graduate diploma in Management from NITIE (India) and a bachelor degree in Mechanical Engineering from Jadavpur University (India). He also completed certification in Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP).

Ahmed Jamsheer

Head of Treasury & Capital Markets

Ahmed Jamsheer is the Head of Treasury & Capital Markets, where he is responsible for overseeing the Groups corporate liquidity, investments, cash flow and debt financing. He bring to his role more than 12 years of diverse experience in finance and investments as well as asset management, alternative investments, derivatives, debt financing, private equity and real estate. Most recently, prior to joining the Group in 2016, he spent six years at Promoseven Holdings as Head of Investments, Capital Markets & Finance, managing the company with an annual turnover of US$ 1 billion. Previously, he held other senior management roles in finance and investment at Fortuna Company and Golden Bull Asset Management Company, among others. Ahmed holds a Master of Science in Finance with high distinction and a Bachelor of Science in Finance with honours from Bentley University, Waltham, MA, U.S.

Muneera Isa
Head of Human Resources

Muneera Isa, Head of Human Resources (HR), manages employee strategies, recruitment, development and retention, career progression, and performance management. In addition to compliance, policy making and the overall implementation of HR regulations. Muneera is a seasoned HR professional, bringing over 17 years of experience to the Group having worked with regional and international financial institutions in the Kingdom of Bahrain including Bahrain Mumtalakat Holding Company, Capivest and BNP Paribas.

She holds a Bachelor's Degree in English Literature from the University of Bahrain, a CIPD Level 5 Diploma in Human Resource Management from the Chartered Institute of Personnel and Development (CIPD), and a Master's Certificate in Human Resource Management from the Society for Human Resource Management (SHRM).

Osama Janahi
Head of Information Technology

Osama Janahi is the Head of Information Technology. He has more than 20 year of experience with an exceptional business understanding and excellent project management skills, who provides leadership, vision, direction, and management to the entire IT department including application, development, and infrastructure teams. Responsible for anticipating future needs and delivering enhanced solutions across all departments and subsidiaries. Customer-orientated and capable of driving change through tracking, vetting and implementing creative and modern technology solutions that is relevant to the industry, security, efficiency and the business. A strong believer that IT should partner with business to improve productivity and efficiency of the organization.

Mr. Janahi holds a B.Sc. in Computer Science from the University of Bahrain along with other IT technical and non-IT professional certification like CISA, ITIL, Oracle, and others. He has some specific banking business and accounting knowledge which he gained through his work in Al Baraka Bank and Arthur Anderson.

Mariam Jowhary

Head of Compliance & AML

Mariam Jowhary joined the Group in late 2019 as Head of Compliance and AML, responsible for establishing and maintaining a robust and effective compliance and corporate governance framework across the Group that complies with regulatory requirements and industry legislation. She works closely with the CEO and other members of the Group's executive management and reports independently to the Board Audit & Risk Committee.

Mariam is also responsible for ensuring compliance with the rules and regulations of the CBB, the Bahrain Bourse, the Dubai Financial Market, the UAE Securities and Commodities Authority, the Boursa Kuwait and the Kuwaiti Capital Markets Authority. Leveraging 16 years of professional experience, she has significant expertise in the field of compliance and has previously worked with Central Bank of Bahrain for more than 14 years. She holds a B.Sc. in Banking and Finance (with honors degree) from the University of Bahrain, Advanced Islamic Banking Diploma from BIBF, as well as APRM & CIPA Certifications.

Noor Buhusayen

Acting Head of Legal

Noor serves as the Acting Head of Legal of GFH Financial Group B.S.C., and brings to the Group 9 years of experience in international law firms and leading financial institutions. She provides legal services for GFH, its subsidiaries, project specific, and affiliated companies with respect to investment transactions, contractual arrangements and general corporate legal issues across multiple jurisdictions.

Prior to joining GFH, Noor most recently worked at the corporate practice of DLA Piper Global Law Firm. Previously, she worked with Newton Legal and been seconded to the Office of Deputy Prime Minister and the Bahrain Economic Development Board (EDB) where she assisted in drafting and developing major legislations and government related agreements which gave her an insight and the skill set of dealing with key government officials and high net worth individuals. Noor holds an LLB Law from BPP University in London, United Kingdom and is a qualified practicing lawyer by the Ministry of Justice and Islamic Affairs and Al Awqaf, Kingdom of Bahrain.

Mohammed Abdulmalik
Group Co-IPT Head - Placement & Relationship Management

Mohammed Abdulmalik, Group Co-IPT Head of Placement & Relationship Management, shapes and implements placement strategies and develops business models designed to capitalize on current market dynamics and potentials. In addition to managing the placement function of the Group, he is currently a Board Member of Capital Real Estate Projects and Sheffield Private School.

A well-versed investment banker, Mohammed brings 22 years of industry experience, having held a number of roles both within GFH, where he leveraged his extensive network of HNWI, FI's and Sovereign Wealth Funds to market Group products and services and contribute to the investment placement business. Prior to joining the Group, he held a number of roles in financial control and auditing with Arthur Anderson, Ernst & Young, and HSBC. He holds a B.Sc. in Accounting from the University of Bahrain.

Razi Almerbati
CEO GFH Capital S.A. - Group Co-IPT Head GFH Financial Group

Razi Almerbati is the CEO of GFH Capital S.A. and the Group Co-IPT Head of Placement & Relationship Management at GFH Financial Group. He brings to his role more than 15 years of experience in the banking and finance sector including a significant track record in Islamic investments and advisory. His areas of expertise include private banking and wealth management as well as private equity. Prior to joining GFH, Razi most recently served as Head of Investment Development & Distribution for the GCC region at The First Investor in Qatar, a subsidiary of Barwa Bank. Prior to that, he was Regional Director of the Investment Advisory Group of Abu Dhabi Investment House.

Razi currently holds Board Memberships in the following Companies:
- Esterad Investment Company
- Global Banking Corporation
- Falcon Cement Company

Mohamed Khonji

SEO of GFH Capital Limited (UAE) & Executive Director
(UAE, Oman & Asia Markets)

Mohamed Khonji is the Senior Executive Officer (SEO) of GFH Capital Limited and an Executive Director of Placement & Relationship Management team heading the UAE, Oman & Asia markets. He is a Graduate of Harvard Business School Executive Program, holder of an MBA from University of Hull in UK, Civil Engineering degree from University of Bahrain, a Certified Islamic Financial Analyst (CIFA), Securities Market Regulation certificate (Series 79) and an Associated Member of Chartered Wealth Management (CWM) at the International Academy of Finance Management (UAE). With more than 23 years of experience in the fields of Investment, Relationship Management, Wealth Management, Business Development and Corporate Communications gained during his working period.

Currently serves as Board Member at Marshal Equipment & Trading Company LLC & Board member at United Brands LLC. Formerly worked in Mohamed Salahuddin Consulting & Engineering Bureau, International Investment Bank, First Energy Bank & Qatar First Bank before joining GFH Financial Group.

Looking forward for a brighter future

Financial Highlights
A Glowing Reflection on a Year of Success

Throughout 2020, we worked tirelessly to strengthen our operational resilience and strategic diversification approach. The results we achieved give us confidence that we are on the right track, ready for whatever the future holds.

GFH is a diversified financial group with activities spanning:

- Investment Management
- Commercial Banking
- Real Estate Development
- Treasury & Proprietary Investments

We remain one of the most profitable Islamic investment banks in the region and continue on this positive growth trajectory with 2020 witnessing a slight increase in revenues in spite of the challenging environment. The Group enjoys a strong liquidity, capital and assets position, with a 22% growth in liquid assets during the year. Total Assets and Funds Under Management of the Group also grew by 20% in 2020 to $ 12.0 billion.

With a 4.9% Return on Equity and 60% Cost to Income Ratio, GFH delivers value to investors and shareholders whilst ensuring organizational efficiency.

4.9%

Levels of Return on Equity

60%

Cost to Income Ratio

2.38 Bil

$ 2.38 Billion Strong Treasury Portfolio

13.47%

Capital Adequacy Compared to 12.5% minimum regulatory requirement

4.6%

Proposed Dividend Distribution

%	Business Lines
49	Treasury & Proprietary Investments
25	Investment Management
20	Commercial Banking
6	Real Estate Development

20%

To US$ 12 Billion

20% Growth in Total Assets and Funds Under Management

Financial Review

In 2020, the Group made steady and sustained financial and operational improvements that have been instrumental in solidifying trust in GFH and its position as one the foremost financial groups in the region.

Group Turnover

323Mil

Consolidated revenue was US$ 323.4 million compared with US$ 321.6 million in 2019, reflecting the continued success of the Group and focus on investments & activities supporting steady income generation

Group Assets

Group Liabilities

10%

As of 2020, GFH's total Group Assets increased by over 10% from last year to US$ 6,587 million

5.4Mil

As of 2020, GFH's total Group Liabilities increased by over 16% from last year to US$ 5,401 million (including subsidiary liabilities)

Our Chairman's Report
Performance & Progress

Throughout the years, the Group continued to undergo an effective transformation that was backed by a strategy of dynamic diversification and the pursuit of value creation.

Dear Shareholders

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2020. Unlike any other year, the COVID-19 pandemic has caused significant uncertainty and disruption around the world.

For us here at GFH, our top priority was the safety of our people and their loved ones, while ensuring the effective continuity of our operations and delivery of high quality services for our clients and shareholders. Though 2020 had its hardships, we are grateful to have achieved this continuity through the strength of our partnerships - both internally as a team and collaboratively with our partners across the globe. We are also grateful for the market's continued confidence in our Group's financial position despite 2020's economic turmoil.

In 2020, we continued to build our global portfolio of income yielding real estate assets capable of delivering solid returns for the Group and our investors. We also maximized our value creation potential by tapping into a widened range of asset classes, sectors and markets – pursuing opportunities to expand our portfolio both in our home markets in the GCC and beyond.

Consequently, 2020 represented another year for the Group achieving gains on its financial position. The achievements of the Group and its subsidiaries in 2020 continue to solidify our position as one of the leading financial groups in the region, while reinforcing our investors' and shareholders' trust in our ability to deliver on their expectations – in spite of the challenges spurred by the pandemic that have affected the overall global market.

The Group's total consolidated revenue was US$ 323.4 million compared with US$ 321.6 million in 2019, reflecting a year-on-year increase of less than 1%. While the YoY increase may be minor compared to prior years, we regard it nonetheless as a testament to our Group's resilience in the face of extraordinary market conditions. Achieving this growth is made possible through the continued success of our business lines, as well as our pursuit of investments and activities that facilitate steady income generation. A notable example of this is our acquisition of Roebuck Asset Management, a UK and European logistics and business space focused real estate asset manager that boasts a total value of managed assets of £1.4 billion. The acquisition will see us gain strategic access to prime deal flow within the European market, and leverage opportunities arising from the fast-growing logistics real estate sector. In addition to investment management, real estate and treasury activities have also recorded particularly positive contributions to our revenues.

Jassim Alseddiqi
Chairman

323 Mil

The Group's total consolidated revenue was US$ 323.4 million compared with US$ 321.6 million in 2019.

Furthermore, we were able to report strong results for 2020 - made possible by our dedicated team's successful execution of the Group's strategy. Through a keen-eyed and responsive evaluation of 2020's turbulent market conditions, they identified new income yielding opportunities while building on and extracting value from existing assets. For the year, the Group reported consolidated net profit of US$ 49.3 million as compared with US$ 53.1 million from the previous year, a decrease of 7.1%, and a net profit attributable to shareholders of US$ 45.1 million compared with US$ 66.0 million for the previous year, a decrease of 31.7%. The Group's total assets for the year grew from US$ 5.95 billion in 2019 to US$ 6.6 billion in 2020. The Group's Total Assets and Funds Under Management (AUM) increased from US$ 10 billion in 2019 to over US$ 12 billion in 2020, marking a year-on-year increase of 20%. The Group also ended the year with a Capital Adequacy Ratio of 13.3% and Return on Equity (ROE) ratio of 4.9%, confirming our sustained positive financial performance.

We are pleased to see that the results of our commitment to realizing our strategy have strengthened market confidence in the Group. This confidence was exemplified by our successful completion of our US$ 500 million Sukuk issuance in June 2020 to regional and international investors alike, demonstrating resounding trust in our performance and future prospects. Additionally, Fitch Ratings, the reputable international credit rating agency, reaffirmed our Group's Long-and Short-Term Issuer Default Rating (IDR) at 'B' with the Outlook on the Long-Term IDR as 'Stable'. Fitch Ratings took into account the management's strategic objective of reshaping GFH's business model towards more stable and recurring revenue sources such as fee generation and lower-risk fixed income assets. The report also cited the fact that GFH has continued to grow its treasury activities and growth of our liquid assets accounting for an average of 24.3% of assets in 2019, compared with 9.7% in 2018.

We are also pleased to have made steady progress in 2020, despite the current challenges and the impact of COVID-19 on our business and global markets. While the current conditions impacted net profit for the first six months of the year, ongoing investor and market confidence demonstrated our Group's strong financial health and impactful operational performance. In that period, the Group successfully raised more than US$ 1.5 billion across its investment banking and treasury business lines. The continuation of our financial performance and growth, combined with our dividend policy, enabled the Board to recommend total dividend of US$ 42mn at 4.60% on par value, divided into 1.86% cash dividends amounting to US$ $ 17 million and 2.74% stock dividends of US$ 25 million for our shareholders. Additional board recommendations were discussed and raised as part of the Group's Ordinary General Meeting (OGM), which successfully concluded on 30th September 2020 with several key ratifications and authorizations received from shareholders. One of these approvals included a series of agreements made between the Group and Khaleeji Commercial Bank, the Group's commercial banking subsidiary, in accordance with Article (189) of the Bahraini Companies Law. These included a swap agreement signed by the Group and the Bank for financial and investment assets worth BD46.4 million and an agreement signed by the Group with the Bank to underwrite the issuance of BD60 million AT1 Sukuk at a premium of BD12 million and for the receipt of BD12.1 million in subscription fees.

With 2020 marking a year of exceptional uncertainty, the path forward will not be an easy one as we collectively wrestle with the aftershock. Over the past year, we worked tirelessly to strengthen our Group's operational resilience and business continuity planning to ensure we weather this storm. As a result, we were fortunate to have been able to continue supporting our clients and the growth of their investment portfolios by steering them through the year's challenges while identifying new opportunities for value creation in the face of changing market conditions.

We are optimistic we will be able to continue to deliver on our clients' expectations, and we remain encouraged by the resilient nature of our Group's diverse business model. While our profits were affected by the fallout of the COVID-19 pandemic, our Group's ability to achieve stable income while delivering impactful results exemplifies the strength of our strategy and the notable progress we continue to make across each of our business lines. The success of our strategy and the Group's continued progress are made possible through the tireless efforts of the people who power GFH. I want to thank our Board of Directors for their constant support and guidance in steering the Group towards further success. I would also like to thank our management team and staff for their continued stellar performance, which allowed us to overcome 2020's challenges while finding new ways to create value for our investors and shareholders. Further, in the face of these most uncertain and challenging times, I would also like to extend our deepest appreciation to our shareholders and investors for their continued trust and confidence in GFH, our strategy and our ability to meet their expectations.

On behalf of the Group's Board of Directors, we would like to extend our utmost gratitude and appreciation to the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and its visionary leadership: His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa the Prime Minister, Deputy Supreme Commander and Crown Prince for their steadfast leadership and progressive vision for the financial sector in Bahrain.

Lastly, but imperatively, we would like to express our most profound appreciation towards the frontliners in hospitals, emergency services, and care facilities for their tremendous efforts and crucial responses to COVID-19. We watch in collective awe and gratitude as these dedicated individuals put themselves at risk in service to others and their local communities globally.

Sincerely,

Jassim Alseddiqi
Chairman

Over the past year, we worked tirelessly to strengthen our Group's operational resilience and business continuity planning to ensure we weather this storm.

Message from the Group CEO

We have a legacy of continually evolving in the face of difficulty, and our strategy of dynamic diversification and rigorous business continuity plans are vital components of this.

As we look back on what was indeed an unprecedented year, I would like to express my heartfelt gratitude towards our team at GFH, our stakeholders, and our investors and shareholders for their support throughout 2020. The challenges were extraordinary. However, we were extremely fortunate to have succeeded through them with the support of the steadfast dedication of our team, the continued trust of our clients and shareholders, and the relentless efforts of the Bahrain National Task Force for Combating COVID-19 and the Government of the Kingdom of Bahrain.

What's more – We have a legacy of continually evolving in the face of difficulty, and our strategy of dynamic diversification and rigorous business continuity plans are vital components of this. In 2020, those were the very same components that allowed us to continue our operations effectively, secure our investments, and deliver on new value creation opportunities for our investors and shareholders.

We were able to further demonstrate our strong fundraising capability with US$ 2.8 billion in investments and money markets, and have distributed over US$ 42 million of dividends at 4.6% to our investors. Our Total Assets and Fund Under Management (AUM) increased to US$ 12 billion in 2020 compared to US$ 10 billion in 2019, marking a year-on-year increase of 20%, primarily from the inorganic growth through acquisition. We have also concluded six transactions for a total deal value of US$ 261 million across the US, Europe and GCC markets. Furthermore, we continued to actively evaluate and pursue opportunities that allow us to utilize our Group's expertise and funds. One recent example was the acquisition of Roebuck Asset Management in the UK which provides the Group with a broad base of asset managers focused on the fast-growing logistics real estate space.

Alhamdulillah, we have successfully identified unique new investment targets and established a robust deal pipeline that we are now ready and intend to capitalise on. At the same time, due to continued market confidence in our performance, we are also witnessing a renewed appetite from our investors for deals, which will enable us to close and place more investments. Investment banking income for the year has witnessed a good increase due to our strengthened focus and success in identifying and placing unique income generating investments. Key among these was the continued growth of our portfolio of real estate assets, where we have now concluded investments exceeding US$ 1.2 billion over the past six years.

Similarly, we also saw significant progress from our real estate activities, including the announcement of the completion and opening of the residential tower at our iconic Harbour Heights development. We also unveiled Harbour Heights' new brand, which encapsulates the project's essence and the world-class lifestyle destination that we are establishing with

Hisham Alrayes
Member & Group CEO, Executive Director

12Bil

Our Total Assets and Fund Under Management increased to US$ 12 billion in 2020 compared to US$ 10 billion in 2019.

this development. Already designed to the most exacting standards, we continue to make substantial enhancements to the project to meet our objective of delivering Bahrain's most luxurious, dynamic and sought after residential, retail, and hospitality complex. We have also signed with three top tier international brands that will establish their franchises as part of the dynamic retail offering under development at the landmark The Harbour Row waterfront project.

As for our treasury line, it has continued to play a significant role in supporting income growth and further expanding our business lines. In June 2020, we completed the process of issuing a US$ 500 million Sukuk, after issuing the remaining US$ 200 million Sukuk further to an initial issuance of US$ 300 million in January 2020. The proceeds from issuing the Sukuk will be used to enhance our balance sheet and diversify our income.

Our commercial banking arm, Khaleeji Commercial Bank (KHCB), also reported exceptional performance for 2020. Their net profit attributable to the shareholders amounted to US$ 21.19 million, marking a notable increase of 152.6% compared to a loss of US$ 39.62 million in 2019. KHCB also managed to achieve growth in total assets from US$ 2.493 billion in 2019 to US$ 2.693 billion in 2020, an increase of 8.1%. KHCB's positive financial performance in 2020 is a demonstration of its ability to face challenging market conditions. It is also proof of its strong foundations, which allowed it to issue Additional Tier 1 "AT1" Capital worth US$ 159 million during the year. This was part of KHCB's strategy to achieve significant growth in 2020 while paving the way for continued success and strengthening of their financial standing.

As mentioned earlier, our clients' trust and continued partnership are paramount to our Group's success. In 2020, we were awarded the "Best Private Bank" by the MEA Finance Awards 2020 in recognition of our

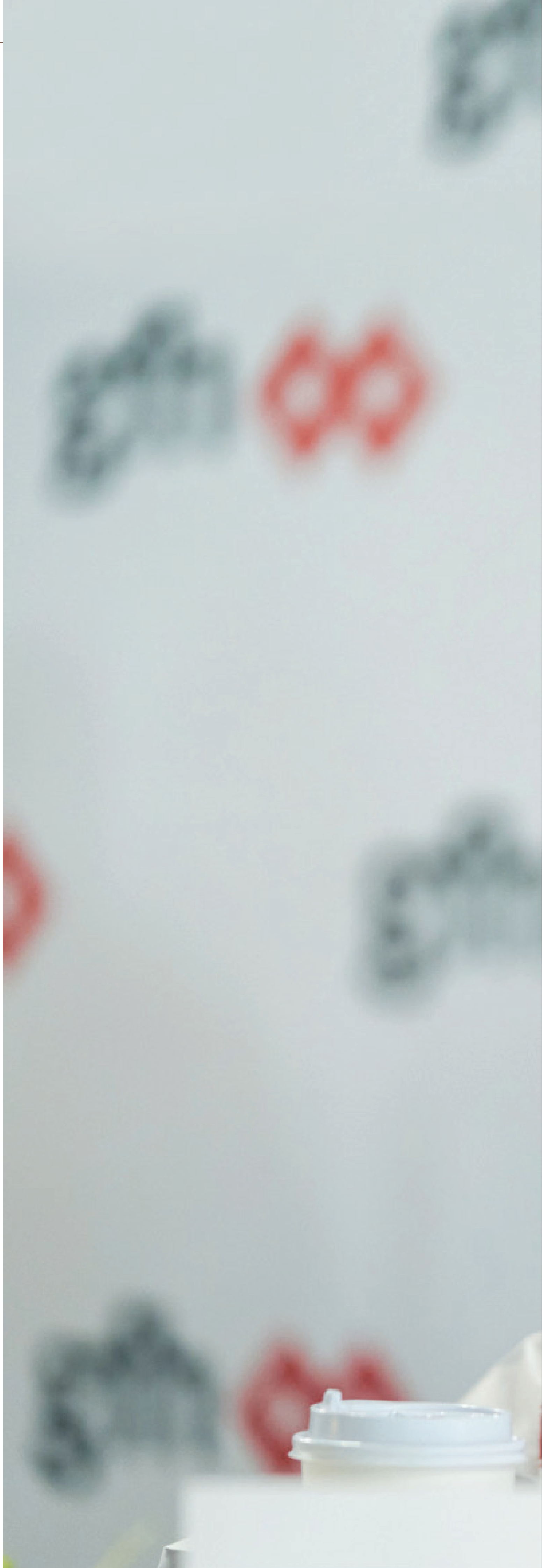
Despite the exceptional hardships we have all collectively endured, we're extremely proud of our teams across the Group's business lines and what they accomplished in 2020.

commitment to offering our clients a personalized private banking experience tailored to their individual needs and goals. Moreover, we were also awarded as the "Best Investment Management Firm-Bahrain" by MEA Finance Awards 2020. The award comes in recognition of our continued efforts to diversify our investments into new markets and sectors, which allows us to identify and offer our clients investment opportunities that are downturn resistant with attractive returns. The Group has also won the title of "Best Investment Bank, Middle East 2020" as part of the Dubai-based International Business Magazine Awards - citing our excellence, innovation, and adaptability during the current global crisis.

Over the past 21 years, we have weathered numerous challenges, from financial crises to volatile market conditions and more, but we emerged stronger each time. Despite the exceptional hardships we have all collectively endured, we're extremely proud of our teams across the Group's business lines and what they accomplished in 2020. Not only have they successfully navigated through the challenges, but they effectively leveraged their deep expertise and dedication to continue to innovate, adapt and excel.

This resilience is what has underpinned GFH's success and our role as a regional investment banking pioneer for decades. With the strong momentum we have established and an unwavering focus on implementing our strategy, we will continue to diversify our activities and work towards creating even greater value for our investors and shareholders.

Hisham Alrayes
Group CEO & Board Member



Diversification Strategy A Spotlight on our Business Activities

With the steadfast focus on implementing our vision, we will continue to diversify our investments, creating even greater value for our investors and shareholders.

GFH is a well renowned financial group in the GCC region, with a diversified offering and pioneering track record. GFH's innovative approach to Islamic investment banking services has been recognized internationally for over a decade. It has developed a strong and consistent ability to identify, successfully bring to market and capitalize on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. GFH's business lines cover key aspects of the financial services value chain; from high-end financial products and investments, to high-street commercial banking operations. Following are the details of GFH's business activities:

Investment Management:
The Group continues to undergo an effective transformation that was backed by a strategy of dynamic diversification and the pursuit of value creation. Also, GFH builds its global portfolio of income yielding real estate assets capable of delivering solid returns for the Group and its investors. It has also maximized its value creation potential by tapping into a widened range of asset classes, sectors and markets – pursuing opportunities to expand the Group's portfolio both in home markets in the GCC and beyond.

a) Private Equity
The Private Equity (PE) business focuses on a multi-pronged strategy that includes direct investments, co-investments alongside top-tier asset managers, secondaries and strategic GP staking. GFH has a particular focus on non-cyclical or downturn resistant sectors and deal structures, which limit downside risk for our investors while maximizing their upside. Our direct investments program entails investing in education, healthcare , consumer driven, and late-stage tech and tech-enabled businesses that are benefiting from digitization tailwinds. Our partnerships with managers that have a stellar track record enable us to bring the best available investment opportunities from across the globe but mainly the US, Western Europe and developed Asia. Our focus on secondaries and GP staking are also gaining significant traction due to their limited J-curve risk and yield potential. Despite COVID-19, our Private Equity team has continued to identify and invest in opportunities, which are expected to deliver value to our organization, investors and shareholders. In challenging times of COVID-19, through diligent monitoring and hands on management and value creation approach, GFH's Private Equity team managed to ensure that its existing investments continue to grow or remain stable. Furthermore, the team was able to grow its existing portfolio substantially, entering the global and US technology space through a recently launched fund ("US & Global Tech Fund"), which has given GFH and shareholders access to market leading, multi-billion dollar US and Global tech growth companies, in partnership with a top-tier growth and technology focused asset manager. The Fund has investments in technology companies like Snowflake, DoorDash, UiPath, DataRobot, Outreach and BYJUs. The success of this fund has led the team to pursue a follow-on fund that we aim to launch in 2021.

20 Bil

The Group had historically successfully launched several key infrastructure projects across the MENASA region, with a total estimated development value exceeding US$ 20 billion.

The assets currently managed by the PE team are:

- Britus Education Holdings
- AMA International University, Bahrain
- The Entertainer, Dubai
- US & Global Tech Fund
- Edvest Convertibles Company
- Athena Private School for Special Needs, Bahrain
- Marshal FinTech, Dubai

b) Real Estate Investment

The real estate investment team focuses on opportunities in fundamentally stable, defensive sectors with particular emphasis on Logistics / Industrial, Bio/Life Sciences Parks, Multi-Family and Student Accommodation segments in pursuit of resilient income-yielding investments mainly in UK, Europe and North America.

As part of the team's strategy of dynamic diversification, the objective is to structure leveraged real estate investments that generate strong levered cash on cash returns, allowing us to deliver value and attractive distributions to our investors while mitigating risk. Diversification is achieved in multiple forms ranging from tenant and lease profiles, sub-markets, asset types as well as underlying demand drivers of each asset. The assets managed by the Real Estate team currently include:

- Two US Industrial Portfolios, US
- US Data Centers Portfolio
- Diversified US Hospitality Portfolio, US
- Westside Office Asset, UK
- Diversified US Senior Healthcare Portfolio, US
- Amazon Last Mile, Spain
- Event Mall, Jeddah, KSA
- Diversified US Office Portfolio, US
- Trophy Suburban Chicago Office Asset, US
- Hidd Mall, Bahrain
- US Tech Offices Portfolio, US

GFH's business lines cover key aspects of the financial services value chain; from high-end financial products and investments, to high-street commercial banking operations.

Real Estate Development:

The Group is targeting to expand its operations and income from the existing and potential infrastructure developments and leisure designated plots and developing and managing income-generating hospitality assets in the GCC region, North Africa and Asia.

a) GFH Infrastructure Development & Hospitality

The Group had historically successfully launched several key infrastructure projects across the MENASA region, with a total estimated development value exceeding US$ 20 billion. GFH takes a unique view in the investment world when approaching these large-scale economic infrastructure projects and this has played an instrumental role in encouraging a paradigm change in the economic landscape of the GCC, North Africa and Asia. The GFH approach focuses on delving into the details of an investment, following due diligence, conceptualising the project, securing land and injecting cash into the project to start the rolling. Some of these projects are coordinated in partnership with various governments and aim to contribute positively to the socio-economic development of countries hosting the Group's initiatives.

To name a few of the region's leading Real Estate Development projects initiated by GFH in the MENASA region include:

- Royal Parks Marrakech
- GFH Mumbai Economic Development Zone
- Tunis Financial Harbour
- Energy City Qatar
- Energy City Libya
- Bahrain Financial Harbour

b) GFH Properties

Through GFH Properties, the Group sought the development of its existing rich land bank to further stimulate value creation and generate healthy returns from its real estate portfolio. GFH Properties aims to utilise this land bank to develop a high growth, diversified real estate investment and development portfolio. In support of this strategy, GFH Properties actively seeks unique opportunities to create landmark projects through infrastructure development, project & facility management, project advisory, managing and developing income-generating portfolios, and other specialised services. GFH Properties is building on the Group's legacy and presence in the real estate market with the launch of the below projects:

- The Harbour Row, Bahrain
- California Village, Dubai

GFH Properties has also recently taken over the management of the Harbour Heights towers following the GFH Financial Group's acquisition of majority ownership in the holding company of the project and funding completion of Phase 1. GFH Properties is also enhancing and expanding the Group's current hospitality offerings, working alongside internationally renowned Operators and reaching out to millions of members around the globe.

Commercial Banking

Khaleeji Commercial Bank BSC (KHCB) represents the Commercial Banking arm of the GFH Financial Group. KHCB is headquartered in the Kingdom of Bahrain and operates under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH, and it is a Public Bahraini Shareholding Company listed on the Bahrain Bourse. KHCB offers a range of innovative and high-quality products and services to retail clients, high net-worth individuals, corporate entities, and financial institutions. These include retail banking, corporate banking, wealth management, structured investment products and project financing facilities. GFH currently owns 55.41% of KHCB.

Treasury & Proprietary Investments

The Treasury & Proprietary Investment teams are responsible for our liquidity management operations, including our fundraising and investment activities, with the aim of ensuring the Bank has optimal liquidity and maximising profits which result in value to our shareholders. Our proprietary investments consist of a portfolio of various assets across financial services, education, leisure and hospitality.

The Treasury team is responsible for managing the Group's liquidity with the aim of ensuring sufficient liquidity to meet its liabilities, offering money market instruments and investing the Group's liquidity in various liquid instruments. Our Treasury activities have been growing since the start of 2019, with treasury now accounting for 34% of the Group's total income with a portfolio of approximately US$ 2.4 billion. In 2020, GFH has successfully entered the international debt capital markets with the successful launch of a landmark US$ 500 million 5-Year Sukuk, for which the order books was oversubscribed 2.5x.

The Proprietary Investments comprise of the Group's strategic and co-investment exposure, including non-banking subsidiaries and equity-accounted investees where the Group has significant influence. Our proprietary investment portfolio consists of various assets across the real estate, investment management and hospitality sectors, which offer diversified value creation opportunities for GFH.

500 Mil

In 2020, GFH has successfully entered the international debt capital markets with the successful launch of a landmark US$ 500 million 5-Year Sukuk, for which the order books was oversubscribed 2.5x.

Management Review of Operations

GFH successfully captured unique opportunities in line with its strategy and plans for growth. During the year, GFH made US$ 209.1 million worth of new investments, leveraging its strong liquidity.

BANKING ACTIVITIES

Investment Management

Despite the exceptional challenges in 2020 and the unprecedented market conditions caused by, the COVID-19 pandemic , they have allowed GFH to test and confirm the strength and resilience of the Group, its strategy and business model. Primarily, GFH successfully captured unique opportunities in line with its strategy and plans for growth. During the year, GFH made US$ 209.1 million worth of new investments placed successfully with investors, leveraging its strong liquidity. These investments have led GFH to expand its existing assets under management portfolios in the MENA region, US, UK and Europe. Among these transactions was the acquisition of a leading UK real estate asset manager, a strategic acquisition of two Amazon designated logistics warehouses in Spain, as well as an investment into the pre-IPO technology space through GFH's first Technology fund.

a) Private Equity

Despite the global turmoil that 2020 brought, GFH's private equity investments continued to grow, managing to successfully close a number of acquisitions that are well poised to withstand the economic downturns to come, and deliver value to the Group and its investors.

Following on from the establishment of Britus Education in 2019, we have continued to build on our successful track record in the education sector even further through the acquisition of Athena Private School for Special Education ("Athena") and a stake in AMA International University-Bahrain ("AMAIUB"), in the Kingdom of Bahrain.

Athena, which began operations in 2019, has quickly established itself as the premiere K-16+ school providing full-time educational resources and support to students with a broad range special needs. The School offers a host of unique features, making it the most comprehensive and best equipped of its kind in Bahrain, with a capacity of 1,455 students.

AMAIUB, which was established is the Kingdom in 2002, has quickly grown to be one of the leading providers of higher education for local and regional students. It offers international standard undergraduate and graduate programmes in the fields of Finance and Business Administration, Computer Science and Engineering, and is the second largest university in the Kingdom after the University of Bahrain. It has recently been accredited from the Higher Education Council, which has allowed to begin offering enrolment to students from across the GCC and beyond.

100 Mil

GFH successfully concluded two acquisitions in Europe at a combined deal size of more than US$ 100 million.

Another cornerstone of the Group's investment strategy remains as technology. In line with our vision to invest in innovation and growth and to capitalise on secular trends in digital adoption, we successfully launched a US & Global Technology Fund; a portfolio of pre-IPO stage, high-growth companies that specialize in next generation technologies. The investment portfolio is held through a collective vehicle to provide diversification and comprises minority stakes in Snowflake, UiPath, DoorDash, DataRobot, Samsara, BYJUs and Outreach, among others.

The Group will continue to pursue opportunities in resilient sectors, which can withstand the economic uncertainty that COVID-19 pandemic has brought along, whilst constantly prioritizing investor returns.

b) Real Estate Investment

COVID-19 has posed a significant impact on the US as well as global economies as total number of infected cases globally have crossed 115 million with number of deaths exceeding 2.5 million. Most of the global economies witnessed decline in GDP during FY2020 due to economic lockdowns and reduced activity. However, the trend is expected to reverse in Q1 and Q2 of 2021 with the rollout of vaccination as more than 220 million people have already been vaccinated globally and more than 50% of the population in Europe and North America is expected to be vaccinated by end of 2021. Governments of all major economies have introduced range of financial support packages to individuals and corporates to keep the economies on track. The US Goverment alone has spent more than $ 2 trillion in relief packages and another $ 1.9 trillion package is underway. As a result, unemployment rates and economic activities have started improving since Q3 and Q4 of 2020 and the trend is expected to continue during 2021.

Other existing deals in our international portfolio continued to successfully deliver required cash-on-cash returns for our investors. We remain confident in our approach.

Carefully selected real estate assets have performed relatively well compared to the broader market and are expected to recover more quickly once COVID-19 subsides. Industrial/Logistics, Multifamily and Selective Offices segments witnessed healthy activity while other segments including CBD Offices, Student Accommodation and particularly Hospitality and Retail segments faced more head-winds with limited activity.

GFH successfully concluded two acquisitions in Europe at a combined deal size of more than US$ 100 million, two carefully selected real estate Portfolios in the US at a combined deal size of approximately US$ 400 million, and one acquisition in Bahrain at a deal size of US$ 62 million, illustrating continued expansion of our Real Estate Investments portfolio.

In line with our stated plan to pursue investments that can help accelerate our growth, further enhance profitability and increase our assets under management, GFH acquired a majority stake in Roebuck Asset Management a UK and European logistics and business space focused real estate asset manager. This strategic investment into a profitable platform with a proven track record and capabilities and broad institutional investor base provides GFH with a low risk approach to further expanding in the European real estate market. The acquisition will add significant expertise in European commercial real estate to the Group and gain strategic access to prime deal flow. This will enable the Group to more effectively expand its investment activities in the UK and European logistics real estate sector, a segment of the market showing solid fundamentals and prospects for growth.

Capitalizing on the continued strong demand and growth for e-commerce globally particularly in North America and Europe the team acquired well-positioned and well-designed logistics facilities leased to credit worthy tenants. In December 2020, the team concluded on a €61.1 million (US $ 74.83 million) portfolio of last mile logistics facilities leased to Amazon in Spain.

In January 2020, GFH acquired a Diversified US Hospitality Portfolio with a combined value of approximately US$ 250 million. The portfolio is comprised of twelve premium branded select service hotels spread across the North East and West Coast in the US. All hotels are either Hilton or Marriott branded and are located in strong sub-markets capitalizing on the significant demand from business, leisure and group travel activities in the local and regional markets. The select service sector has shown strong resilience to economic shocks over the years and has become an increasingly attractive segment of the hospitality market. Despite significant implications of the Pandemic, the hotels were able to quickly shift to the new demand drivers like Healthcare Workers, Federal Emergency Management Agency, Military, and other individuals or groups (first emergency responders) who continued travelling despite restrictions. The hotels were also able to minimize operating costs due to more flexible cost base, compared to luxury hotels, preserving the value for the investors.

Other existing deals in our international portfolio continued to successfully deliver required cash-on-cash returns for our investors. In line with GFH's international real estate investment strategy, we maintain a focus on strong, defensive sectors and attractive cash yields for further growth in 2021. We remain confident in our approach to deploy further capital into the US, European and UK real estate markets.

Commercial Banking

Despite the challenges faced, our commercial banking arm, Khaleeji Commercial Bank (KHCB), has also recorded notable success in 2020 and a positive financial performance. A positive indicator of the Bank's performance this year is the net profit attributable to the shareholders of the parent which amounted to BD 7.99 million an increase of 152.6% from a loss of BD 14.94 million in 2019.

For the year, KHCB's total assets have grown to BD 1,015.59 million, marking an 8.1% growth from 2019 wherein total assets stood at BD 939.75 million. It is also worth noting the marked growth in KHCB's liquid assets, which now comprise 24.41% of Total Assets. A solid Liquidity Coverage Ratio of 198.28% and Net Stable Funding Ratio of 103.65% have enabled KHCB to invest liquidity in prominent high-yield, low-risk Sukuks – leading to a 33.9% growth in its Sukuk portfolio, with its total value reaching BD 261.13 million in 2020.

250 Mil

In January 2020, GFH acquired a Diversified US Hospitality Portfolio with a combined value of approximately US$ 250 million.

We trust that the Bank will continue its growth by applying its flexible strategy that is capable of adapting to various regional and international variables imposed by the COVID-19 pandemic, and the accompanying financial and economic repercussions. The Bank will continue to invest its improved financial position towards new strategic partnerships, enhancing the financing portfolio, investing in Sukuk, and continuing the work on implementing the Bank's strategic plan towards digital transformation at an accelerated pace.

REAL ESTATE DEVELOPMENT

Project Progress:
India Projects - Mumbai Economic Development Zone

India Projects are an integrated community comprised of approximately 1,200 acres of land size in two development components located at Navi Mumbai, India. Navi Mumbai has been developed as a planned satellite city situated on the mainland across the harbour. Navi Mumbai is one of the largest planned cities with infrastructure investment.

GFH, through its affiliate, land aggregator and development company - Valuable Properties Private Limited, entered into Joint Development arrangements with the large developers to jointly develop both components of the Project.

Wadhwa Group (Wadhwa Wise City)

Wadhwa Group is one of Mumbai's leading real estate companies. It has been described as instrumental in building world-class structures. It is currently developing residential and commercial projects spread across 15 million square feet.

The Wadhwa Group has successfully inaugurated the first Integrated Township Project in NAINA (Navi Mumbai Airport Influence Notified Area) at Panvel under the name of Wadhwa Wise City ("Wise City"). The Wise City is qualified for the Pradhan Mantri Awas Yojana (PMAY) (Urban) Scheme and has opened phase one with up to 5,500 affordable residential components. The City has received strong market response and demand with more than 1,760 units sold. Furthermore, Wadhwa Group has launched Magnolia Villas (phase 2) which has received strong expression of interest with 46 villas sold till date. Most customers were first-time home buyers and the project is expected to make Panvel the most sought-after region for affordable housing. Wise City will offer a unique proposition of efficient Studios and one and two-bedroom apartments that will be constructed in various phases. With this launch, an affordable housing stock will be made available at the Wise City. The project has considered all amenities required for common citizens. The launch of Father Agnel School in 2020, within Wise City, was another value addition. The subject project has created more demand in the micro-market, resulting in other developers launching their projects. According to recent studies, there is a huge need for affordable housing across metro cities in India where we see a large influx of people coming in search of jobs and a better livelihood.

Adani Group (Megacity)

Adani Group is one of India's leading business houses with revenue over $ 10 billion. It has grown to become a global integrated infrastructure player with businesses in key industry verticals - resources, logistics, energy and agro. Adani Power Ltd is the largest private thermal power producer in India. Adani Realty is the youngest arm of India's top infrastructure and development conglomerate - Adani Group. Megacity consists of residential, entertainment, hospitality, institutional, retail, sports, logistics, adventure Park, studios, light industries, eco resorts, farmhouses, etc.

Adani Group expects the pilot phase of Megacity (Project Nere) to launch during Q1 2022. Project Nere will target affordable housing initially. Other phases within the Megacity project are expected to launch during Q2-Q3 2022 in a phased approach, with Megacity master plan approvals to be finalised during Q1 2022.

45Mil

Throughout 2020, GFH delivered distributions and dividend payments to investors in line with the Group's progressive dividend policy. Dividends amounting to US$ 45 million were paid across all our managed investments to our investors.

The Harbour Row

Aiming to provide a global destination that combines the best of business, residential, trendy retail and leisure, The Harbour Row provides world-class residences for people with the desire to live an urban lifestyle. With design influences from New York to Dubai, the vision behind the creation of The Harbour Row has always been to create one of the world's greatest waterside developments with a mix of superlative residential and retail components.

The Harbour Row is positioned in Bahrain's most exclusive waterside/seafront address. The Harbour Row nestles directly in front of the centrally-located Bahrain Financial Harbour, a short distance away from Bahrain's main business and entertainment centers. The Harbour Row project has six distinctive buildings, including hotel, serviced apartments, residences, retail and a marina across its West Wing and East Wing.

With international hotels incorporated such as Mama Shelter and a new brand of serviced branded residences "The Charthouse", The Harbour Row has reached another milestone in its progress towards becoming a new world-class hospitality and lifestyle destination in Bahrain. Both openings are scheduled before the end of 2021.

The Harbour Row's luxury apartments are being handed over to unit owners of the West Side with later phases being completed for the East Side during Q2' 2021. The value of the project is US$ 200 million upon completion.

Harbour Heights

Harbour Heights is Bahrain's most advanced mixed used residential, medical, retail, hospitality and leisure complex spread over 35,900 sqm at the heart of Bahrain Financial Harbour featuring a total built-up area of more than 137,000 sqm. It is a district of luxury, uniqueness and distinctiveness that will bring a new waterfront lifestyle experience to the Kingdom.

Harbour Heights includes main elements, namely The Three Twisting Towers, Lifestyle Apartments, Terraced Villas, Terraced Podium, a waterfront retail concept and Sky Villas. Featuring the most sophisticated engineering and architectural designs, Harbour Heights consist of one to five- bedroom apartments and penthouses. Key facilities include a super penthouse, health club and spa, swimming pools, manicured gardens and several recreational amenities.

Harbour Heights will complement the Riviera lifestyle it aspires to offer its residents and visitors by offering an elite shopping and dining experience combined with global hospitality brands and a specialised health center.

Having secured all the certifications from various government agencies for completion, the residential middle tower is fully completed and functional, while over 150 one to three-bedroom units have been handed over to local, regional and international buyers. The value of the project is US$ 700 million upon completion.

Al Areen Development

Al Areen Development is a substantial mixed-use development project located in the southern region of the Kingdom of Bahrain. The development offers a whole new town over 2 million sqm of land which can accommodate up to approximately 25,000 people. The development as a whole is made up of 14 major clusters which include commercial offices, retail units, a shopping mall, The Lost Paradise of Dilmun waterpark, a number of restaurants and hotels, leisure and entertainment centers, health facilities and a range of residential accommodations.

Al Areen masterplan infrastructure works are complete. Raffles Hotel & Resorts has taken over the Al Areen Palace & Spa and the first phase of the renovation is expected to be completed by 2021. Upon competition, the value of Al Areen Palace & Spa is circa US$ 145 million.

The overwhelmingly positive response to our Sukuk marks a stamp of confidence from both local and regional markets, demonstrating trust in the Group's strategy and financial performance.

California Village, Dubailand

California Village is located at Dubailand, forecasted to be one of the major growth corridors in Dubai. It is strategically located to the South of Mohammed Bin Rashid City. The project is in close proximity to the Mall of Arabia and the IMG Worlds of Adventure Theme Park. The project is creating a new residential community that is attractive, vibrant, healthy, and provides a highly desirable living experience. The project features modern facilities with a full range of services and amenities within a pedestrian oriented environment that is focused on interaction and usability for the construction.

It is worth noting that California Village is at the verge of Phase 1 completion with villas, infrastructure, road networks alongside the landscaping for the project, while Phase 2 will see the continuation of high-end mixed-use development of apartments and a gated villa community, facilities and other amenities with more than 200 private villas and 450 branded residence.

Tunis Bay

In North Africa, the Tunis Bay project continues to progress with the new phased approach. Work continued as scheduled on the golf course and three sample villas are ready while construction is ongoing for 127 villas. This is in addition to the commencement of infrastructure works for Phases 1 and 2 executed by a renowned contractor. Currently the Group is working on commencing key landmark projects which include a school, a resort marina hotel and a healthcare clinic. An NDA has been executed with all relevant parties having vast experience in the respective field.

Morocco Project

The 'Gateway to Morocco' project continues to progress in strategic execution, where positive feedback was received from the governmental bodies to commence works on site and assurances are in place towards the finalisation of the investment agreement. This has also allowed us to work towards appointing architects to commence work on ground. With that and once the final building permit approvals are received, we will be able to recommence construction works.

Distribution to Fund Investors

Throughout 2020, GFH delivered distributions and dividend payments to investors in line with the Group's progressive dividend policy. Dividends amounting to US$ 45 million were paid across all our managed investments to our investors.

Treasury and Capital Markets

The department's remarkable impact comes as a result of its performance in 2020 in generating strong revenue streams, while strengthening its foundations and maintaining a strong presence within local and international markets.

In line with GFH's efforts to build on its successful track record through the diversification of its activities, the recently introduced Treasury & Capital Markets business line played a pivotal role in enhancing the Group's profitability in 2020 and in making it a transformative year for GFH. The department's remarkable impact comes as a result of its performance in 2020 in generating strong revenue streams, while strengthening its foundations and maintaining a strong presence within local and international markets.

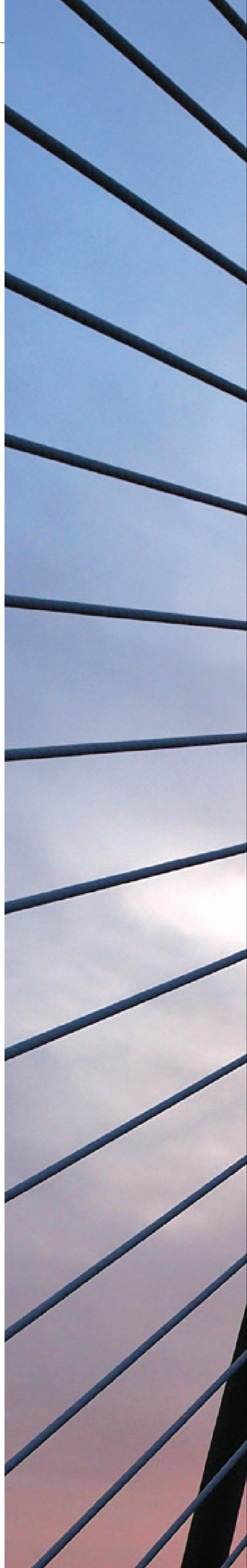
In 2020, Treasury & Capital Markets contributed $89.7 million to the Group's revenue base, with positive contributions from investments such as interbank lending, fixed income and alternative investments.

Treasury and Capital Markets mainly focuses on:

- Optimizing the level of liquidity available by providing the necessary funding to the Group
- Deploying the Group's liquidity while diligently analyzing risk and return trade-offs
- Engaging in proprietary book management and trading in regional and international opportunities to capitalize on market opportunities.
- Treasury and Capital Markets' main lines of investment are:
  - Interbank Commodities Murabaha and Wakala
  - Sukuk
  - Alternative Investments

Institutional Financial Services:

- Developing key partnerships with international financial institutions to provide the Group with access to a range of products and services across all major asset classes
- Providing professional services to all financial institutions engaged in business transactions with the Group



Corporate Governance

Our corporate governance framework is focused on assisting the Group to meet its strategic objectives whilst remaining fully aligned with our stakeholders' interests.

2

Corporate Governance

GFH strives to achieve the highest levels of transparency and accountability by adopting and executing strategies, goals and policies which are aimed to comply with the regulatory requirements.

GFH Financial Group BSC ("GFH" or the "Bank") is an Islamic investment bank that was established in 1999 in the Kingdom of Bahrain. GFH's business activities are carried in accordance with the principles of Islamic Sharia which includes financial services, investment and commercial transactions, negotiable financial instruments, real estate infrastructure, in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

In 2004, GFH Financial Group was converted from a closed shareholding company to a public shareholding company with its shares listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. Furthermore, in 2020 GFH issued Sukuk up to US$ 500 million which are listed on London Stock Exchange and NASDAQ Dubai.

As a Public Shareholding Company, GFH's corporate governance framework is based on the guidelines issued by Ministry of Industry, Commerce and Tourism (MOICT) under the Commercial Companies Law promulgated by Decree No. (21) for the year 2001 ("Companies Law") and the amendments thereto, the regulations of MOICT's Corporate Governance Code of 2018 promulgated by Decree No. (19) for 2018, the High-Level Controls Module ("HC Module") issued by the Central Bank of Bahrain (CBB) under its Rulebook - Volume 2 and the amendments thereto and the Listing Rules approved by the Board of Directors of Bahrain Bourse in its meeting (4/2019) dated 08/10/2019 and the amendments thereto.

GFH's Corporate Governance Philosophy

The corporate governance framework is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth whilst remaining fully cognisant of our clients' and shareholders' interests.

GFH believes that compliance with corporate governance principles enhances its value through providing a suitable framework for the Board, Board Committees and Management to perform their duties in a manner that serves the interests of the bank and its shareholders. For this reason, GFH strives to achieve the highest levels of transparency and accountability by adopting and executing strategies, goals and policies which are aimed to comply with the regulatory requirements.

The Board of Directors are accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board implement and monitors the Bank's strategy and performance, within a framework of sound corporate governance. The Chairman of the Board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the bank's stakeholders. The control functions such as Internal Audit, Risk Management and Compliance & AML report directly to the Board Audit and Risk Committee.

Compliance with Regulations (High Level Control Module – CBB Rulebook, Volume 2)

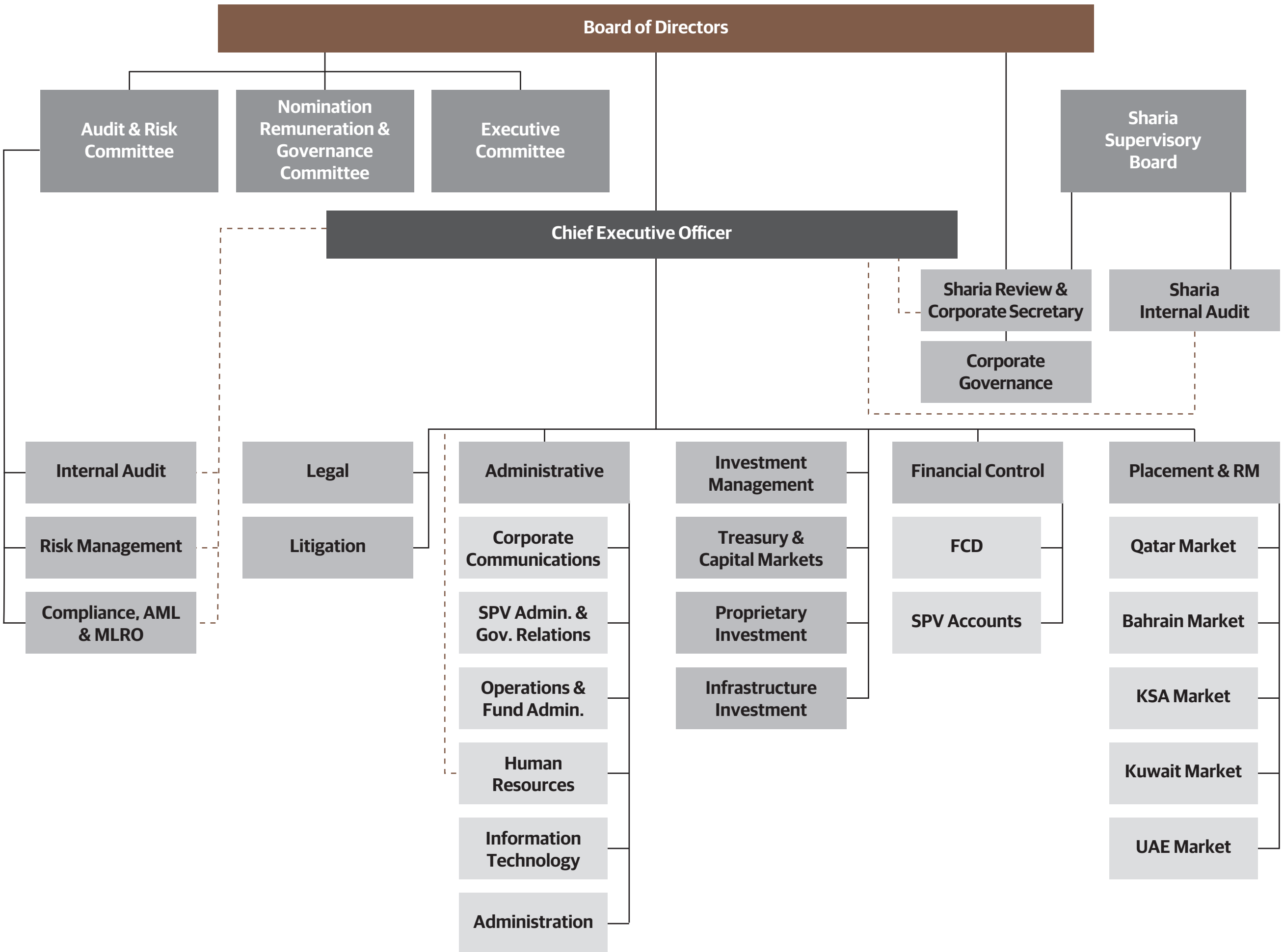
In 2020, GFH continued the implementation of the Corporate Governance rules and the requirements of 'High Level Control Module of the CBB Rulebook Volume 2 (HC Module)'.

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, GFH wishes to clarify the following:

- The Chairman of the board is a Non-Executive director which is not in line with guidance note HC-1.4.6 of the CBB Rulebook Volume 2.
- The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee (ARC)' because this merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
- The Nomination Committee, Remuneration Committee and the Corporate Governance Committee have been merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee (NRGC)' because the merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
- The ARC met three times during the year which is not in line with the Guidelines of Appendix A of Module HC of the CBB Rulebook Volume 2, which states that the committee should meet at least four times a year.
- The NRGC committee does not include a Sharia Scholar (a member of Sharia Supervisory Board) as required under guidance note HC-9.2.4 (b). Furthermore, the committee is comprised of two independent directors and one non-executive director which is not in line with guidance note HC-1.8.2 which requires the corporate governance committee to be comprised of at least three independent directors.
- Contrary to guidance note HC-7.2.2 which requires all Board Members to attend the shareholders' meeting, the shareholders' meetings held on 6th April 2020 and 30th September 2020 were attended only by the CEO (also a Board Member). The Chairmen of the Board ARC and Board NRGC were unable to attend the meetings due to personal commitments

Organisational Structure

As of 31st December 2020



GFH's Corporate Governance framework:
GFH's Corporate Governance framework remains in line with the applicable regulatory requirements and is comprised of GFH's Board of Directors' Charter, Code of Conduct for the Directors, Conflict of Interest Policy, Gift Policy, Whistle Blowing Policy, Public Disclosures & Communication Policy, and Code of Business Ethics & Conduct for the Management & staff members.

Furthermore, the Mechanism of Performance Evaluation of Board of Directors, Board Committees and Individual Board members, as well as the other internal policies of the Bank are in line with the regulations and guidelines issued by the CBB and international best practices.

As part of the disclosure requirements indicated in HC Module, GFH presents the following facts:

A. Ownership of shares

A.1. Distribution of shareholdings according to nationality
As at 31st December 2020, the shareholders Register shows that there are 7,748 shareholders who own 3,681,650,441 shares at a nominal value of US$ 0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	% of outstanding shares
Bahraini	645	505,587,718	13.7326%
Kuwaiti	3,217	442,001,879	11.4623%
Omani	37	32,427,643	0.8808%
Qatari	77	45,958,390	1.2483%
Saudi	274	218,536,765	5.9358%
Emirati	1,836	2,009,270,756	54.5753%
Others	1,662	447,867,272	12.1649%
Total	**7,748**	**3,681,650,441**	**100**

A.2. Distribution of ownership according to the percentage of shareholding
The below table shows the distribution of ownership according to the percentage of shareholding as at 31st December 2020:

Particulars	No. of Shareholders	No. of Shares	% of outstanding shares
Less than 1%	7,731	2,248,583,791	61.07%
1% to less than 5%	16	1,238,074,490	33.63%
5% to less than 10%	1	194,992,160	5.30%
10% to less than 20%	0	0	0
20% to less than 50%	0	0	0
Total	**7,748**	**3,681,650,441**	**100.00**

A.3. Names of shareholders who own 5% or more
As of 31st December 2020, the total direct and indirect ownership of 'Abu Dhabi Financial Group (ADFG) and its related entities' were 9.33% (343,358,132 shares) of the total outstanding shares of GFH. While, the total direct and indirect ownership of 'Al Hilal Bank' was 5.30% (194,992,160 shares), of which 184,000,000 (4.99%) shares held by Al Hilal Bank were on behalf of ADFG and Integrated Capital Limited.

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors
The Board of GFH is composed of ten (10) members as at 31st December 2020. The current Board of GFH will complete its term in March 2023 (i.e., shareholder meeting for financial year-end 2022).

i. Mr. Jassim Mohammed AlSeddiqi (Non-Executive Director)
ii. Sh. Ahmed Khalifa Salman Al Khalifa (Executive Director)
iii. Mr. Hisham Ahmed Alrayes (Executive Director)
iv. Ms. Alia Al Falasi (Independent Director)
v. Mr. Rashid Al Kaabi (Non-Executive Director)
vi. Mr. Ghazi Al Hajeri (Independent Director)
vii. Mr. Ali Murad (Independent Director)
viii. Mr. Ahmed Al Ahmadi (Independent Director)
ix. Mr. Fawaz Al Tamimi (Independent Director)
x. Mr. Edris Alrafi (Independent Director)

In compliance with the CBB requirements, which mandates at least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2020 the Board was comprised of Six Independent Directors which includes the Chairman of the Audit and Risk Committee and the Chairman of the Nomination, Remuneration and Governance Committee.

B.2. Separation between the position of Chairman/Deputy Chairman and Chief Executive Officer

In compliance with the CBB requirements, the position of the Chairman/Deputy Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

B.3. Function of BOD and responsibilities of the Board Members

The Articles of Association of GFH Financial Group stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees GFH Financial Group's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards as modified by the CBB and corporate governance issues. The matters which require the approval of the Board includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH Financial Group, including the values set forth in its internal regulations.

When appointed, Board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial, and compliance affairs as well as corporate governance controls in GFH Financial Group. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD and executive management, the Board members can contact and request information from the executive management at all times.

B.4. Independence of Board Members

Independent members represent the majority of board members. To ensure independence of members, all Board members are required to inform the Board of Directors about any changes or additions that occur on their positions and executive functions and may affect the assessment of their independence by the BOD. They should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests and enable them to devote time and attention to the BOD. Before starting any Board meeting, the Chairman of the BOD instructs the Board members not to participate in the vote on the resolutions that may involve a conflict of interest; this is in addition to the annual disclosure submitted by the Board members in compliance with the conflict of interest policy.

The Nomination, Remuneration and Governance Committee of the BOD is responsible, along with its role in the identification, assessment and selection of candidates for membership of the Board of Directors, for the verification of the independence of members through the controls established by the regulations in this regard. In the selection process, the Committee ensures that the executive and non-executive candidates have a wide expertise in different fields of business and support services. Independent members are chosen from different sectors to ensure diversity of views and experiences in the BOD, as the current independent members come from financial, commercial and government sectors.

The following table shows the classification of members of the BOD as at 31st December 2020:

Classification of members	No.	% of Representation
Independent	6	60%
Non-Executive	2	20%
Executive	2	20%
Total	**10**	**100%**

B.5. Letter of Appointment of Board Members

Upon appointment, the Board Members are required to sign a written agreement (letter of appointment) with GFH. The agreement contains details of the responsibilities and powers of the member as well as the information required by the regulations. Upon appointment, Board members are presented with a comprehensive official introduction specifically designed for this purpose. It includes, among other things, review of the BOD's role in general and the duties and roles of the Board members in particular, in addition to meeting with the executive management, presentation of GFH's strategy, financial performance, risks and legal issues and other related matters.

During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the Bank's policies relating to corporate governance.

B.6. The Right of Shareholders to appoint Members of the Board

Under Article 175 of the Commercial Companies Law of 2001 (CCL-2001) and the amendments thereto and Article 27 of GFH's Amended and Restated Articles of Association ('AOA') of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD. However, as at 31st December 2020, no single shareholder was holding 10% or more of GFH's total outstanding shares.

B.7. System for Election and Termination of Directors

The system for the election and termination of Directors is governed by Article 176 – 179 of the CCL-2001 and the amendments thereto and Articles 24 - 28 of AOA.

As per the contract signed with the Directors, GFH may terminate the Director's appointment with immediate effect if the Director has:

1) committed any serious or repeated breach or non-observance of his obligations to GFH (which includes an obligation not to breach any fiduciary duties) including those arising under this agreement; or
2) been guilty of any fraud or dishonesty or acted in any manner which, in the opinion of GFH, brings or is likely to bring the Director or GFH into disrepute or is materially adverse to the interests of GFH; or
3) been declared bankrupt or have made an arrangement with or for the benefit of his creditors, or any similar or analogous act or event; or
4) been disqualified from acting as a director for any reason; or
5) been absent without a valid reason for more than four (4) consecutive board meetings; or

Furthermore, in line with the Article 179 of CCL-2001 and Articles 29 and 31 of AOA, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

B.8. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at 31st December 2020:

Name and position of Board member	Date of first appointment in BOD/ Re-appointment	Independent/ Non-Executive/ Executive	Representation	Date of resignation/ Term completed	Number of memberships in other boards of Directors	Number of memberships in other boards of Directors in Bahrain	Number of memberships in other boards of Directors of banks in Bahrain	Number of memberships in Board Committees
Jassim Mohammed Alseddiqi	April 2016 / Sep 2020	Non-Executive	NA	NA	13	1	1	1
Sh. Ahmed Khalifa Al Khalifa	Mar 2017 / Sep 2020	Executive	NA	NA	2	–	–	1
Hisham Ahmed AlRayes	April 2016 / Sep 2020	Executive	NA	NA	9	3	1	1
Rashid Al Kaabi	Mar 2017 / Sep 2020	Non-Executive	NA	NA	11	0	–	1
Ghazi Al Hajeri	Mar 2017 / Sep 2020	Independent	NA	NA	2	–	–	1
Ali Murad	March 2020 / Sep 2020	Independent	NA	NA	4	3	–	1
Ahmed Al Ahmadi	March 2020 / Sep 2020	Independent	NA	NA	–	–	–	1
Alia Al Falasi	Sep 2020	Independent	NA	NA	–	–	–	1
Fawaz Al Tamimi	Sep 2020	Independent	NA	NA	12	–	–	1
Edris Alrafi	Sep 2020	Independent	NA	NA	1	–	–	1

B.9. Ownership of the Members of the Board in GFH shares

The table below shows the change in the ownership of members of the Board of Directors of the shares of GFH Financial Group, as at 31st December 2020 compared to that of 31st December 2019:

Member's name	Shares owned as at 31st December 2019	Shares owned as at 31st December 2020	Percentage of ownership as at 31st December 2020
Hisham Ahmed AlRayes	25,279,134	55,402,872	1.5048%
Jassim Mohammed Alseddiqi	52,987	52,987	0.0014%
Sh. Ahmed Khalifa Al Khalifa	NIL	NIL	N/A
Rashid Al Kaabi	NIL	NIL	N/A
Ghazi Al Hajeri	NIL	NIL	N/A
Ali Murad	NIL	NIL	N/A
Ahmed Al Ahmadi	NIL	212,000	0.0058%
Alia Al Falasi	NIL	NIL	N/A
Fawaz Al Tamimi	NIL	NIL	N/A
Edris Alrafi	NIL	NIL	N/A
Total	**25,332,121**	**26,674,862**	**0.7245%**

B.10. Directors' and Senior Managers' trading of the Bank's shares and distribution of ownership on an individual basis during the year 2020

Name of Board Member	Total no. of shares held as at 31st Dec 2019	Transactions - within the period 1st Jan - 31st Dec 2020		Total no. of shares held as at 31st Dec 2020	% of ownership
		Sold	Additional Position		
Hisham Ahmed AlRayes	25,279,134	–	30,123,738	55,402,872	1.5048%
Jassim Mohammed Alseddiqi	52,987	–	–	52,987	0.00144%
Sh. Ahmed Khalifa Al Khalifa	–	–	–	–	–
Rashid Al Kaabi	–	–	–	–	–
Ghazi Al Hajeri	–	–	–	–	–
Ali Murad	–	–	–	–	–
Ahmed Al Ahmadi	–	–	212,000	212,000	0.0058%
Alia Al Falasi	–	–	–	–	–
Fawaz Al Tamimi	–	–	–	–	–

Name of Management Committee Members	Total no. of shares held as at 31st Dec 2019	Transactions - within the period 1st Jan - 31st Dec 2020		Total no. of shares held as at 31st Dec 2020	% of ownership
		Sold	Additional Position *		
Hisham Ahmed Alrayes (Group CEO and Board Member)	25,279,134	–	30,123,738	55,402,872	1.5048%
Suryanarayanan Hariharan	367,965	122,655	1,278,109	1,523,419	0.0414%%
Hammad Younis	2,357,385	872,056	1,970,076	3,455,405	0.0939%
Abesh Chatterjee	245,310	323,378	367,148	289,080	0.0079%
Mohammed Abdulmalik	1,690,604	–	966,433	2,657,037	0.0722%
Salah Sharif	842,136	–	1,129,954	1,972,090	0.0536%
Salem Patel	3,015,832	483,217	691,967	3,224,582	0.0876%

** Includes the shares bought directly from market or/and the shares awarded under Employee Shares Scheme or/and the stock dividend received during the year minus sold shares.*

B.11. Meetings of the Board of Director during the year 2020

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held Five (5) meetings during 2020. The shareholders meetings were held on 6th April 2020 and 30th September 2020.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2020 through e-mails to Board members.

As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

Dates of Board meetings held during the fiscal year 2020 are as follows:

i. 12th February 2020
ii. 12th May 2020
iii. 13th August 2020
iv. 13th November 2020
v. 24th December 2020

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 12th February 2020 1st Meeting **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Bashar Al Mutawa 4. Mr. Mosabah Saif Al Mutairy 5. Mr. Ghazi Al Hajeri 6. Mr. Mustafa Kheriba 7. Mr. Amro Al Menhali 8. Mr. Hisham Alrayes	1. Mr. Rashid Al Kaabi	1. Mr. Mazen Al Saeed
Date: 12th May 2020 2nd Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Ali Murad 4. Mr. Mosabah Saif Al Mutairy 5. Mr. Ghazi Al Hajeri 6. Mr. Mustafa Kheriba 7. Mr. Amro Al Menhali 8. Mr. Hisham Alrayes 9. Mr. Ahmed Al Ahmadi	1. Mr. Rashid Al Kaabi
Date: 13th August 2020 3rd Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Ali Murad 4. Mr. Mosabah Saif Al Mutairy 5. Mr. Ghazi Al Hajeri 6. Mr. Mustafa Kheriba 7. Mr. Amro Al Menhali 8. Mr. Hisham Alrayes 9. Mr. Ahmed Al Ahmadi 10. Mr. Rashid Al Kaabi	
Date: 13th November 2020 4th Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Ali Murad 4. Mr. Ghazi Al Hajeri 5. Mr. Mustafa Kheriba 6. Mr. Fawaz Al Tamimi 7. Mr. Hisham Alrayes 8. Mr. Ahmed Al Ahmadi 9. Mr. Rashid Al Kaabi 10. Ms. Alia Al Falasi	
Date: 24th December 2020 5th Meeting **Location:** Video Call Conference		1. Mr. Jassim Mohammed Alseddiqi 2. Sh. Ahmed Khalifa Al Khalifa 3. Mr. Ghazi Al Hajeri 4. Mr. Fawaz Al Tamimi 5. Mr. Hisham Alrayes 6. Mr. Ahmed Al Ahmadi 7. Mr. Rashid Al Kaabi 8. Ms. Alia Al Falasi 9. Mr. Ali Murad	1. Mr. Mustafa Kheriba

B.12. Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of GFH. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 33-e of the Articles of Association of the Bank.

C. Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

C.1. The Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for following up on the internal and external audit, risk management as well as compliance and anti-money laundering matters.

During the fiscal year 2020, the Committee held three meetings which took place on 12th February, 12th May, and 12th August 2020 respectively.

ARC meeting date & Location	ARC members present	ARC members who participated by phone/video link	ARC members not present
Date: 12th February 2020 1st Meeting **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Mr. Bashar Al Mutawa 2. Mr. Ghazi Al Hajeri 3. Mr. Mosabah Saif Al Mutairy		
Date: 12th May 2020 2nd Meeting **Location:** Video Call Conference		1. Mr. Mosabah Saif Al Mutairy 2. Mr. Ghazi Al Hajeri 3. Mr. Ahmed Al Ahmadi	
Date: 12th August 2020 3rd Meeting **Location:** Video Call Conference		1. Mr. Mosabah Saif Al Mutairy 2. Mr. Ghazi Al Hajeri 3. Mr. Ahmed Al Ahmadi	

C.2. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee ("NRGC") is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of GFH Financial Group.

The Committee met two times during the fiscal year 2020 i.e. 11th February and 15th March 2020 respectively.

NRGC Meeting date & location	NRGC members present	NRGC members who participated by phone/ video link	NRGC members not present
Date: 11th February 2020 1st Meeting **Location:** Video Call Conference		1. Mr. Ghazi Al Hajeri 2. Mr. Mosabah Saif Al Mutairy 3. Mr. Amro Al Menhali	
Date: 15th March 2020 2nd Meeting **Location:** Video Call Conference		1. Mr. Ghazi Al Hajeri 2. Mr. Mosabah Saif Al Mutairy 3. Mr. Amro Al Menhali	

C.3. Board Investment Committee

The Board Investment Committee ("BIC") is a Board's sub-committee appointed to assist the board in formulating the bank's investment policy and make investment transaction decisions. The BIC will meet as events and decision making require.

D. Audit fees and other services provided by the external auditor

During the Annual General Meeting held on 6th April 2020, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31st December 2020 and authorized the Board of Directors to determine their remuneration. The audit committee went through a tender process and re-evaluated the services provided by the existing auditors prior to making a recommendation for re-appointment to the annual general meeting. The audit fees charged and non-audit services provided by the external auditors are available to the shareholders as and when requested. Further details will be made available to the Bank's shareholders on specific requests provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

E. Other topics

E.1 Remuneration of the Board of Directors and Executive Management

Remuneration of the Board of Directors is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2020, the Board was paid fees as stated in note 27 of consolidated financial statements.

Executive Management is entitled to a fixed remuneration as per their contractual agreements, and any other performance- related incentives/ bonuses must be approved by the Board.

Refer to note 27 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2020, the total remuneration paid to Sharia Supervisory Board was US$ 365,000.

E.2 Continuous development of the Board and Board Committees

The Charter of the Board of Directors serves as a reference point for the Board activities. The Charter outlines the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of GFH and matters reserved for final decision–making or pre approval by the Board and the policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings.

The Board Charter sets up a detailed Board Training guide which provides a framework for induction/orientation of new Board members. The new Board of Directors are provided with a presentation pack containing overview/highlights of GFH.

All the members of the Board at the time of appointment should sign a Directors contract, which contains the terms of the appointment, duties and responsibilities of the members, membership and time commitment, conflicts of interest, resignation and termination, confidentiality of information, requirement for the completion of professional development trainings and other details which the members have to abide by during their tenure of being member of the Board.

E.3 Board's Performance Evaluation

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).

The evaluation is to be used to assess Board effectiveness and support in identifying the need for:

- A revised mix of skills/experience on the Board.
- Board training and/or professional support
- Replacement of Individual Directors whose contribution is deemed inadequate.

The Board Performance Evaluation Framework is based on the following - Principles:

- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.
- The Chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board. The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.
- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses.
- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.
- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.

The Board Performance Evaluation Framework is based on the following - Methodology:

1) Each Board Member is required to complete the 'Board Performance Evaluation Form' and the "Individual Director's Self Evaluation Form".
2) The Chairman of the Board will also individually evaluate each of the Board Members.
3) NRGC will collate the ratings of the Board (Board Performance Evaluation Form) done by each of the Board Member accordingly; in order to arrive to mean results.
4) Each Committee Members will also perform rating of their respective committee(s).
5) Similarly, NRGC will collate the ratings of each of the Committee (NRGC/EXCOM/ARC); in order to arrive to mean results of that specific committee.

E.4. Transactions Requiring Board Approval

As part of their central leadership and designated authority, the Board of Directors discuss and approve matters pertaining to Strategic Planning, Business Plan, Policies and Procedures, Annual Report, Financial Statements, Appointment of External Auditors and Strategic Partnerships. Furthermore, other matters such as strategic decisions, investment fund proposals, provisions and write-off limits or credit and exposure limits may require the Board's approval as per the internal designated authority limits.

E.5. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 27 of the consolidated financial statements for the fiscal year ended 31st December, 2020. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

E.6. Approval process for Connected Counter Party Transactions

All connected counter party exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). Where the approving authority as per DAL is connected / interested, the approval authority shall move to the next level.

In determining whether to approve a Connected Counter Party Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Counter Party Transaction:

- Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the policy statement agreed with the Central Bank.
- No Islamic facilities provided by a bank to its own external auditors shall be permitted (External auditors include firm/ partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted unless specifically permitted under a valid contract between the bank and the relevant client.
- Whether the terms of the Connected Counter Party Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Connected Counter Party;
- Whether there are business reasons for the Bank to enter into the Connected Counter Party Transaction;
- Whether the Connected Counter Party Transaction would impair the independence of an outside director and;
- Whether the Connected Counter Party Transaction would present an improper conflict of interests for any director or executive officer of the Bank, taking into account the size of the transaction, the overall financial position of the director, executive officer or Connected Counter Party, the direct or indirect nature of the director's, executive officer's or Connected Party's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the BARC deems relevant.
- The bank must not undertake exposures to controllers as defined under Chapter GR-5 or to subsidiaries of such, however, smaller shareholders will be subject to normal exposure limits outlined under CM-4.4.5. Directors who are also controllers (or the appointed board representatives of such controllers) are subject to a 0% limit.
- The Central Bank's prior written consent should be obtained for any credit facilities provided to an employee where the amount of such facility, either singly or when added to an existing facility/existing facilities outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (Bahrain Dinars One Hundred Thousand), or its equivalent in foreign currency. Banks must notify the Central Bank in writing of any senior employee who fails to discharge his repayment obligations.
- Reciprocal cross-holdings of capital between a bank and its "controllers", which artificially inflate the capital of licensee concerned, are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's capital. Any member of the Board who has an interest in the transaction under discussion will abstain from voting on the approval of the Connected Counter Party Transaction.

E.7. Ownership of shares by Government entities

Authority Name	Government	Shares Owned	% of Shares Owned
Abu Dhabi Retirement Pensions & Benefits	UAE	56,332,962	1.5301%
General Pension And Social Security Authority	UAE	30,150,483	0.8189%
The Royal Guard Of Oman Pension Fund	Oman	16,906,428	0.4592%
California Public Employees Retirement	California, USA	7,415,567	0.2014%
Diwan Of Royal Court Pension Fund	Oman	5,855,802	0.1591%
The Public Authority For Minors Affairs	Kuwait	4,837,696	0.1314%
Naimah E. Alessa-Public of Minors Affairs	Kuwait	1,268,699	0.0345%
Utah State Retirement System	Utah, USA	246,135	0.0067%
Beit Alquran	Bahrain	8,182	0.0002%

E.8. Review of internal control and processes

Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Bank. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organisation must participate in the process.

The main objectives of the internal control process can be categorised as follows:
1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Bank consists of five (5) interrelated elements:
i. Management oversight and the control culture;
ii. Risk recognition and assessment;
iii. Control activities and segregation of duties;
iv. Information and communication; and
v. Monitoring activities and correcting deficiencies.

E.9. GFH's Client Charter

In line with the CBB requirements, GFH has developed a client's charter which outlines the commitments made by GFH in respect of the quality of services and products delivered to its clients and shareholders. The client's charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfill clients' and shareholders' needs and expectations.

The client charter also incorporates GFH's Complaints handling procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/ unethical behavior of an employee of the bank.

E.9.1 Dealing with Complaints

GFH is committed to providing its clients with the highest standard of service. However, should a client complain because he/she feels GFH has failed to deliver what it has promised, GFH will do everything possible to ensure that such a complaint is dealt with fairly, promptly and effectively. The information provided here will show you how to:
i. Make a complaint.
ii. Escalate if you are not satisfied with the response provided by GFH in response to your complaint.
iii. Take further action if you are still dissatisfied with the outcome.

- *Mechanism for submitting Complaints:*
  The complaint must be in writing and should be addressed to the Investors' Relations Department and must be marked to the GFH's Complaint Handling Officer.

  In compliance with the directives of the Central Bank of Bahrain, GFH has appointed a Complaints Handling Officer, who is responsible for ensuring that the client complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- *Options for submitting Complaint:*
    a) Hand delivery to GFH's Office (reception) located at 28th Floor, East Tower, Bahrain Financial Harbour, Manama
    b) Via Fax to the following number +973 17 540006
    c) Courier or post to the following address:

    Complaint Handling Officer
    GFH Financial Group B.S.C.
    28th Floor, East Tower
    Bahrain Financial Harbour
    PO Box 10006
    Manama, Kingdom of Bahrain

    d) Or scan and email the written complaint to: iservice@gfh.com

- *What happens once your complaint is submitted?*
    a) Once a client complaint has been submitted, we will acknowledge within three (3) business days.

    b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint. In the unlikely event that the complaint is not answered within the timeframe mentioned in point (b), we will write the reasons why there has been a delay and the additional action that we will take including when we anticipate to have concluded our investigation.
    c) In an event that the complaint is not resolved or that the client is not satisfied with the solution provided by us, he/she has the right to escalate the complaint to the 'Head of Compliance' of GFH. The escalation will be acknowledged as per (a) above and a written answer shall be provided within four (4) weeks from the date of escalation.
    d) After receiving the final response to the escalated complaint, and if the client is still not satisfied, he/she can write directly to the Compliance Directorate of the Central Bank of Bahrain or he/she can submit the case through the "Complaint form" available on the Central Bank of Bahrain website www.cbb.gov.bh, within 30 calendar days from the date of receipt of our final response.

E.9.2. Whistle-blowing

- *Report an Incident*
    If the client have observed any alleged wrongful conduct, malpractice or an improper/unethical behavior of an employee of the bank, he/she is encouraged to report the incident to the Bank through the following means:

    Report to 'Head of Compliance' or 'Head of Internal Audit' by sending an email at whistleblow@gfh.com; alternatively, send a letter by post at the below address:

    Head of Compliance / Head of Internal Audit
    GFH Financial Group B.S.C, 30th Floor, East Tower
    Bahrain Financial Harbour, P.O. Box 10006,
    Manama, Kingdom of Bahrain

- *Protection Rights for Whistleblowers*
    a) GFH is committed to the protection of Whistleblowers against potential actions that may be taken in reprisal for making the protected disclosure.
    b) The Whistleblower's identity, the nature of the report, and the suspected person's identity are strictly confidential.
    c) Retaliation against an individual, who in good faith, had made a complaint, disclosed information relating to a complaint or otherwise participated in an investigation relating to a complaint is prohibited regardless of the outcome of the investigation.
    d) The Board Audit & Risk Committee of the bank will be responsible to assess the incident reported and will decide the course of action.

E.10. Details of penalties paid

GFH Financial Group has successfully completed the year with 'zero' penalties.

E.11. Systems and controls for compliance with Sharia and AAOIFI standards
In pursuance with the provisions of its Articles of Association, GFH Financial Group has always carried out its banking activities in compliance with Islamic Sharia principles that constitute an integral part of the entire policies of the Bank. Tasks managed by Sharia Department of GFH include the followings:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.
2. Ensuring compliance of projects with the Sharia provisions indicated in the Prospectus and the approved structure of the project.
3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.
4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.
5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.
6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) as modified by the CBB.
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 4(z) and note 30 of the consolidated financial statements for the fiscal year ended 31st December 2020.

E.12. Board Code of Conduct
The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes guidance on dealing with conflict of interests, insider trading, key person dealing, receiving gifts, system & controls framework, confidentiality etc. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. Board members are excluded from dealings in matters related to an external entity where they hold a position. Any breach of the code is reported to the Board NRGC by the Corporate Secretary, Head of Compliance or the Head of Human Resources. The Board NRGC is responsible to take the necessary action.

E.13. Board Conflict of Interest
Any conflict of interest that might arise from the Board members is governed by the Board Conflict of Interest Policy. Each Board member is required to annually disclose any potential conflict of interest that might arise during the term of their membership. Any transaction that has occurred during their term as a Board member must be disclosed to the Board through the Conflict of Interest Reporting Form. Any conflict of interest arising from any Board member must be ratified by the Board, and the respective Board member will be refrained from voting on that matter.

E.14. Employment of Relatives
The Group maintains Employment of Relatives policy to prevent any potential for favoritism and conflict of interest in decision-making due to factors of kinship in relationships among employees within the Group regardless of difference in department and reporting line. The Group does not permit the employment of relatives (direct family of the employee up to fourth degree and up to the second degree for the employee's spouse) of current Employees. This restriction is not limited to the recruitment and selection only but is also applicable on existing employee of the group in case he/she marries another employee of the group.

All Departmental Head are required to promptly report to Head of Human Resource any changes in status of their respective team-members. Also, all employees are urged, if in doubt, to consult with their respective supervisors and the Human Resource department.

E.15. Remuneration related disclosures
The Bank's total compensation approach, which includes the variable remuneration policy, 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 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. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

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 Nomination and Remuneration Committee of the Board (NRGC).

The quality and long-term commitment of all our employees is fundamental to our success. We therefore aim 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 our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus;
4. Commission for sales staff;
5. Remuneration for senior management from participation in boards of investee entities; and
6. The long-term performance incentive plan

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 has a material impact on the Bank's risk profile.

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

NRGC role and focus

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

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

a) Review the remuneration policies for the approved persons and material risk-takers, which must be consistent with GFH's corporate values and strategy.
b) The committee should be responsible for retaining and overseeing outside consultants or firms for the purpose of reviewing the remuneration of approved persons and material risk-takers, administering remuneration plans, or related matters.
c) Ensure that the remuneration of approved persons and material risk-takers is sufficient enough to attracts and retain persons of the quality needed to run the bank successfully, but that bank avoids paying more than is necessary for that purpose.
d) Approve the individual remuneration amounts, packages and total compensation for each approved person and material risk-taker and make recommendations to the Board of the total variable remuneration (bonus pool) to be distributed, taking account the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits.
e) Evaluate the performance of approved persons and material risk-takers in light of the bank's corporate goals, agreed strategy, objectives and business plans.
f) The committee shall be responsible to the Board for the overview of any employee benefit trust (EBT) or similar arrangements adopted for the purpose of administering the deferred incentive arrangements (including share schemes) of the Bank.
g) Ensure that variable remuneration for material risk-takers forms a substantial part of the total remuneration of approved persons and material risk-takers (other than the risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions personnel.
h) Ensure that for approved persons in risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
i) Ensure that the system includes effective controls including stress testing and back testing results of the remuneration policy and that the system's practical operation is regularly reviewed for compliance with regulations, internal policies and bank procedures.
j) Review remuneration outcomes, risk measurements and risk outcomes regularly for consistency with the Board's approved risk appetite, for submission for the Board for its review.
k) Review cases where any ex-ante risk adjustments are to be used to take into account severe but plausible scenarios to the variable remuneration as per the Bank's variable remuneration policy.
l) Review cases where the bonus is diminished by exercise of Malus and Clawback adjustments.
m) Question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payout.
n) Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment affects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRGC members. The NRGC comprises of the following members:

NRGC Member Name	Appointment date	Resignation / Restructured date	Number of meetings attended 2020	2019
Mr. Ghazi AlHajeri	25th April 2017		2 out of 2	2 out of 2
Mr. Mosabah Saif Al Mutairy	25th April 2017	30th September 2020	2 out of 2	2 out of 2
Mr. Amro Almenhali	13th May 2018	30th September 2020	2 out of 2	2 out of 2
Mr. Fawaz Al Tamimi	29th December 2020		N/A	N/A
Mr. Rashid Al Kaabi	29th December 2020		N/A	N/A

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to US$ 6K (2019: US$ 7K).

Use of consultants:
The Bank engaged an external consultants to benchmark pay and grading structure to bring it in line with market practices. A consultant was also engaged to develop a framework for introduction of a Long Term Incentive Plan (LTIP) which has been discussed and approved by the Board's NRCG committee and the Board of Directors end of 2019 for implementation effective performance year 2019.

Scope of application of the remuneration policy
The principles of this remuneration policy apply on a group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the Bank will be determined by applicable local regulations and market norms. Currently, deferral arrangements are applicable only to Bahrain domiciled banking entities within the Group.

Board remuneration
The Bank will determine board remuneration in line with the provisions of Article 188 of the Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of the Bank's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Board remuneration is subject to approval of the shareholders in the annual general meeting.

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

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

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

In determining the quantum of variable remuneration, the Bank has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NRGC may choose to implement a discretionary award for a given year based on affordability for the Bank and its assessment of the Bank's current and future resource requirements. The bonus pool is adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations), subject to the final discretion of the NRGC.

Under the variable remuneration policy of the Bank, placement fees, sales commission or incentives for sales staff is not considered to be part of the variable remuneration (subject to deferral) as it is an integral part of the overall pay structure of the sales and placement staff. Further, these payments are not considered variable remuneration as they are not directly or indirectly linked to the bank-wide performance and are considered activity-based payments.

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

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

Remuneration of control and support functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. In exceptional cases, the approval of the NRGC shall be obtained. 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 areas 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 endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment 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 Bank's NRGC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. 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 bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events. The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:
a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast of the Bank's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned. Since 2020 has been an unusual year effected by the global pandemic and consequential market impact, the NRGC has adopted a more qualitative approach in their assessment of performance and rewards.

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 consider the following:

- Need for a 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 may be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGC, with the Board's approval, can rationalise and make the following discretionary decisions:
- Take no action
- 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 Bank's 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 behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the Bank's NRGC. The Bank's NRGC takes into account the advice of the CEO, Risk, Finance and HR Departments as appropriate.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:
- Reasonable evidence of misbehavior or material error by the employee causing harm to the Bank's reputation or where his/her/their actions have amounted to misconduct, incompetence or negligence
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of the Bank
- The employee's business unit suffers a material risk management failure
- An employee deliberately misled the market and/or shareholders in relation to the financial performance of the Bank
- A significant deterioration in the financial health of the Bank

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Macro-economic impacts (such as COVID-19 related disruptions) that are specific or idiosyncratic to the bank are not considered as basis for malus or clawback.

Components of Variable remuneration
The Bank's variable remuneration framework provides for the following key 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 three years.
Upfront share awards	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, but released after a retention period of six months.
Deferred annual bonus (DAB) share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of three years and an additional retention period of six months. DAB shares are not subject to any additional performance conditions.
Future performance awards (FPA)	The portion of variable compensation which is awarded to selected employees for future performance conditions.. The awards are contingent on the delivery of set performance targets for the Bank as well as service conditions on part of employees. These awards comprise individually or a combination of the following: • Long-term Incentive Plan (LTIP) Shares, where the employees are compensated in form of shares as a percentage on achievement of some pre-determined performance conditions • Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction. • Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • Co-investment, wherein as portion of variable remuneration is awarded in the form of an investment made by the bank which is encashable by employee on Bank's exit from the investment. • Sales/recovery incentive, where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset.

LTIP awards

By end of 2019, the Bank has introduced an LTIP scheme which sets performance and service conditions and has a ratable vesting schedule over a period of six years, including an upfront tranche that vested in 2020. In early 2021, the NRC has changed the performance and vesting terms of the LTIP giving due consideration to the effect of LTIP on performance measures and external environment. The new terms affect vesting of future unvested tranches only.

Employee Share Ownership Loan Scheme

GFH may also implement an employee share ownership loan scheme (ESOL Scheme) from time to time to be implemented under any of the Share Incentive Scheme it develops. Such ESOL Scheme, if implemented, shall allow employees to increase their participation in GFH Shares through the utilisation of financing advanced by the Bank and the right to acquire GFH shares at the pricing determined in accordance with the applicable ESOL Scheme. The ESOL Scheme is designed to enable eligible participants to increase their holdings of GFH shares on favourable terms but under the funding of the participants themselves.

Establishment of the Trust Instrument

GFH has established a GFH Employee Benefit Trust instrument to hold and manage its deferred staff benefits related to the Variable Remuneration policy. The Trustees shall undertake all of the duties set out in the Bahrain Trust Law and the Trust Instrument.

Deferred compensation

All approved persons and material risk-takers earning over BHD 100,000 in total compensation are subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and other 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	Immediate	-	-	Yes
Upfront shares	-	10%	Immediate	6 months	Yes	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Deferred share awards	0%-50%	0%-50%	Over 3 years	6 months	Yes	Yes
Other Non-Cash Awards or FPA	0%-60%	0%-50%	Performance linked	6 months	Yes	Yes

The NRGC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. For the purpose of calculation of benefits, the value of employee benefit on date of the issuance of the award (and to be recognized in the P&L) is considered for the purposes of calculation of total variable compensation and all other measures under the variable remuneration policy.

All deferred and future performance awards are subject to malus provisions. All share awards and related dividends 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.

Details of remuneration paid

(a) Board of Directors

US$ 000's

	2020	2019
Sitting fees	81	97
Remuneration	1,050	2,250
Total	**1,131**	2,347

These above disclosures pertain to information related to the remuneration paid by GFH Financial Group BSC only and excludes any remuneration paid by subsidiaries which are governed by applicable laws for each entity.

(b) Employee remuneration

2020 [1,2]								
			Variable remuneration					
			Upfront			Deferred		
Type of employees	**Number of staff**	**Fixed remuneration**	**Cash**	**Shares[3]**	**Commission**	**Cash**	**Shares[3]**	**Total**
Approved Persons: Business lines	8	3,548	3,863	143	216	309	5,870	**13,949**
Approved Persons: Control & support	8	1,985	611	-	-	-	534	**3,816**
Other material risk takers	25	4,785	611	71	853	-	-	**6,320**
Other Employees: Bahrain Operations	50	4,077	928	-	-	-	25	**5,030**
Other Employees: Other Subsdiaries[1]	39	4,167	770	-	143	-	-	**5,080**
	130	**18,562**	**6,783**	**214**	**1,212**	**309**	**6,429**	**33,509**

Notes:

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB) and Projects of the Bank (India, Tunis and Morocco, Al Areen Hotel etc) that are consolidated and only include staff of GFH Capital (UAE & KSA) and GFH Properties SPC, which are integral to the business of the Bank. Information pertaining to KHCB is separately available within their annual report.*
2. *The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.*
3. *The amounts attributed to share awards are based on the final allocation of bonus pool to deferred share awards after the issue of the financial statements. Additional accounting charge arising due to fair value adjustments on share awards will be reflected in the subsequent accounting periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for the financial year. The Bank has also announced a Long Term Incentive Plan (LTIP) in 2020 which includes an upfront vested tranche, which has been considered above as performance bonuses in shares for the purpose of deferral calculations. The LTIP benefit has been measured equivalent to the accounting expense and as the effective grant date is in 2020, the cost of LTIP will be recognised ratably over the vesting period of up to 6 years. Subsequent to the year end, in 2021, the NRGC has amended the terms of the remaining LTIP tranches to reflect the impact of COVID-19. The 2020 variable remuneration considers the actual amount of benefit arising from the performance based accelerated vested tranche for performance year 2020 (released in 2021).*
4. *In addition to the compensation reported above, severance payments made during the year amounted to US$ 1,131 (2019: US$ 4,250) of which the highest paid to a single person amounted to US$ 167.04 (2019: US$ 2,052).*

2019 [1,2]								
			Variable remuneration					
			Upfront			Deferred		
Type of employees	Number of staff	Fixed remuneration	Cash	Shares[3]	Commission	Cash	Shares[3]	Total
Approved Persons: Business lines	6	2,924	1,968	565	2,145	491	4,073	12,166
Approved Persons: Control & support	9	2,282	382	385	-	385	382	3,816
Other material risk takers	32	4,941	594	77	1,589	125	231	7,557
Other Employees: Bahrain Operations	67	5,762	1,357	-	-	-	83	7,202
Other Employees: Other Subsdiaries[1]	30	3,653	524	-	-	-	-	4,177
	144	19,562	4,825	1,027	3,734	1,001	4,769	34,918

(c) Deferred awards

US$ 000's

2020	Cash	Shares Number	Shares US$	Total
Opening balance	2,781	83,681,821	15,933	**20,246**
Awarded during the period #	309	94,861,950	6,643	**6,952**
Paid out / released during the period	(1,013)	(55,298,795)	(395)	**(10,408)**
Service, performance and risk adjustments	-	(2,176,874)	-	**-**
Bonus share and other corporate events	-		-	**-**
Closing balance	**2,077**	**121,168,102**	**13,181**	**16,790**

** Includes vested LTIP tranche for the performance year 2020 (to be released in 2021)*
 # Includes upfront tranche of LTIP shares issued in 2020 for performance year 2019.

US$ 000's

2019	Cash	Shares Number	Shares US$	Total
Opening balance	2,367	48,789,048	15,765	18,132
Awarded during the period #	1,001	45,802,608	5,796	6,797
Paid out / released during the period	(587)	(13,803,722)	(5,628)	(6,215)
Service, performance and risk adjustments	-	-	-	-
Bonus share and other corporate events	-	2,893,887	-	-
Closing balance	2,781	83,681,821	15,933	20,246

 # Includes upfront tranche of LTIP shares issued in 2020 for performance year 2019.

Notes:
The total number of shares include additional employee participation through ESOL approved by the NRGC. However, the value reported above only reflects the fair value benefit that has accrued to the benefit of the employee on award/ modification dates. These are not necessarily reflective of issue price of share awards.

These above disclosures exclude information related to KHCB which is available separately in their annual report.

Risk and Capital Management

We believe that a firm approach to risk management is the foundation for sustainable, positive results for customers, investors and shareholders alike.

3

Risk and Capital Management

GFH will continue to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

1 EXECUTIVE SUMMARY

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process. The report is prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2020, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

As at 31 December 2020, the Group's total capital ratio stood at a healthy ratio of 13.50%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III / IFSB for Islamic financial institutions framework.

The Group's total risk weighted assets as at 31 December 2020 amounted to US$ 8,264,273 thousand. Credit risk accounted for 92.6 percent, operational risk 6.7 percent, and market risk 0.7 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were US$ 1,025,790 thousand and US$ 1,115,877 thousand respectively, as at 31 December 2020.

At 31 December 2020, Group's CET1 and T1 capital adequacy ratios were at 12.41% and total capital adequacy ratios was at 13.50%.

2 INTRODUCTION

The Basel III framework consists of three mutually reinforcing pillars:

i. **Pillar 1:** Minimum capital requirements for credit risk, market risk and operational risk.
ii. **Pillar 2:** Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
iii. **Pillar 3:** Market discipline including rules for disclosure of risk management and capital adequacy.

2.1 Pillar 1

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

The resultant ratio is to be maintained above a predetermined and communicated level. The CBB also requires banks incorporated in Bahrain to maintain a 12.5% minimum Total Adequacy Ratio including the above Capital Conservation Buffer (CCB) requirement of 2.5%.

In the event that the capital adequacy ratio falls below 12.5 per cent (consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain a minimum capital adequacy ratio of 12.5 per cent (consolidated).

The table below summarizes the Pillar I risks and the approaches used by the Bank to calculating the RWAs in accordance with the CBB's Basel II capital adequacy framework.

Risk Type	Approach used by GFH
Credit risk	Standardised Approach
Market risk	Standardised Approach
Operational risk	Basic Indicator Approach

2.2 Pillar 2

Pillar II deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar I).

The ICAAP enables the bank to review the capital impact of assessed Pillar I and Pillar II risks as well as to examine new risk dimensions coming out of existing and new businesses / products. It acts as a mechanism for the evaluation of the long-term strategic growth plans and the short-term annual business plans based on projected risk profile and capital under both expected and adverse scenarios.

The Bank has decided to adopt a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines and Basel framework. Under this approach, the banking institutions calculate the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's CAR guidelines under the Basel III framework. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements.

GFH conducts stress testing of its portfolio as part of the ICAAP process. GFH's objective of stress testing for its ICAAP is to ensure that the Bank can meet its capital requirements at all times in a forward looking manner, including throughout a reasonably severe economic recession or other scenarios specific to the Bank's portfolio and risk profile. The results of the stress tests assist the Bank in ascertaining whether it has sufficient capital in periods of stress.

2.3 Pillar 3

In the CBB's Basel II framework, the Pillar III prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management, governance and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

3 OVERALL RISK AND CAPITAL MANAGEMENT

3.1 Risk management framework

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Bank will continue to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

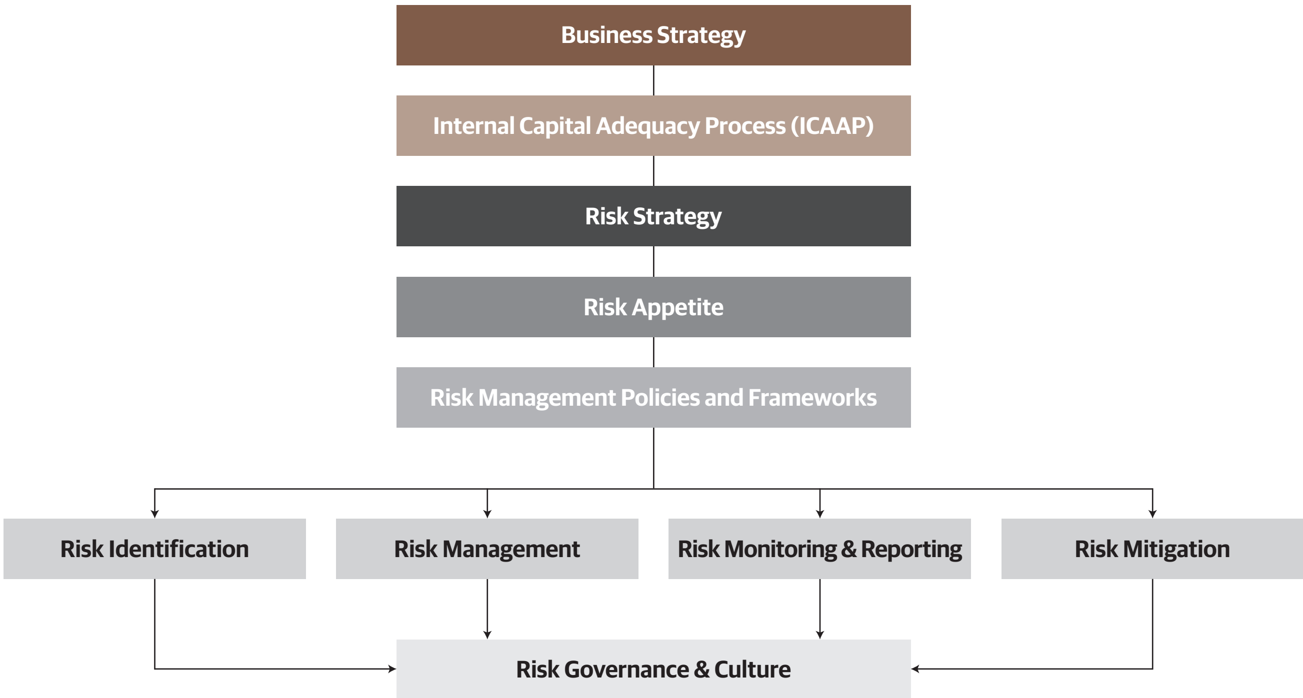
The primary objectives of the risk management framework of the Bank are to:
- Manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices; and
- Align internal capital requirements with risk materiality.

The risk strategy is articulated through the limit structures and targets for individual risks. These limits are based on the Bank's business plans, its risk appetite and guided by regulatory requirements and guidance in this regard. The risk limits reflects the level of risk that GFH is prepared to take in order to achieve its objectives. The Bank reviews and realigns its risk limits as per the evolving business plan of the Bank with changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. The limits outlines the Bank's risk exposures and defines its tolerance levels towards accepting or rejecting these risks. Tolerance levels are reflected in the limits defined by the Bank for each risk area.

Building Blocks of Risk Management Framework

Board of Directors has overall responsibility for establishing risk culture and ensuring that an effective risk management framework is in place.

The diagram below represents the Bank's overall risk management framework and its components:



The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel and CBB:
- Active Board and senior management oversight and control;
- Independent Risk Management function;
- Board driven sound risk management culture and ownership;
- Appropriate policy, procedures and limits;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication;
- Monitoring Risk Management activities and correcting deficiencies;
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- Appropriate MIS at a business and Bank-wide level; and
- Comprehensive internal controls.

3.2 Risk governance structure

The Risk Governance structure of the Bank is depicted by the following diagram:

Level 1	Board of Directors (BOD) Sharia Board	Internal Audit
Level 2	Board Committees • Board Nominations, Remuneration, and Governance Committee (NRGC) • Board Investment Committee • Board Audit & Risk Committee (ARC)	
Level 3	Senior Management Committees • Management Committee (MANCOM) • Management Investment Committee • Assets Liability Management Committee (ALCO) • Real Estate Committee	
Level 4	Risk Management Department • Credit & Investment Risk • Market Risk • Liquidity Risk • Operational Risk	
Level 5	Desktop level procedures, systems and controls in day to day business	

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Audit & Risk Committee ('ARC') is responsible for providing an independent assurance to the Board about the effectiveness of risk management, internal controls, the accounting policies, financial reporting and disclosure practices of the Bank by organizing and managing the internal and external audits and examination of the entire spectrum of the Bank's activities and reporting the findings of such audits and examination to the Board.

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to Board Audit & Risk Committee and administratively to the CEO.

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Bank. The principal responsibilities of the department are:

- Monitoring The Bank's risks against the Board approved appetites.
- Developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, Basel Guidelines, IFSB and international best practices.
- Implementation of risk policies and ensuring that risk policies and practices are adequately built in Business Unit's departmental policies.
- Identifying and recommending risk analysis tools and techniques as required under guidelines issued by Basel, CBB and IFSB and in accordance with best business practices.
- Reviewing the adequacy of the risk limits and providing feed back to the relevant authorities.
- Preparing quarterly risk reports and other risk items and MIS reports for review by various Board and senior management level committees.
- Supports the business units in identification and day-to-day management of risks.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to various Board and senior management level Committees.

3.3 Capital management

The Bank's policy is to maintain a strong capital base and meet the capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital is primarily driven by regulatory requirements. The Bank seeks to maximise return on capital while satisfying all the regulatory requirements.

The Bank has put in place a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar I risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar I risks covered under the ICAAP process include concentration risk, liquidity risk, profit rate risk in the banking book and other miscellaneous risks.

The Group does not have a trading book. The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank and the group as a whole. In implementing current capital requirements CBB requires the Bank and the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

3.3 Capital management (contd.)

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

- **Tier 1 capital:** includes CET1 and AT1
  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

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

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

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2019. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

3.4 Risk types

The Bank is exposed to various types of risk.

Risks in Pillar 1	• Credit risk • Market risk • Operational risk
Risks in Pillar 2	• Liquidity risk • Concentration risk • Profit rate risk in banking book • Reputational risk • Other risks – including strategic risk, pillar 1 residual risks etc.

The details of components of risks and how they are managed are discussed in the following sections of this document.

3.5 Monitoring and reporting

The RMD, together with the Internal Audit, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors. The monitoring and reporting frequency depends on the severity and volatility of the risk factor as set out in the respective policies. Risk reports are regularly presented to the senior management committees, ARC and Board as per the reporting requirements set in the risk policies. In addition, the RMD submits a quarterly Risk Overview Report (ROR) to the Board Audit & Risk Committee. The ROR describes the potential issues for a wide range of risk categories and classifies the risks. The ROR also provides comments as to how risk factors are being addressed and mitigated by the Bank. The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports aim to provide the senior management and Board level committees with an up-to-date view of the risk profile of the Bank.

4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2020. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to notes 4 in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

The principal subsidiaries and associates as at 31 December 2020 and their treatment for capital adequacy purposes are as follows:

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	Solo basis
Khaleeji Commercial Bank BSC (KHCB)	Banking subsidiary	Full consolidation	Full deduction from capital
GFH Sukuk Limited	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Global Banking Corporation BSC (c)	Banking subsidiary	Full consolidation	Full deduction from capital
Roebuck A M LLP	Financial entity	Full consolidation	Full deduction from capital
GFH Capital Limited	Financial entity	Full consolidation	Full deduction from capital
KHCB Asset Company	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Harbour North 1 Real Estate S.P.C. Harbour North 2A Real Estate S.P.C. Harbour North 2B Real Estate S.P.C. Harbour North 3 Real Estate S.P.C. Harbour Row 3 Real Estate S.P.C. Harbour Row 4 Real Estate S.P.C.	Commercial Entities	Risk weighting (look through approach) approved by the CBB on 12 June2019 [i]	
Harbour Row 2 Real Estate S.P.C.	Commercial Entities	Risk weighting of investment exposure	
GFH Properties SPC	Commercial Entities	Risk weighting of investment exposure	
Delmon Lost Paradise Project Company 1 SPC Delmon Lost Paradise Project Company 2 SPC	Commercial Entities	Risk weighting (look through approach) approved by the CBB on 12 June 2019 [i]	
Residential South Real Estate Development S.P.C (RSRED)	Commercial Entities	Risk weighting (look through approach) approved by the CBB	
Tunis Bay Investment Company (TBIC)	Commercial entity	Risk weighting of investment exposure	
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Project")	Commercial entities	Risk weighting of investment exposure	
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
Gulf Holding Company KSCC	Commercial entity	Risk weighting of investment exposure	
Athena Private School for Special Education WLL ("Athena")	Commercial entity	Risk weighting of investment exposure	
Harbour House Row Towers WLL	Commercial entity	Risk weighting of investment exposure	

Associates	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for consolidated and solo basis
Bahrain Aluminium Extrusion Company BSC	Commercial entity	Risk weighting of investment exposure
Enshaa Development Real Estate BSC (c)	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC	Commercial entity	Risk weighting of investment exposure
Al Areen Hotel S.P.C	Commercial entity	Risk weighting of investment exposure

[i] These are pass-through entities and hence the underlying investments are risk weighted

4 GROUP STRUCTURE (contd.)

The investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group.

The Central Bank of Bahrain, vide its letter dated 2 July 2020, has continued the exemption granted to GFH Financial Group from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits. The same will be reassessed by Central Bank of Bahrain on an annual basis.

The Central Bank of Bahrain vide its email dated 24 August 2020, has granted exemption to GFH Financial Group to apply the look-through treatment on Bank's equity ownership in subsidiaries/projects in India, Tunis and Morocco.
KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 31 December 2020, which can be accessed through the Annual report of KHCB. This document provides the risk and capital management disclosures of the Bank. The KHCB specific disclosures and requirements are disclosed in the annual report of KHCB and are not reproduced in this document.

This document intends to combine the risk and capital management disclosures of the Bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the consolidated financial statements of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

5 COMPOSITION OF CAPITAL

5.1 Three steps approach to reconciliation between balance sheet in published financial statements and the composition of capital disclosure template

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 31 December 2020.

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

US$ 000's

As at 31 December 2020	Consolidated Statement of Financial Position as in published financial statements	Consolidated Statement of Financial Position as per Regulatory Reporting	Reference
ASSETS			
Cash and bank balance	536,502	526,291	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	(15)	(15)	A
Treasury portfolio	1,838,546	1,838,558	
Of which Expected Credit Losses (ECL) as per FAS 30	(6,223)	(6,223)	A
Financing assets	1,267,266	1,267,266	
Of which Expected Credit Losses (ECL) as per FAS 30	(45,350)	(45,350)	A
Real estate investments	1,812,315	751,739	
Proprietary investments	256,108	1,012,649	
Of which Expected Credit Losses (ECL) as per FAS 30	(37)	(37)	A
Of which non-significant investments in financial entities	10,126	10,126	B
Of which significant investments in the common stock of financial entity	–	–	C
Co-investments	126,319	126,319	
Receivables and prepayments	605,658	718,898	
Of which Expected Credit Losses (ECL) as per FAS 30	(13,590)	(13,590)	A
Property and equipment	144,149	23,313	
Total assets	**6,586,863**	**6,275,159**	

As at 31 December 2018	Consolidated Statement of Financial Position as in published financial statements	Consolidated Statement of Financial Position as per Regulatory Reporting	Reference
LIABILITIES			
Clients' fund	130,935	130,935	
Placements from financial institutions, non-financials and individuals	2,418,000	2,418,000	
Customer current accounts	140,755	140,755	
Term financing	1,089,077	1,045,797	
Other liabilities	465,038	272,245	
Total liabilities	**4,243,805**	**4,007,732**	
Equity of investment account holders	**1,156,993**	**1,156,993**	
OWNERS' EQUITY			
Share capital	975,638	975,638	D
Treasury shares	(63,979)	(63,979)	E
Statutory reserve	19,548	19,548	F
Fair value reserve	5,593	5,593	G
Retained earnings	22,385	22,385	H
Foreign currency translation reserve	(46,947)	-	
Share grant reserve	1,093	1,093	I
Total equity attributable to shareholders of the Bank	**913,331**	**960,278**	
Non-controlling interests	272,733	150,156	
Of which Total minority interest in banking subsidiaries given recognition in CET1 capital	-	150,156	J
Total owners' equity	**1,186,064**	**1,110,434**	
Total liabilities, equity of investment account holders and owners' equity	**6,586,863**	**6,275,159**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 31 December 2020 which are unconsolidated for capital adequacy calculation purposes. For principal activities of these subsidiaries refer Note 1 of the consolidated financial statements as at 31 December 2020.

US$ 000's

Entity name	Principal activities	Total Assets *	Total Shareholders' equity *
Morocco Gateway Investment Company	Real estate development	154,002	104,459
India Project	Real estate development	583,496	466,656
Tunis Bay Investment Company	Real estate development	132,497	72,712
Gulf Holding Company	Real estate development	42,382	31,606
Residential South Real Estate Development Company (RSRED)	Real estate development	306,912	54,168
Falcon Cement Company	Industrial services	102,694	55,209
Athena School	Educational services	42,613	1,622

**The numbers disclosed are before considering acquisition accounting adjustments and intercompany eliminations.*

5 COMPOSITION OF CAPITAL (contd.)

Step 3: Composition of Regulatory Capital as at 31 December 2020

US$ 000's

	Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	975,638	D
Retained earnings	(26,957)	H
Accumulated other comprehensive income (and other reserves)	75,576	F+G+I
Not applicable		
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	65,512	J
Common Equity Tier 1 capital before regulatory adjustments	**1,089,769**	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	–	
Goodwill (net of related tax liability)	–	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	–	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	
Cash-flow hedge reserve	–	
Shortfall of provisions to expected losses	–	
Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
Not applicable		
Defined-benefit pension fund net assets	–	
Investments in own shares	(63,979)	
Reciprocal cross-holdings in common equity	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	
Mortgage servicing rights (amount above 10% threshold)	–	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	
Amount exceeding the 15% threshold	–	
of which: significant investments in the common stock of financials	–	
of which: mortgage servicing rights	–	
of which: deferred tax assets arising from temporary differences	–	
CBB specific regulatory adjustments	–	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	
Total regulatory adjustments to Common equity Tier 1	**–**	
Common Equity Tier 1 capital (CET1)	**1,025,790**	

	Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	–	
of which: classified as equity under applicable accounting standards	–	
of which: classified as liabilities under applicable accounting standards	–	
Directly issued capital instruments subject to phase out from Additional Tier 1	–	
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	–	
of which: instruments issued by subsidiaries subject to phase out	–	
Additional Tier 1 capital before regulatory adjustments	–	
Additional Tier 1 capital: regulatory adjustments		
Investments in own Additional Tier 1 instruments	–	
Reciprocal cross-holdings in Additional Tier 1 instruments	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
CBB specific regulatory adjustments	–	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**-**	
Tier 1 capital (T1 = CET1 + AT1)	**1,025,790**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	–	
Directly issued capital instruments subject to phase out from Tier 2	–	
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	32,756	
of which: instruments issued by subsidiaries subject to phase out	–	
Provisions	31,074	A
Tier 2 capital before regulatory adjustments	**63,830**	
Tier 2 capital: regulatory adjustments		
Investments in own Tier 2 instruments	–	
Reciprocal cross-holdings in Tier 2 instruments	26,258	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
National specific regulatory adjustments	–	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**90,088**	
Total capital (TC = T1 + T2)	**1,115,87 8**	
Total risk weighted assets	**8,264,273**	

5 COMPOSITION OF CAPITAL (contd.)

Step 3: Composition of Regulatory Capital as at 31 December 2020

	Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.41%	
Tier 1 (as a percentage of risk weighted assets)	12.41%	
Total capital (as a percentage of risk weighted assets)	13.50%	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	N/A	
of which: capital conservation buffer requirement	N/A	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	N/A	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.40%	
National minima including CCB (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	9.0%	
CBB Tier 1 minimum ratio	10.5%	
CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	10,126	B
Significant investments in the common stock of financials	–	C
Mortgage servicing rights (net of related tax liability)	–	
Deferred tax assets arising from temporary differences (net of related tax liability)	–	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	26,460	A
Cap on inclusion of provisions in Tier 2 under standardized approach	–	
N/A	–	
N/A	–	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	NA	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on AT1 instruments subject to phase out arrangements	NA	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on T2 instruments subject to phase out arrangements	NA	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA	

Disclosure template for main features of regulatory capital instruments

Issuer	GFH Financial Group BSC
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH (DFM), GFH (BHB), GFH (KSE)
Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain
Regulatory treatment	
Transitional CBB rules	Common Equity Tier 1
Post-transitional CBB rules	Common Equity Tier 1
Eligible at solo/group/group & solo	Group and solo
Instrument type (types to be specified by each jurisdiction)	Common equity shares
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 976 million
Par value of instrument	US$ 0.265
Accounting classification	Shareholders' equity
Original date of issuance	1999
Perpetual or dated	Not applicable
Original maturity date	Not applicable
Issuer call subject to prior supervisory approval	Not applicable
Optional call date, contingent call dates and redemption amount	Not applicable
Subsequent call dates, if applicable Coupons / dividends	Not applicable
Dividends	Dividends as decided by the shareholders
Coupon rate and any related index	Not applicable
Existence of a dividend stopper	Not applicable
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	Not applicable
Noncumulative or cumulative	Not applicable
Convertible or non-convertible	Not applicable
If convertible, conversion trigger (s)	Not applicable
If convertible, fully or partially	Not applicable
If convertible, conversion rate	Not applicable
If convertible, mandatory or optional conversion	Not applicable
If convertible, specify instrument type convertible into	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable
Write-down feature	Not applicable
If write-down, write-down trigger(s)	Not applicable
If write-down, full or partial	Not applicable
If write-down, permanent or temporary	Not applicable
If temporary write-down, description of write-up mechanism	Not applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
Non-compliant transitioned features	Not applicable
If yes, specify non-compliant features	Not applicable

6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

6.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2– 2%]. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Group's regulatory capital position at 31 December 2020 was as follows:

US$ '000s

Total Capital	31 December 2020
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	975,638
Less: Treasury shares	(63,979)
Statutory reserve	19,548
Retained earnings	(26,957)
Current interim cumulative net profit	49,342
Other reserves	6,686
Total CET1 capital before minority interest	**960,278**
Total minority interest in banking subsidiaries given recognition in CET1 capital	65,512
Total CET1 capital prior to the regulatory adjustments	**1,025,790**
Less: Investment in own shares	–
Total CET1 capital after to the regulatory adjustments	**1,025,790**
Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital	
Instruments issued by banking subsidiaries to third parties	
- AT1	32,756
- T2	31,074
General financing loss provisions	
- T2	26,258
Total Available AT1 & T2 capital	**90,088**
Total Capital	**1,115,877**

Risk-weighted exposures	31 December 2020
Credit risk	7,654,831
Market risk	56,625
Operational risk	552,821
Total Risk Weighted Exposures	**8,264,277**

CET1 ratio	12.41%
T1 ratio	12.41%
Total Capital Adequacy ratio (Total Capital)	**13.50%**

Total and Tier 1 Capital ratios of Khaleeji Commercial Bank BSC (c) (significant banking subsidiary of GFH) are as follows:

Capital adequacy ratio (CET1 and T1)	19.18%
Total capital Adequacy ratio (Total capital)	**20.31%**

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights.

7 CREDIT RISK

7.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's, placements with financial institutions, financing assets, and other receivables balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include investments carried at fair value through equity, investments designated at fair value through profit or loss, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (as significant financial entities which qualify as associates are treated separately for regulatory purposes).

7.2 Credit risk management

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from placements with other financial institutions, investment in sukuks, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

The Bank has an established internal process for assessing credit risk. The Bank has established investment and credit risk policies covering credit risk identification, and assessment, risk reporting, documentation and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments / facilities being committed. RMD lists down its concerns, performs internal rating and provides final risk comments on all applications prior to circulation for sign off. Renewals and reviews of investments / facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

Please refer Note 38 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk..

7.3 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts standardized approach. According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available.

7.4 Rating of exposures and risk weighting

The use of external rating by External Credit Assessment Institutions (ECAI) is generally limited to the Bank's exposure to financial institutions and investments in sukuks. For externally rated facilities the Bank uses ratings by Standards & Poor, Moody's, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. For financial institutions, domestic currency ratings are used to assess claims on domestic currency while foreign currency rating is used for foreign currency exposures. A preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

As per CBB guidelines, 100% of the RWA's financed by owners' equity (i.e. self-financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA's financed by equity of investment account holders [EIAH] are required to be included.

7 CREDIT RISK (contd.)

7.4 Rating of exposures and risk weighting (contd.)

Following is the Group's analysis for credit risk as computed for regulatory capital adequacy purposes:

US$ 000's

Exposure Class	Gross Credit Exposures	Credit Risk Mitigant	Credit Risk Exposure After Credit Risk Mitigant	Average Risk weights	Total Credit risk Weighted Exposure
Self-financed assets					
Cash items	13,348	–	13,348	0%	–
Total claims on sovereign and PSEs treated as sovereign	358,923	–	358,923	0%-100%	2,612
Standard Risk Weights for Claims on Banks	219,646	–	219,646	20%-100%	102,734
Short term Claims on Banks	147,179	–	147,179	20%	29,436
Preferential Risk Weight for Claims on Banks	4,232	–	4,232	20%	846
Claims on Corporates	1,520,375	(370,125)	1,150,250	100%-150%	**1,164,586**
Past Due Facilities	155,800	(31,552)	124,248	100%-150%	176,060
Investments in Equity Securities and Equity Sukuk	808,503	–	808,503	100%-800%	2,223,890
Holding of Real Estate	1,723,213	–	1,723,213	100%-400%	3,793,590
Others Assets	48,142	–	48,142	100%	48,142
Total self-financed assets (A)	**4,999,361**	**(401,676)**	**4,597,685**	**0%-800%**	**7,541,897**
Total regulatory capital required - self-financed assets (A x 12.5%)				**12.5%**	**942,737**
Financed by EIAH					
Total claims on sovereign	577,162	–	577,162	0%	–
Total Claims on PSEs	134,783	–	134,783	0%-100%	24,782
Standard Risk Weights for Claims on Banks	131,141	–	131,141	20%-50 %	56,236
Short term Claims on Banks	160,910	–	160,910	20%	32,182
Claims on Corporates	281,021	(14,233)	266,788	20%-150%	263,244
Total financed by EIAH (B)	**1,285,016**	**(14,233)**	**1,270,783**	**0%-100%**	**376,445**
Considered for credit risk (C) = (B x 30%)				**30%**	**112,934**
Total regulatory capital required - financed by EIAH (C x 12.5%)				**12.5%**	**14,117**
Total risk weighted assets (A+C)					**7,654,831**
Minimum regulatory capital required (at 12.5%)					**956,854**

7.5 Quantitative information on credit risk

7.5.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Group classified as per disclosure in the consolidated financial statements:

US$ 000's

Balance Sheet Items	Self Finance	EIAH	Total Gross Credit Exposure	Average Gross Credit Exposure*
Cash and bank balances	407,335	129,167	536,502	490,944
Treasury portfolio	1,097,808	740,737	1,838,545	1,733,661
Financing assets	573,531	693,735	1,267,266	1,259,280
Real estate investments	1,812,315	–	1,812,315	1,820,478
Proprietary investments	256,108	–	256,108	265,111
Co-investments	126,319	–	126,319	109,551
Receivables and prepayments	605,658	–	605,658	495,883
Property and equipment	144,149	–	144,149	119,679
Total funded exposure	**5,023,223**	**1,563,639**	**6,586,862**	**6,294,587**
Commitments	145,712	–	145,712	163,409
Restricted investment accounts	28,451	–	28,451	28,451
Total unfunded exposure	**174,163**	**-**	**174,163**	**191,860**

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2020. Assets funded by EIAH are geographically classified in GCC countries, Asia and Europe. Placements with financial and other institutions that are funded by EIAH are placed with Banks and financial institutions having maturity profile of up to 3 months.*

7.5.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

US$ 000's

	GCC Countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	451,512	4,105	1,349	32,788	46,748	536,502
Treasury portfolio	1,507,398	12	–	74,600	256,536	1,838,546
Financing assets	1,246,979	–	5,939	14,348	–	1,267,266
Real estate investment	982,767	490,031	339,517	–	–	1,812,315
Proprietary investment	205,089	–	–	–	51,019	256,108
Co-investments	38,975	–	49,199	35,663	2,482	126,319
Receivables and prepayments	513,902	10,116	11,128	14,840	55,672	605,658
Property and equipment	139,794	4,333	–	–	22	144,149
Total assets	**5,086,416**	**508,597**	**407,132**	**172,239**	**412,479**	**6,586,863**
Equity of investment account holders	1,133,272	4,000	19,610	–	111	1,156,993
Off-Balance sheet items						
Commitments	113,141	2,879	10,558	19,134	–	145,712
Restricted investment accounts	25,817	–	–	–	2,634	28,451

7 CREDIT RISK (contd.)

7.5 Quantitative information on credit risk (contd.)

7.5.3 Credit exposure by industry

The classification of credit exposure by industry was as follows:

US$ 000's

	Banks and Financial Institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	526,253	5,571	4,678	536,502
Treasury portfolio	1,140,276	56,184	642,086	1,838,546
Financing assets	112,111	555,192	599,963	1,267,266
Real estate investments	–	1,812,315	–	1,812,315
Proprietary investment	29,733	161,940	64,435	256,108
Co-investment	–	103,837	22,482	126,319
Receivables and prepayments	458,794	36,820	110,044	605,658
Property and equipment	3,137	22,233	118,779	144,149
Total assets	**2,270,304**	**2,754,092**	**1,562,467**	**6,586,863**
Equity of Investment account holders	82,707	156,952	917,334	1,156,993
Off-Balance sheet items				
Commitments	–	65,102	80,610	145,712
Restricted investment accounts	–	25,817	2,634	28,451

7.5.4 Credit exposure by maturity

The maturity profile of credit exposures based on expected maturity was as follows:

US$ 000's

	Up to 3 Months	3 to 6 Months	6 Months–1 Year	1 to 3 Years	Over 3 Years	No Stated Maturity	Total
Assets							
Cash and bank balances	515,867	4,973	10,393	5,269	–	–	536,502
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	–	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	–	1,267,266
Real estate investment	–	–	–	871,993	940,322	–	1,812,315
Proprietary investments	–	2,448	56,273	110,131	87,256	–	256,108
Co-investments	–	2,676	8,987	108,597	6,059	–	126,319
Receivables and Prepayments	128,512	23,874	43,250	410,022	–	–	605,658
Property and equipment	–	–	–	–	144,149	–	144,149
	1,654,289	**154,029**	**279,031**	**2,337,709**	**2,161,805**	**-**	**6,586,863**
Equity of investment account holders	283,905	194,080	285,764	193,745	199,499	–	1,156,993
Off balance sheet items							
Commitments	21,171	15,601	25,133	65,444	18,363	–	145,712
Restricted investment accounts	–	–	–	28,451	–	–	28,451

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

7.6 Large exposures

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.

All large exposures in excess of 15% of capital base as at 31 December 2020 has been risk weighted at 800%. Also the combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

The following are the large exposure counterparties in excess of 15% of capital base.

US$ 000's

Single exposure in excess of 15% of capital base	% of capital	Exposure as at 31 December 2020
Counterparty A	27.88%	311,107
Counterparty B	15.98%	178,359

7.7 Impaired facilities and past-due exposures

The Bank classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Currently the Bank does not have any exposures that are collateralized. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the Investment units and RMD.

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account and write-off of an exposure is provided for in Note 38 to the consolidated financial statements. The details of changes in impairment allowances for financial assets are provided for in the notes to the consolidated financial statements.

All impaired and past due credit exposures at 31 December 2020 mainly relate to the real estate and development infrastructure sectors.

7.8 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily related to placements with other financial institutions, investments in sukuks and in respect of investment related funding made to its projects. The funding made to the projects are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the projects promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigants.

7.9 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 27 to the consolidated financial statements.

7.10 Exposure to highly leveraged and other high-risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

7.11 Restructured facilities

As at 31 December 2020, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 38 to the consolidated financial statements). In certain cases, on a need basis, the Bank supports its projects by providing credit facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the RMD. Although in general no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project assets. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

7.12 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments and other investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

Please refer to the notes to the consolidated financial statements for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

7 CREDIT RISK (contd.)

7.12 Equity investments held in banking book (contd.)

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place with inputs from the Investment department, Finance department and RMD. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity, asset management, real estate development and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Group.

Information on equity investments	US$ 000's
Privately held	789,456
Quoted in an active market	19,047
Dividend income	11,079
Realised gain/ (loss) during the year	-

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

US$ 000's

	Gross exposure	**Risk weight**	**Risk weighted exposure**	**Capital charge 12.5%**
Listed equity investment	19,047	100%	19,047	2,381
Unlisted equity investment*	623,863	150%	935,795	116,974
Significant investment in the common shares of financial entities >10%	10,126	250%	25,315	3,164
Other exposures with excess of large exposures limits	155,467	800%	1,243,736	155,467
Premises occupied by the bank*	17,812	100%	17,812	2,227
All other holdings of real estate*	1,522,907	200%	3,045,813	380,727
Investment in listed real estate companies	13	300%	39	5
Investment in unlisted real estate companies*	182,481	400%	729,924	91,241
Total	**2,531,716**		**6,017,481**	**752,186**

**Includes amounts of risk weighted assets arising from full consolidation of KHCB.*

8 MARKET RISK

8.1 Introduction

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, sukuk prices and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. As a matter of general policy, the Bank does not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of market risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk and commodities risk. Hence, from a capital computation perspective the Bank's market risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

8.2 Foreign exchange risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Assets and Liabilities Committee ('ALCO') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. ALCO provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and ALCO are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per the risk appetite of the bank. The Group has reported net exposures denominated in various foreign currency as of 31 December from various financial instruments and structural foreign currency exposure arising from unhedged equity investments in its foreign subsidiaries and investments (refer to Note 38(c) in the Financials section).

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Bank's net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) has been presented in Note 37 to the consolidated financial statements.

8.3 Capital requirements for market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Group.

US$ 000's

Self Financed	31st December 2020	Maximum During the Year	Minimum During the Year
Foreign exchange risk - [A]	4,530	4,530	4,021
Risk weighted assets – [B] = (A*12.5)	56,625	56,625	50,263
Capital requirement – (B*12.5%)	7,078	7,078	6,283

9 OPERATIONAL RISK

9.1 Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of operational risk under the Basel II and CBB capital computation framework.

9.2 Operational risk management

Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of operational risk management.

The Bank has an operational risk management framework which includes components such as Key Risk Indicators (KRIs), operational loss data and Risk & Control Self Assessment (RCSA) across the Bank.

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Defense' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.

9 OPERATIONAL RISK (contd.)

9.2 Operational risk management (contd.)

The rationale behind the 3 Lines of Defense are:

- The Business Unit heads are ultimately accountable for the 1st Line of Defense in their business areas;
- The Risk Management function is ultimately accountable for the 2nd Line of Defense for the Bank; and
- The Internal Audit is ultimately accountable for the 3rd Line of Defense for the Bank.

The Bank's definition of operational risk also incorporates legal and Sharia compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. However, operational risk that has a direct impact upon reputation (and by default a subsequent impact on profit and / or performance) is formally considered and reported upon. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), the Bank recognises that operational risk is attached to the management of those traditional risks. For example operational risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual as well as to changes such as the introduction of new products, projects or program activities.

9.3 Legal compliance and litigation

The Bank has established approved policies in relation to legal, regulatory and compliance risk; and have dedicated Compliance and Legal departments in place. All contracts, documents, etc have to be reviewed by the legal department as well. For information on contingencies, refer note 37 to the consolidated financial statements.

9.4 Sharia compliance

The Sharia Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Sharia and specific fatwas, rulings and guidelines issued. The Bank also has a dedicated internal Sharia audit function, who performs an ongoing independent review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Sharia standards prescribed by AAOIFI while the Coordination and Implementation function assists the SSB in issuing Sharia pronouncements/ resolutions about the products and services offered by the Group. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Sharia rules and principles.

9.5 Capital requirements for operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted exposure that are subject to capital charge of 12.5%.

US$ '000s

	Average gross income	Risk weighted exposure	Capital charge at 12.5%
Operational risk	294,838	552,821	69,103

10. OTHER TYPES OF RISK

10.1 Introduction

Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its risk management framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP.

10.2 Liquidity risk

Liquidity risk is the inability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. This also includes the inability of the Bank to liquidate its assets at their expected prices in a reasonable period. The Group's approach to managing liquidity is to ensure that it should always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of various committees, Treasury and other concerned departments in management of liquidity. The Liquidity Risk policy and Liquidity Risk appetite limits stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed to cover both normal and severe bank specific and market specific conditions. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Asset and Liability Management Committee of the Bank (ALCO) Audit & Risk Committee (ARC) and to the Board of Directors for review and strategic decision. For maturity profile of assets and liabilities refer Note 33 of the consolidated financial statements.

The following are the key liquidity ratios which reflect the liquidity position of the Group:

Liquidity Ratios	31st December 2020	Maximum	Minimum
Liquid assets : Total assets	31.38%	31.38%	29.67%
Liquid assets : Total deposits	53.74%	53.74%	50.52%
Short-term assets : Short-term liabilities	65.25%	84.04%	65.25%
Illiquid assets : Total assets	68.62%	70.33%	68.62%

10.3 Management of profit rate risk in the banking book

Profit rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. Changes in profit rates affect a bank's earnings by changing its net profit income and the level of other profit-sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when profit rates change.

The sources of profit rate risk relevant for Bank's balance sheet size and complexity comprises mainly of:

- • Repricing Risk: The primary form of profit rate risk arises from timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities, and OBS positions.
- • Basis risk: Another important source of profit rate risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or repricing frequencies.

Yield Curve Risk: Yield curve risk is the risk associated with either a flattening or steepening of the yield curve. Mismatch in maturity or repricing dates of assets, liabilities and off balance sheet items expose the Bank to risks that arises from non-parallel shift in yield curve.

- Optionality risk: This risk arises from the discretion that a bank's customers and counterparties have in respect of their contractual relations with the bank in the form of financial instruments. Embedded options are diverse and bank-specific and include prepayment risk on fixed rate loans and deposits and switching risk on non-interest bearing current accounts.

The Board is responsible for the overall management of the profit rate risk. ALCO helps the Board in determining the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The objective of profit rate risk measurement is to maintain the Bank's profit rate risk exposure within risk appetite limits. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of profit rate risk for the Bank. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention.

The limit system enables management to control profit rate risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios.

Standard scenarios that are considered include a 100 basis points (bps) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2020 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 38 c) of the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 100 bps parallel increase / (decrease) is as below:

100 bps parallel increase / (decrease)	US$ 000's
At 31 December 2020	± 16,892
Average for the year	±± 15,584
Maximum for the year	±± 16,892
Minimum for the year	±± 15,593

10.4 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 34(a) and 34 (b) of the consolidated financial statements respectively.

10. OTHER TYPES OF RISK (contd.)

10.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 31 December 2020, the Bank did not have any open positions on foreign exchange contracts.

10.6 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks. .

10.7 Displaced commercial risk

Displaced Commercial Risk (DCR) 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 competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

10.8 Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

11. ICAAP CONSIDERATIONS

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP policy and framework has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, strategic risk and reputational risk etc. The Bank uses the ICAAP document for internal capital monitoring purposes.

12. PRODUCT DISCLOSURES

12.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Sharia compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Investment Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Sharia Supervisory Board of the Bank.

12.2 Customer complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

12.3 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Sharia Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Sharia, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income.

Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

For the qualitative disclosures pertaining to EIAH of KHCB, please refer the annual report of KHCB.
The quantitative disclosures below are pertaining to the EIAH from the Bank.

The details of Bank's income distribution to IAH holders for the last five years are given below:

US$ '000's

As at 31 December	2020	2019	2018	2017	2016
Allocated income to IAH	6	6	10	11	12
Distributed profit	6	6	10	10	11
Mudarib fees*	0.3	0.3	0.5	0.5	–
Average rate of return earned	1.03%	1.04%	1.10%	0.88%	0.89%
IAH [1]	600	591	924	1,149	1,280
Profit Equalisation Reserve (PER)	9	9	9	9	8
Investment Risk Reserve (IRR)	5	6	5	5	5
Profit Equalisation Reserve-to-IAH (%)	–	–	–	–	–
Investment Risk Reserve-to-IAH (%)	–	–	–	–	–

[1] Represents average balance

** Includes contribution towards deposit protection scheme*

12. PRODUCT DISCLOSURES (contd.)

12.4 Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Sharia, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Sharia principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and;
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Sharia, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made in RIA for the past five years.

For the qualitative disclosures pertaining to RIA's of KHCB, please refer the annual report of KHCB.

Consolidated Financial Statements

As our financial statements attest, GFH continues to grow and deliver value to its shareholders and investors through organisational efficiency as well as sustainable business practices.

4

Sharia Supervisory Board Report on the activities of GFH Financial Group

for the financial year ending 31 December 2020

9 February 2021
27 Jumada II 1442 AH

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2020.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2020 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
- Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
- Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the Zakah guide.
- The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

Praise be to Allah, Lord of the worlds.

Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaquby | **Sheikh Abdulla Al Manie** | **Sheikh Abdulaziz Al Qassar** | **Sheikh Fareed Hadi**

Independent Auditors' Report to the Shareholders

GFH Financial Group B.S.C, Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of GFH Financial Group B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and consolidated results of its operations, changes in owners' equity, cash flows, changes in restricted investment accounts and 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 Sharia Principles and Rules as determined by the Group's Sharia Supervisory Board during the year ended 31 December 2020.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (the "Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the 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

Independent Auditors' Report to the Shareholders (contd.)

Impairment allowance on financing assets and assets acquired for leasing
(refer to accounting policy in Note 4(o), use of estimates and judgments in Note 5 and management of credit risk in Note 38 (a).

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets and assets acquired for leasing representing 19 % of total assets. • The estimation of expected credit losses ("ECL") on financing assets and assets acquired for leasing involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are: **a. Use of complex models** Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default ("LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs. **b. Economic scenarios** 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. **c. Management overlays** Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, including the potential impacts of COVID-19. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts especially in the current COVID-19 environment.	Our audit procedures included: **Control testing** We performed walk throughs to identify the key systems, applications and controls used in the ECL processes. Key aspects of our controls testing involved the following: • testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model; • evaluating the design and operating effectiveness of the key controls over the application of staging criteria; • evaluating controls over validation, implementation and model monitoring; • evaluating controls over authorization and calculation of post model adjustments and management overlays; and • testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities. **Tests of details** • Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and • Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data. **Use of specialists** • We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process; • We involved our credit risk specialists to assist us in: a. evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); b. on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); c. evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and d. evaluating the overall reasonableness of the management economic forecast by comparing it to external market data. **Disclosures** • evaluating the adequacy of the Group's disclosures related to ECL on financing assets and assets acquired for leasing by reference to the relevant accounting standards.

Independent Auditors' Report to the Shareholders (contd.)

Valuation of unquoted equity investments

Refer to accounting policy in Note 4f(iv) and Note 36 for disclosures relating fair value of financial instruments.

Description	How the matter was addressed in our audit
We considered this as a key audit area we focused on because the valuation of unquoted equity securities held at fair value requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs and assumptions.	Our audit procedures included: • we involved our own valuation specialists to assist us in: • evaluating the appropriateness of the valuation methodologies used by comparing with observed industry practice; • evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms. • comparing the key underlying financial data inputs used in the valuation to external sources, investee company financial and management information, as applicable; • evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.

Carrying value of development properties

Refer to the accounting policy in note 4(l) and note 9 for disclosures related to development properties.

Description	How the matter was addressed in our audit

Development projects comprise projects under construction and long-term infrastructure projects. Development properties are stated at the lower of cost and net realisable value.
 	
We focused on this area due to:
• the significance of development property representing 19% of total assets (by value); and
• and complexity associated with the accounting for development properties under construction. The Group engages external valuers to assess the expected net realisable values of these development properties. The assessment of net realisable value involves significant judgment and estimation uncertainty
	Our audit procedures included:
	• evaluating whether management's classification of real estate under development properties was appropriate;
	• evaluating the qualifications and competence of the external valuers and reviewing the terms of their engagement to determine whether there were any matters that might have affected their objectivity or limited their scope of work;
	• for projects under construction, to evaluate appropriateness of carrying value of the work in progress at the balance sheet date, on a sample basis, we performed audit procedures over costs of construction to date, surveyor reports on physical completion and sub-developer contract arrangements;
	• we involved our valuation specialists, who used their knowledge of the industry and available historical data to assist in:
	  • evaluating the appropriateness of the valuation methodologies used by the external valuers;
	  • evaluating the reasonableness of key inputs and assumptions such as expected sale prices on completion and estimates of costs to complete. Where any component was out of our expected range, we undertook additional procedures including sensitivity analysis, to understand the effect on the assessed values and carrying amounts in the consolidated financial statements;
	• on a sample basis, performed audit procedures to assess whether the source data used for the assessment of the net realisable values are reasonable by comparing it to the underlying supporting information to obtain insight into the calculation model used to determine the net realisable value; and
	• Based on the outcome of our evaluation, we assessed the adequacy of disclosures in the consolidated financial statements by reference to the relevant accounting standards.

Independent Auditors' Report to the Shareholders (contd.)

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 Chairman's report and other sections which forms part of the annual report.

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 Sharia Rules and Principles as determined by the Group's Sharia 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:

a) 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.

b) 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.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

Independent Auditors' Report to the Shareholders (contd.)

d) Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

e) 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.

f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 2 of the Rulebook issued by the CBB, we report that:

- the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- the financial information contained in the Chairman's report is consistent with the consolidated financial statements;
- 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
- 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 Jalil AlAali.

KPMG Fakhro
Partner Registration No. 100
15 February 2021


Digital Distribution & Sales
Analysis
+89%
AR Consumption growth
Average user base
Product relative effectiveness
Social netowks influence
Community involvement


02/11/2017
+33
+23
Content Consumption

Consolidated Statement of Financial Position

as at 31 December 2020

US$ 000's

	Note	31 December 2020	31 December 2019 (restated) notes 4(a) & (12)
ASSETS			
Cash and bank balances	6	536,502	364,598
Treasury portfolio	7	1,838,546	1,588,661
Financing assets	8	1,267,266	1,272,777
Investment in real estate	9	1,812,315	1,806,009
Proprietary investments	10	256,108	268,175
Co-investments	11	126,319	96,507
Receivables and prepayments	13	605,658	444,689
Property and equipment	14	144,149	103,857
Total assets		**6,586,863**	5,945,273
LIABILITIES			
Clients' funds		130,935	70,858
Placements from financial, non-financial institutions and individuals	15	2,418,000	2,447,249
Customer current accounts		140,756	147,487
Term financing	16	1,089,077	301,411
Payables and accruals	17	465,038	466,852
Total liabilities		**4,243,806**	3,433,857
Total equity of investment account holders	18	**1,156,993**	1,218,545
OWNERS' EQUITY			
Share capital	19	975,638	975,638
Treasury shares	19	(63,979)	(73,419)
Statutory reserve	19	19,548	125,312
Investment fair value reserve		5,593	9,244
Foreign currency translation reserve		(46,947)	(29,425)
Retained earnings		22,385	(4,005)
Share grant reserve	20	1,093	1,198
Total equity attributable to shareholders of Bank		**913,331**	1,004,543
Non-controlling interests		272,733	288,328
Total owners' equity		**1,186,064**	1,292,871
Total liabilities, equity of investment account holders and owners' equity		**6,586,863**	5,945,273

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

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated
Income Statement

for the year ended 31 December 2020

US$ 000's

	Note	**2020**	2019 (restated) note 4(a)(i)(2)
Continuing operations			
Investment banking income			
Asset management		4,895	2,880
Deal related income		75,736	92,971
		80,631	95,851
Commercial banking income			
Income from financing		80,400	83,113
Treasury and investment income		42,864	27,924
Fee and other income		4,582	15,189
Less: Return to investment account holders	18	(32,587)	(40,018)
Less: Finance expense		(29,946)	(18,418)
		65,313	67,790
Income from proprietary and co-investments			
Direct investment income, net		20,436	10,520
Restructuring related income		-	29,406
Dividend from co-investments		8,854	1,959
		29,290	41,885
Real estate income			
Development and sale		14,209	37,872
Rental and operating income		5,248	2,543
		19,457	40,415
Treasury and other income			
Finance income		19,395	24,081
Dividend and net gain on treasury investments		70,282	34,531
Other income, net	22	39,026	17,059
		128,703	75,671
Total income		**323,394**	321,612
Staff costs	23	47,072	50,590
Other operating expenses	24	65,186	51,845
Finance expense		134,994	111,330
Impairment allowances	25	26,799	54,264
Total expenses		**274,051**	268,029
Profit from continuing operations		**49,343**	53,583
Loss from assets held-for-sale and discontinued operations, net		-	(467)
Profit for the year		**49,343**	53,116
Attributable to:			
Shareholders of the Bank		45,095	66,033
Non-controlling interests		4,248	(12,917)
		49,343	53,116
Earnings per share			
Basic and diluted earnings per share (US cents)		**1.35**	1.96
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**1.35**	1.96

The consolidated financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2020

US$ 000's

2020	Share capital	Treasury share	Statutory reserve	Investment fair value reserve
Balance at 1 January 2020	975,638	(73,419)	125,312	9,245
Profit for the year	–	–	–	–
Fair value changes during the year	–	–	–	5,036
Reclassified to income on impairment of quoted equity securities	–	–	–	12,000
Reclassified to income on disposal of sukuk	–	–	–	(20,688)
Total recognised income and expense	**-**	**-**	**-**	**(3,652)**
Additional capital contribution to subsidiary (note 1)	–	–	–	–
Modification loss on financing assets (notes 2a, 8)	–	–	–	–
Government grant (notes 2b, 26)	–	–	–	–
Dividends declared for 2019	–	–	–	–
Transfer to zakah and charity fund	–	–	–	–
Transfer to statutory reserve	–	–	4,509	–
Purchase of treasury shares	–	(107,518)	–	–
Sale of treasury shares	–	133,483	–	–
Treasury shares acquired for share incentive scheme	–	(16,525)	–	–
Foreign currency translation differences	–	–	–	–
NCI arising from acquisition of a subsidiary (note 21)	–	–	–	–
Distribution to NCI	–	–	–	–
Adjustment of accumulated losses against statutory reserve (note 19)	–	–	(110,273)	–
Balance at 31 December 2020	**975,638**	**(63,979)**	**19,548**	**5,593**

2019	Share capital	Treasury share	Statutory reserve	Investment Fair value reserve
Balance at 1 January 2019 (as previously reported)	975,638	(85,424)	117,301	(4,725)
Reclassification of a subsidiary held-for-sale to held-for-use (note 12)	–	–	–	–
Balance at 1 January 2019 (restated)	975,638	(85,424)	117,301	(4,725)
Profit for the year	–	–	–	–
Fair value changes during the year	–	–	–	13,969
Total recognised income and expense	–	–	–	13,969
Bonus shares issued (note 19)	55,000	–	–	–
Extinguishment of treasury shares (note 19)	(55,000)	50,549	–	–
Dividends declared (note 19)	–	–	–	–
Transfer to zakah and charity fund	–	–	–	–
Issue of shares under incentive scheme	–	–	–	–
Purchase of treasury shares	–	(183,174)	–	–
Sale of treasury shares	–	176,669	–	–
Treasury shares acquired for share incentive				
scheme (note 19)	–	(32,039)	–	–
Acquisition of NCI without a change in control (note 21)	–	–	–	–
Transfer to statutory reserve	–	–	8,011	–
Foreign currency translation differences	–	–	–	–
Disposal of subsidiary held-for-sale	–	–	–	–
Balance at 31 December 2019	975,638	(73,419)	125,312	9,244

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Attributable to shareholders of the Bank					
Foreign currency translation reserve	**Retained earnings**	**Share grant reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
(29,425)	(4,005)	1,198	1,004,544	288,327	1,292,871
–	45,095	–	45,095	4,248	49,343
–	–	–	5,036	412	5,448
–	–	–	12,000	–	12,000
–	–	–	(20,688)	–	(20,688)
–	**45,095**	**–**	**41,443**	**4,660**	**46,103**
–	(59,893)	–	(59,893)	(14,311)	(74,204)
–	(13,893)	–	(13,893)	(11,179)	(25,072)
–	3,690	–	3,690	1,267	4,957
–	(30,000)	–	(30,000)	–	(30,000)
–	(1,388)	–	(1,388)	(258)	(1,646)
–	(4,509)	–	–	–	–
–	–	–	(107,518)	–	(107,518)
–	(22,985)	–	110,498	–	110,498
–	–	(105)	(16,630)	130	(16,500)
(17,522)	–	–	(17,522)	(3,084)	(20,606)
–	–	–	–	64,147	64,147
–	–	–	–	(56,966)	(56,966)
–	110,273	–	–	–	–
(46,947)	**22,385**	**1,093**	**913,331**	**272,733**	**1,186,064**

Attributable to shareholders of the Bank						
Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Non-controlling interests held-for-sale	Total owners' equity
(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
–	–	–	–	25,396	(25,396)	–
(43,380)	98,318	1,086	1,058,814	348,804	15,160	1,422,778
–	66,033	–	66,033	(12,917)	–	53,116
–	–	–	13,969	–	–	13,969
–	66,033	–	80,002	(12,917)	–	67,085
–	(55,000)	–	–	–	–	–
–	4,451	–	–	–	–	–
–	(30,000)	–	(30,000)	–	–	(30,000)
–	(2,219)	–	(2,219)	(223)	–	(2,442)
–	–	112	112	–	–	112
–	–	–	(183,174)	–	–	(183,174)
–	(26,596)	–	150,073	–	–	150,073
–	–	–	(32,039)	–	–	(32,039)
–	(51,412)	–	(51,412)	(40,588)	–	(92,000)
–	(8,011)	–	–	–	–	–
13,955	–	–	13,955	(6,748)	–	7,207
–	431	–	431	–	(15,160)	(14,729)
(29,425)	(4,005)	1,198	1,004,543	288,328	–	1,292,871

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

US$ 000's

	2020	2019 (restated)
OPERATING ACTIVITIES		
Profit for the year	49,343	53,116
Adjustments for:		
Income from commercial banking	(41,402)	(22,133)
Income from proprietary investments	(29,290)	(12,344)
Income from treasury and other income	(88,915)	(34,531)
Foreign exchange (gain) / loss	(1,329)	2,264
Restructuring related income	-	(29,406)
Finance expense	164,940	129,748
Impairment allowances	26,798	54,264
Depreciation and amortisation	6,150	2,173
	86,295	143,151
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	450,752	(280,706)
Financing assets	5,511	(108,524)
Other assets	(161,469)	(306,240)
CBB Reserve and restricted bank balance	39,623	(27,176)
Clients' funds	60,077	24,218
Placements from financial and non-financial institutions	(29,250)	818,860
Customer current accounts	(6,732)	(30,421)
Equity of investment account holders	(61,552)	321,635
Payables and accruals	(30,204)	(68,948)
Net cash generated from operating activities	**353,051**	485,849

INVESTING ACTIVITIES		
Payments for purchase of equipment	(674)	(860)
Proceeds from sale of proprietary and co-investments, net	(39,230)	2,156
Purchase of treasury portfolio, net	(621,110)	(353,003)
Proceeds from sale of investment in real estate	6,256	38,805
Dividends received from proprietary investments and co-investments	11,936	5,426
Advance paid for development of real estate	(19,751)	(25,792)
Net cash flows from acquisition of subsidiaries	26,803	-
Net cash used in investing activities	**(635,770)**	(333,268)

US$ 000's

	2020	2019 (restated)
FINANCING ACTIVITIES		
Term financing, net	787,666	28,613
Finance expense paid	(165,778)	(106,078)
Dividends paid	(37,433)	(31,037)
Acquisition of NCI	–	(9,026)
Purchase of treasury shares, net	(13,814)	(65,140)
Net cash generated from / (used in) financing activities	**570,641**	(182,668)
Net increase/(decrease) in cash and cash equivalents during the year	**287,922**	(30,087)
Cash and cash equivalents at 1 January *	367,533	397,620
Cash and cash equivalents at 31 December	**655,455**	367,533
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	492,031	278,251
Placements with financial institutions (original maturities of 3 months or less)	163,424	89,282
	655,455	367,533

** net of expected credit loss of US$ 15 thousand (31 December 2019: US$ 1,098 thousand)*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2020

31 December 2020	**Balance at 1 January 2020**		
Company	**No. of units (000)**	**Average value per share US$**	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.33	50
Al Basha'er Fund	13	7.91	103
Safana Investment (RIA 1) #	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633
			28,459

31 December 2019	Balance at 1 January 2019		
Company	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50
Al Basha'er Fund	13	7.03	91
Safana Investment (RIA 1) #	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633
			28,447

 # Represents restricted investment accounts of Khaleeji Commercial Bank BSC, a consolidated subsidiary.

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

	Movements during the year						Balance at 31 December 2020		
	Investment/ (withdrawal) US$ 000's	**Revaluation US$ 000's**	**Gross income US$ 000's**	**Dividends paid US$ 000's**	**Group's fees as an agent US$ 000's**	**Administration expenses US$ 000's**	**No. of units (000)**	**Average value per share US$**	**Total US$ 000's**
	–	–	–	–	–	–	150	0.33	50
	(10)	–	–	–	–	–	12	7.91	95
	–	–	–	–	–	–	6,254	2.65	16,573
	–	–	–	–	–	–	3,434	2.65	9,100
	–	–	–	–	–	–	2,633	1	2,633
	(10)	**–**	**–**	**–**	**–**	**–**			**28,451**

	Movements during the year						Balance at 31 December 2019		
	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
	–	–	–	–	–	–	150	0.33	50
	–	13	–	–	–	–	13	8	104
	–	–	–	–	–	–	6,254	2.65	16,573
	–	–	–	–	–	–	3,434	2.65	9,100
	–	–	–	–	–	–	2,633	1.00	2,633
	–	13	–	–	–	–			28,460

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

for the year ended 31 December 2020

US$ 000's

	2020	2019
Sources of zakah and charity fund		
Contributions by the Group	1,646	2,437
Non-Islamic income (note 31)	129	336
Total sources	**1,775**	2,773
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(1,839)	(2,001)
Total uses	**(1,839)**	(2,001)
Surplus of sources over uses	(64)	772
Undistributed zakah and charity fund at 1 January	5,407	4,635
Undistributed zakah and charity fund at 31 December (note 17)	**5,343**	5,407
Represented by:		
Zakah payable	1,493	383
Charity fund	3,850	5,024
	5,343	5,407

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

1. REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank's sukuk certificates are listed on London Stock Exchange.

The Bank's activities are regulated by the CBB and supervised by a Sharia Supervisory Board. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles determined by the Bank's Sharia Supervisory Board.

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The significant subsidiaries of the Bank which consolidated in these financial statements are:

Investee name	Country of incorporation	Effective ownership interests 2020	Activities
GFH Capital Limited	United Arab Emirates	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain	55.41%	Islamic retail bank
Al Areen Project companies	Kingdom of Bahrain	100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')	Kingdom of Bahrain	51.72%	Cement manufacturing
GBCORP BSC (c) (GBCORP) (note 21)	Kingdom of Bahrain	50.41%	Islamic investment firm
Residential South Real Estate Development Company (RSRED)	Kingdom of Bahrain	100%	Real estate development
Athena Private School for Special Education WLL (note 21)	Kingdom of Bahrain	100%	Educational institution
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	90.27%	Real estate development
Tunis Bay Investment Company ('TBIC')	Cayman Islands	82.97%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Cayman Islands	80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	51.18%	Investment in real estate
Roebuck A M LLP (note 21)	United Kingdom	60%	Property asset management Company

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

** During the year, KHCB issued Additional Tier 1 (AT1) securities of US$ 191 million which were fully subscribed for by the Bank in the form of cash and transfer of certain assets and led to change in the Bank's share of net assets and attribution of profits in KHCB.. As KHCB is an existing subsidiary, the transaction is accounted for as transactions between equity holders while retaining control (i.e. non-controlling interests of KHCB and the Bank). Accordingly, the premium of US$ 59.8 million towards the subscription of the AT1 securities (representing the excess of the difference between contribution and parents share of net assets of the subsidiary) is considered as an adjustment to retained earnings and noncontrolling interests of KHCB. The share of costs of the AT1 issuance attributable to the non-controlling interests of KHCB were charged to the non- controlling interests component in equity.*

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and in conformity with Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards (IFRS), except for:

i) 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 profit or loss as required by FAS. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. (refer note 10).

   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; and

ii) recognition of financial assistance received from the government and/ or regulators as part of its COVID-19 support measures that meets the government grant requirement, in equity, instead of 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 recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note 26 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 have been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

3. BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of investment securities.

The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), which is also the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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 5.

The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include: a) to provide investment opportunities and manage assets on behalf of its clients as an agent, b) to provide commercial banking services , c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Segments:
To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets. Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns. Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include proprietary private equity, co-investments and strategic non-banking investments.
Commercial banking	This includes all Sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.
Real Estate development	This business unit is primarily involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.
Corporate and treasury	All common costs and activities that are undertaken at the Group level, including treasury and residual investment assets, is considered as part of the Corporate and treasury activities of the Group.

Each of the above operating segments, except commercial banking which is a separate subsidiary has its own dedicated team of professionals and are supported by a common placement team and support units.

The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

3. BASIS OF MEASUREMENT (contd.)

Sources of revenue:
The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	Products	Types of revenue
Investment banking activity	Deal-by-deal offerings of private equity, income yielding asset opportunities	Deal related income, earned by the Group from investee companies in connection with new acquisitions Fee based income, in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature
Commercial banking income	Islamic Sharia compliant corporate, institutional and retail banking financing and cash management products and services	Financing income, fees and investment income (net of direct funding costs)
Proprietary investments	Proprietary investments comprise the Group's strategic and co-investment exposure. This also includes non-banking subsidiaries and equity -accounted investees where the Bank has significant influence	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments, co-investments and share of profit / (loss) of equity accounted investees Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments
Co-investment	Represent the Group's co-investment along with its clients in the products promoted by the Group	Dividends, gain / (loss) on co-investments of the Bank
Real estate	Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	Development and sale income, from development and sale of real estate projects of the Group based on percentage of completion (POC) method. Rental and operating income, from rental and other ancillary income from investment in real estate.
Treasury operations	Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by the Group except as described in note 2 "statement of compliance" above and those arising from adoption of the following standards and amendments to standards.

(a) Impact of new accounting standards and changes in accounting policies

(i) Early adoption of new standards issued but not yet effective

1) FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The Group has early adopted FAS 31 as issued by AAOIFI in 2019 effective date of 1 January 2021. The objective of this standard is to establish the principles of accounting and financial reporting for investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

The Group uses Wakala structure to raises funds from interbank market and from customers, and these were reported as liabilities under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019. All funds raised using Wakala structure, together called "Wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent mudarba arrangement.

This comingled pool of funds is invested in a common pool of assets of in the manner which the Group deems appropriate without any restrictions as to where, how and for what purpose the funds should be invested. After adopting FAS 31 on 1 January 2020, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment account holders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. The adoption of this standard has resulted in a change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 18).

2) FAS 33 Investment in sukuks, shares and similar instruments

The Group has early adopted FAS 33 as issued by AAOIFI effective 1 January 2021. The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institution's investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments.

The standard classifies investments into equity type, debt-type and other investment instruments. Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. Investments in equity instruments must be at fair value and those classified as fair value through equity will be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The standard is effective 1 January 2021 with an option to early adopt and is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the year.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

Changes in accounting policies

Categorization and classification

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

i) equity-type instruments
ii) debt-type instruments, including:
- monetary debt-type instruments; and
- non-monetary debt-type instruments.

iii) other investment instruments
Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of:
- amortised cost;
- fair value through equity (FVTE) or
- fair value through income statement (FVTIS), on the basis of both:
  – the Group's business model for managing the investments; and
  – the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Reclassification of assets and liabilities

The adoption of FAS 33 has resulted in the following change in the classification of investments based on the reassessment of business model classification of the assets at 1 January 2020:

	Original classification under FAS 25	New classification under FAS 33	Original carrying amount under FAS 25	New carrying amount under FAS 33
Investment in sukuk	FVTIS	FVTE	284,904	284,904
	Amortised cost	Amortised cost	517,375	517,375
Investment in equity securities	FVTIS	FVTIS	239,807	239,807
	FVTIS	FVTE	21,764	21,764
	FVTE	FVTE	219,425	219,425

The impact from the adoption of FAS 33 is given below:

	Retained earnings US$ 000's	Investment fair value reserve US$ 000's
Balance as of 1 January 2019 (previously reported)	123,136	(4,725)
Effect on reclassification of financial instruments	–	–
Balance as of 1 January 2019 (restated)	**123,136**	(4,725)

	Retained earnings US$ 000's	Investment fair value reserve US$ 000's	Profit for the year US$ 000's
Balance as of 31 December 2019 (previously reported)	10,070	(4,831)	67,191
Effect on reclassification of financial instruments	(14,075)	14,075	(14,075)
Balance as of 31 December 2019 (restated)	**(4,005)**	9,244	53,116

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

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

FAS 32 - Ijarah

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

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices.

This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of this standard.

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(ii) Subsidiaries

Subsidiaries are those enterprises (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 commences until when control ceases.

(iii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(b) Basis of consolidation (contd.)

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. 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 and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 28.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Equity accounted investees

This comprise investment in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and Joint venters are accounted for under equity method. These 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 investees after the date of acquisition. Distributions received from an investees 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 investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, 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 equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

(c) Assets held-for-sale

Classification

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(f) Investment securities

Investment securities are categorised as propritory investments, co-investments and treasury portfolio. (refer note 3 for categorisation)

Investment securities comprise debt type and equity type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (b) (ii) and (vi)).

(i) Categorization and classification

Refer note 4 (a) (i) (2)

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

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 consolidated 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 owners equity and presented in a separate investment fair value reserve in 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 owners' equity is transferred to the income statement.
Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

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 uncollectibility. 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.

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. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial 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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

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.

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.

(g) Financing assets
Financing assets comprise Sharia compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

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

(i) Placements with and from financial and other institutions
These comprise placements made with/ from financial and other institutions under Sharia compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(j) Cash and cash equivalents
For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-to-day operations of the Group are not included in cash and cash equivalents.

(k) Investment property
Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:
- end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:
- commencement of own use, for a transfer from investment property to owner-occupied property;
- commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(l) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

(m) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Machinery	8 – 40 years
Other equipment comprising:	
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(n) Intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

(o) Impairment of exposures subject to credit risk

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

- 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 exposure subject to credit risk 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 exposure is more than 90 days past due.

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

The Group applies a three-stage approach to measuring ECL. Assets 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 that are 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 result 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 that are 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 are recognised. Lifetime ECL are 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').

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(o) Impairment of exposures subject to credit risk (contd.)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are 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.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are 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 financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

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 a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

(p) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE. A significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

(q) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

(r) Clients' funds

These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned and carried at amortised cost.

(s) 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 time of contracting. At the end of the accounting period, the accounts are measured at their book value.

(t) Term financing

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the term financing are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(u) 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 to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 37).

(v) Dividends

Dividends to shareholders is recognised as liabilities in the period in which they are declared.

(w) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

Statutory reserve

The Commercial Companies Law requires that 10 percent 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. Appropriation to statutory reserve is made when approved by the shareholders.

(x) Equity of investment account holders

Equity of investment account holders are funds held by the Group, 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 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 and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the 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. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(x) Equity of investment account holders (contd.)

Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(y) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

Fees and commission income that are 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.

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

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement 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 profit sharing ratio as stipulated in the Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term

Income from sukuk and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

Non-banking business

Revenue from the sale of goods is recognised at a point in time when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

(z) Earnings prohibited by Sharia

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

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

(aa) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets 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 account holders and other accounts is the responsibility of investment account holders.

(bb) Employees benefits

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 or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Post employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on 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 a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

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 a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated income statement when they are due.

Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(cc) Provisions

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

(dd) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(ee) 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.

(ff) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

(gg) Income tax

The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events. However, 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.

a) Judgements

Establishing the criteria for determining whether credit risk on an exposure 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 4(o) and Note 37(a)

Covid 19 impact

Covid 19 was declared a worldwide pandemic by the World Health Organisation in March 2020. Covid 19 and related measures taken by governments worldwide to slow the spread of the virus, have since had a significant impact on the local and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. While the methodologies and assumptions applied in the measurement of various items within the financial statements remain unchanged from those applied in the 2020 consolidated financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19.

Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks remerging from local and global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Financing portfolio

In accordance with the CBB relief measures, the Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments without profit for retail and small business customers for an initial period of six months without profit which was later extended by another 4 months with profit.

Impairment allowance on financing portfolio at amortised cost

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2019.

The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

The Group's models are calibrated to consider past performance and macrocosmic forward-looking variables as inputs. The global regulators have issued guidance to consider the exceptional circumstances of the Covid 19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historic long-term trends used in determining reasonable and supportable forward-looking information as well as the assessment of underlying credit deterioration and migration of balances to progressive stages.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The utilisation of a payment deferral program was not considered an immediate trigger for a significant increase in credit risk ("SICR") or a staging migration for the purposes of calculating ECL, given the purpose of these programs is to provide temporary cash flow relief to the Group's customers affected by the COVID-19.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4f(i)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

(iii) Impairment of equity investments at fair value through equity

(refer to Note 4 (p))

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (contd.)

b) Estimations

(i) Impairment of exposures subject to credit risk carried at amortised cost

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in note 4(o) and note 38(a).

(ii) Measurement of fair value of unquoted equity investments

refer to 4f(vi) and Note 36

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach, the residual value basis, replacement cost or the market value of the property considering its current physical condition. The Group's investment properties are situated in Bahrain, UAE and Morocco. Given the dislocation in the property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (q). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 21.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

6. CASH AND BANK BALANCES

US$ 000's

	31 December 2020	31 December 2019
Cash	13,339	14,067
Balances with banks	404,580	200,671
Balances with Central Bank of Bahrain:		
– Current account	77,697	82,406
– Reserve account	40,886	67,454
	536,502	364,598

The reserve account with the Central Bank of Bahrain of US$ 40,886 thousand (2019: US$ 67,454 thousand) and balances with banks of US$ 3,585 thousand (2019: US$ 16,640 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 15 thousand (2019: US$ 8 thousand).

7. TREASURY PORTFOLIO

US$ 000's

	31 December 2020	31 December 2019
Placements with financial institutions	169,998	546,575
Equity type investments		
At fair value through income statement		
- Structured notes	328,431	239,807
Debt-type investments		
At fair value through income statement		
- Quoted sukuk	648,991	284,904
At amortised cost		
- Quoted sukuk *	693,737	517,403
- Unquoted sukuk	3,493	3,493
Less: Impairment allowances	(6,104)	(3,521)
	1,838,546	1,588,661

** Includes quoted sukuk of US$ 282,740 thousand (31 December 2019: US$ 51,070 thousand) pledged against term-financing of US$ 200,204 thousand (31 December 2019: US$ 215,326 thousand) (note 16).*

Equity type investments - At fair value through income statement

US$ 000's

	31 December 2020	31 December 2019
At 1 January	239,807	–
Additions	687,496	598,725
Disposals during the year, at carrying value	(597,273)	(359,248)
Fair value changes	(1,599)	330
At 31 December	**328,431**	239,807

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

8. FINANCING ASSETS

US$ 000's

	31 December 2020	31 December 2019
Murabaha	969,152	1,008,580
Musharaka	276	277
Wakala	239	13,280
Mudharaba	2,690	2,776
Istisnaa	3,565	4,597
Assets held-for-leasing	345,342	350,976
	1,321,264	1,380,486
Less: Impairment allowances	(53,998)	(107,709)
	1,267,266	1,272,777

Murabaha financing receivables are net of deferred profits of US$ 50,032 thousand (2019: US$ 68,233 thousand).

The movement on impairment allowances are as follows:

US$ 000's

Impairment allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020	12,149	7,241	88,319	107,709
Net transfers	228	(4,512)	4,285	1
Net charge for the period (note 25)	9,298	2,401	(2,542)	9,157
Write-offs	–	–	(29,204)	(29,204)
Disposal	(286)	–	(33,379)	(33,665)
At 31 December 2020	**21,389**	**5,130**	**27,479**	**53,998**

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

9. REAL ESTATE INVESTMENT

US$ 000's

	31 December 2020	31 December 2019
Investment Property		
– Land	481,315	490,412
– Building	63,757	40,841
	545,072	531,253
Development Property		
– Land	761,032	797,535
– Building	506,211	477,221
	1,267,243	1,274,756
	1,812,315	1,806,009

(i) Investment property

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 40.84 million (2019: US$ 40.84 million) is pledged against Wakala facilities and Ijarah facility (note 16).

The fair value of the Group's investment property at 31 December 2020 was US$ 686,913 thousand (31 December 2019: US$ 543,850 thousand) based on a valuation carried out by an independent external property valuers who have recent experience in the location and category of the asset being valued.

The 31 December 2020 valuation contains "material uncertainty" clause due to the market disruption caused by the COVID-19 coronavirus pandemic. This does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions.

US$ 000's

	31 December 2020	31 December 2019
At 1 January	531,253	523,692
Additions during the year	21,035	8,360
Disposals	(7,216)	–
Impairment allowances (note 25)	–	(799)
At 31 December	**545,072**	531,253

(ii) Development properties

This represent properties under development for sale in UAE, Bahrain, North Africa and India.

US$ 000's

	31 December 2020	31 December 2019
At 1 January	1,274,756	1,316,318
Additions during the year	10,637	44,554
Disposals	(22,109)	(71,957)
Foreign currency translation difference	3,959	(14,159)
At 31 December	**1,267,243**	1,274,756

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

10. PROPRIETARY INVESTMENTS

US$ 000's

	31 December 2020	31 December 2019
Equity-type investments		
At fair value through income statement		
– Structured notes	40,000	–
– Unlisted fund	10,000	–
	50,000	–
At fair value through equity		
– Listed equity securities *	19,060	27,324
– Unquoted equity securities	108,998	125,234
	128,058	152,558
Equity-accounted investees	**78,050**	115,617
	256,108	268,175

** Listed equity securities of US$ 19,060 thousand (2019: US$ 26,216 thousand) are pledged against Murabaha facility (note 16).*

(i) Equity type investments – At fair value through income statement

US$ 000's

	2020	2019
At 1 January	–	–
Additions during the year	50,000	–
Fair value changes during the year	–	–
At 31 December	**50,000**	–

(ii) Listed equity securities at fair value through equity

US$ 000's

	2020	2019
At 1 January	27,324	29,093
Additions during the year	–	26,282
Disposals during the year	(1,095)	(27,945)
Transfer from / (to) fair value reserve	4,831	(106)
Impairment during the year	(12,000)	–
At 31 December	**19,060**	27,324

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

(iii) Unquoted equity securities fair value through equity

US$ 000's

	2020	2019
At 1 January	125,234	137,955
Distributions during the year	–	(7,486)
Capital repayments during the year	(7,874)	–
Foreign exchange translation	989	–
Impairment during the year	(1,476)	–
Fair value changes	(7,875)	(5,235)
At 31 December	**108,998**	125,234

These are carried at cost less impairment in the absence of quoted prices or reliable measure of fair value.

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding 2020	% holding 2019	Nature of business
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in Bahrain
Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco')	Kingdom of Bahrain	17.92%	17.92%	Extrusion and sale of aluminium products
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain
AlAreen Hotel SPC	Kingdom of Bahrain	60%	60%	Hospitality
NS 12	Kingdom of Bahrain	28.41%	28.41%	Investment in Real Estate
Lagoon Real Estate Development	Kingdom of Bahrain	23.01%	23.01%	Real estate holding and development

US$ 000's

	2020	2019
At 1 January	115,617	66,964
De-recognition on acquiring a controlling stake (note 22)	(34,812)	–
Additions during the year (note 21)	33,327	41,225
Disposals during the year	(35,168)	–
Share of (loss) / profit for the year, net	(914)	7,428
At 31 December	**78,050**	115,617

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee. The Group through shareholder's agreement agreed to exercise joint control with 40% shareholding over AlAreen Hotel SPC with another partner, hence, it is considered as an equity-accounted investee.

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

US$ 000's

	2020	2019
Total assets	383,946	331,268
Total liabilities	23,553	29,621
Total revenues	10,384	88,292
Total profit / (loss)	(7,799)	35,553

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

11. CO-INVESTMENTS

US$ 000's

	31 December 2020	31 December 2019
At fair value through equity		
– Unquoted equity securities at fair value	126,319	96,507
	126,319	96,507

Movement during the year		
At 1 January	96,507	77,644
Additions during the year	41,858	29,513
Disposals during the year, at carrying value	(12,046)	(1,680)
Impairment charge for the year (note 25)	–	(8,970)
At 31 December	**126,319**	96,507

12. ASSETS HELD-FOR-SALE AND LIABILITIES RELATED TO IT

US$ 000's

	31 December 2020	31 December 2019
Assets	–	101,213
Liabilities	–	39,936
Non-controlling interests	–	25,396

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), a subsidiary acquired in 2018.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Restatement

During the year, the Group had re-classified its investment in a subsidiary, Falcon Cement Company BSC (c), from assets held-for-sale to held-for-use because the investment no longer meet the criteria to be classified as held-for-sale.

In accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated and reclassifying 'non-controlling interest held-for-sale' to 'non-controlling interests'. The reclassification did not had any impact on the previously reported profits or owners' equity.

The effect of restatement on the previously reported assets and liabilities are given below:

US$ 000's

	31 December 2019	
	restated	previously reported
ASSETS		
Cash and bank balances	364,598	362,345
Treasury portfolio	1,588,661	1,588,661
Financing assets	1,272,777	1,272,777
Real estate Investments	1,806,009	1,806,009
Proprietary investments	268,175	268,175
Co-investments	96,507	96,507
Assets held-for-sale	–	101,213
Receivables and prepayments	444,689	424,146
Property and equipment	103,857	25,440
Total	**5,945,273**	5,945,273
LIABILITIES		
Clients' funds	70,858	74,469
Placements from financial, non-financial institutions and individuals	2,447,249	2,675,375
Customer current accounts	147,487	169,432
Term financing	301,411	268,016
Liabilities directly associated with assets held-for-sale	–	39,936
Payables and accruals	466,852	526,902
Total	**3,433,857**	3,754,130

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

13. RECEIVABLES AND PREPAYMENTS

US$ 000's

	31 December 2020	31 December 2019
Investment banking receivables *	115,740	53,262
Financing to projects, net	40,803	27,202
Receivable on sale of development properties	59,733	32,547
Advances and deposits	69,163	73,625
Employee receivables	15,578	14,616
Profit on sukuk receivable	10,174	8,619
Lease rentals receivable	34,005	45,363
Receivable from sale of investments	46,635	46,000
Re-possessed assets	29,560	35,844
Prepayments and other receivables	184,267	107,611
	605,658	444,689

** USD 100 million has subsequently been received*

14. PROPERTY AND EQUIPMENT

US$ 000's

	31 December 2020	31 December 2019
Land	17,811	17,811
Buildings and other leased assets	46,936	2,191
Others including furniture, vehicles and equipment	79,402	83,855
	144,149	103,857

Depreciation on property and equipment during the year was US$ thousand 6,150 (2019: US$ 4,786 thousand).

15. PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts with financial, non-financial institutions, and individuals part of the Group's treasury activities. This includes US$ 84.3 million (2019: US$ 84 million) from a non-financial entity which is currently subject to regulatory sanctions.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

16. TERM FINANCING

US$ 000's

	31 December 2020	31 December 2019
Murabaha financing	748,265	249,435
Sukuk *	289,818	-
Ijarah financing	22,303	24,653
Other borrowings	28,691	27,323
	1,089,077	301,411
Current portion	466,812	240,721
Non-current portion	622,265	60,690
	1,089,077	301,411

** During the year, the Group raised US$ 300 million through issuance of sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025.*

Murabaha financing comprise:

a) US$ 14 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022.

b) Short-term and medium-term facilities of US$ 524,449 thousand (2019: US$ 228,526 thousand) are secured by quoted sukuk of US$ 282,740 thousand (2019: US$ 51,070 thousand), structured notes of US$ 328,431 thousand (2019: US$ 239,807 thousand) (note 7) and equity type investments of US$ 26,216 thousand (2019: US$ 26,216 thousand) (note 10).

Ijarah financing facility:

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US$ 40.84 million (note 9(i)), repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

These comprise financing availed by subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of subsidiaries.

17. OTHER LIABILITIES

US$ 000's

	31 December 2020	31 December 2019
Employee related accruals	5,364	14,132
Board member allowances and accruals	499	1,799
Unclaimed dividends	5,150	12,608
Mudaraba profit accrual	14,805	23,637
Provision for employees' leaving indemnities	3,302	3,219
Zakah and Charity fund	5,344	5,407
Advance received from customers	71,547	114,704
Accounts payable	150,046	170,886
Other accrued expenses and payables	208,981	120,460
	465,038	466,852

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

18. EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

US$ 000's

	31 December 2020	31 December 2019
Placements and borrowings from financial institutions – Wakala	–	27,467
Mudaraba	1,156,993	1,191,078
	1,156,993	1,218,545

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

US$ 000's

	31 December 2020	31 December 2019
Balances with banks	88,294	111,792
CBB reserve account	40,886	67,454
Placements with financial institutions	76,950	173,761
Debt type instruments – sukuk	693,576	517,377
Financing assets	257,287	348,161
	1,156,993	1,218,545

As at 31 December 2020, the balance of profit equalisation reserve and investment risk reserve was Nil (2019: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2020		2019	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	87.96%	12.04%	80.61%	19.39%
3 months Mudharaba	75.35%	24.65%	65.38%	34.62%
6 months Mudharaba	71.57%	28.43%	60.00%	40.00%
12 months Mudharaba	62.50%	37.50%	42.96%	57.04%
18 months Mudharaba	60.09%	39.91%	38.65%	61.35%
24 months Mudharaba	67.35%	32.65%	43.11%	56.89%
36 months Mudharaba	55.72%	44.28%	32.37%	67.63%

** Includes savings, Al Waffer and Call Mudaraba accounts.*

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

US$ 000's

	2020	2019
Returns from jointly invested assets	(57,401)	(62,451)
Banks share as Mudarib	24,812	22,433
Return to investment account holders	**(32,589)**	(40,018)

During the year, average mudarib share as a percentage of total income allocated to IAH was 60.72% (2019: 46.56%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 3.17% (2019: 12.83%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

19. SHARE CAPITAL

US$ 000's

	31 December 2020	31 December 2019
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2019: 9,433,962,264 shares of US$ 0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2019: 3,681,650,441 shares of US$ 0.265 each)	**975,638**	975,638

The movement in the share capital during the year is as follows:

US$ 000's

	2019	2019
At 1 January	975,638	975,638
Issue of bonus shares	-	55,000
Extinguishment of treasury shares	-	(55,000)
At 31 December	**975,638**	975,638

As at 31 December 2020, the Bank held 313,358,202 (31 December 2019: 296,537,880) of treasury shares. During the year, the Bank purchased 124,427,651 shares for US$ 25.1 million in connection with employee long term incentive plan which is included in treasury shares. Furthermore, the bank had vested shares of 38,657,329 for US$ 8,533,101 (2019:Nil).

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

19. SHARE CAPITAL (cond.)

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,248,583,791	7,744	61%
1% up to less than 5%	924,716,288	15	25%
5% to less than 10% #	508,350,362	2	14%
Total	**3,681,650,441**	**7,761**	**100%**

** Expressed as a percentage of total outstanding shares of the Bank.*
 # Includes treasury shares held by the Bank.

(iii) As at 31 December 2020, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
GFH Financial Group BSC (Treasury shares)	313,358,202	8.51%
Al Hilal Bank	194,992,160	5.30%

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders.

i) In the shareholders meeting held on 6 April 2020, the following were approved and effected during the year:
- Cash dividend of 3.34% of the paid-up share capital amounting to US$ 30 million;
- Appropriation of US$ 500 thousands towards charity for the year 2019;
- Appropriation of US$ 568 thousand towards zakah for the year 2019; and
- Transfer of US$ 8 million to statutory reserve.

ii) In the shareholder's meeting held on 30 September 2020, the shareholders approved netting off accumulated losses of US$ 110,273 thousand against the statutory reserve.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2020 subject to shareholders' and regulatory approval:
- Cash dividend of 1.86% of the paid-up share capital amounting to US$ 17 million;
- Stock dividend of 2.74% of the paid-up share capital amounting to US$ 25 million;
- Transfer of US$ 4.51 million to statutory reserve; and
- US$ 0.5 million towards charity and US$ 604 thousand towards zakah for the year.

20. SHARE GRANT RESERVE

US$ 000's

	2020	2019
At 1 January	1,198	1,086
Issue/disposal of share under incentive scheme	(105)	112
At 31 December	**1,093**	1,198

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

21. ACQUISITION OF SUBSIDIARIES

(i) Acquisition of additional interests in an existing equity accounted investee

During the year, the Group acquired additional stake in GBCORP BSC (c) (formerly known as Global Banking Corporation BSC (c)) (GBCORP), an equity-accounted investee resulting in the Group obtaining control as at 30 June 2020.

The Group's existing stake and additional stake acquired are given below:

	Current Stake	Additional stake acquired	Total stake
GBCORP	28.69%	21.72%	50.41%

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of investments held by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 June 2020, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

US$ 000's

	30 June 2020
Cash and bank balances, placements with financial institutions	32,856
Investment securities	50,167
Investment property	42,477
Property and equipment	2,709
Receivables and prepayments	1,440
Total assets	**129,649**
Accruals and other liabilities	**1,101**
Total liabilities	**1,101**
Total net identifiable assets and liabilities (A)	**128,548**
Fair value of Group's previously held equity interest	34,812
Value of consideration transferred	21,571
Non-controlling interests recognised	63,747
Total consideration (B)	**120,130**
Negative goodwill (B-A) (provisional)	**8,418**

The acquisition of additional stake in GBCORP resulted in a bargain purchase and the Group has recognised negative goodwill of US$ 8,418 thousand which is included in the income statement under 'Income from proprietary and co-investments, Direct investment income'. The bargain purchase was due to pressure on the sellers to exit their holdings due to change in their business plans. The acquisition resulted in net cash inflow of US$ 32,856 thousand.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

21. ACQUISITION OF SUBSIDIARIES (contd.)

(ii) Acquisition of new subsidiaries

During the year, the Group acquired controlling stake in the following subsidiaries.

	% stake acquired	Place of incorporation	Nature of activities
Roebuck Asset Management (RAM)	60%	United Kingdom	Property asset management company
Athena Private School for Special Education ("Athena")	100%	Kingdom of Bahrain	Educational institution

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of cash and in-kind for the services rendered by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group. Where consideration includes contingent consideration payable in future based on performance and service obligations of continuing employees, these are accounted under IFRS 2 – Share based payments.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities at the date of acquisition reported on a provisional basis as permitted by accounting standards.

US$ 000's

	RAM	Athena
Property and equipment	22	43,235
Receivables	135	3,351
Cash and bank balances	951	405
Total assets	**1,108**	**46,991**
Accruals and other liabilities	109	40,991
Total liabilities	**109**	**40,991**
Total net identifiable assets and liabilities (A)	**999**	**6,000**
Consideration	7,409	6,000
Non-controlling interests recognised	400	-
Total consideration (B)	**7,809**	**6,000**
Goodwill (A-B)	**6,810**	**-**

For the purpose of consolidated statement of cash flows, net cash acquired on business combination is given below:

US$ 000's

	Total
Cash and bank balances acquired as part of business combination	34,212
Less: Cash consideration	(7,409)
Net cash flows from acquisition of subsidiaries	26,803

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

(iii) Acquisition of additional stake in existing subsidiaries

During 2019, the Group acquired additional stake in the following subsidiaries:

	Current Stake	Additional stake acquired	Total stake
Tunis Bay Investment Company (TBIC)	51.41%	31.51%	82.92%
Residential South Real Estate Development Company (RSRED)	51.18%	48.82%	100%

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

	US$ 000's
Carrying amount of NCI acquired (based on historical cost)	49,469
Consideration to NCI (based on transaction price)	(100,881)
Decrease in equity attributable to shareholders of the Bank	**(51,412)**

22. RESTRUCTURING-RELATED INCOME

Other income includes gain recognised from settlements and write back of liabilities no longer required of US$ 23.2 million, recoveries of expenses from project companies of US$ 8.4 million and income of non-financial subsidiaries of US$ 2 million (2019: US$ 17 million).

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

23. STAFF COST

US$ 000's

	2020	2019
Salaries and benefits	43,746	47,054
Social insurance expenses	3,326	3,536
	47,072	50,590

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2013 Award	Employee Share Purchase Plan & Deferred Annual Bonus		
2020 Awards	Long term incentive plan (LTIP) share awards	Select Senior Management	During 2020, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a ratable vesting schedule over a period of six years. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include leverage features and are entitled to dividends, if any, released along with the vested shares.

US$ 000's

	2020		2019	
Share incentive scheme	**No. of Shares**	**US$ 000's**	No. of Shares	US$ 000's
Opening balance	37,531,546	11,039	26,547,980	10,408
Awarded during the period				
- Deferred Annual Bonus	5,316,072	1,259	24,531,867	6,259
- LTIP shares	257,715,531	26,860	-	-
Bonus shares	-	-	2,893,887	-
Forfeiture and other adjustments	-	-	(2,638,466)	-
Transfer to employees / settlement	(55,298,795)	(9,395)	(13,803,722)	(5,628)
Closing balance	**245,264,354**	**29,763**	37,531,546	11,039

In case of the employee share purchase plans and LTIP, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

24. OTHER OPERATING EXPENSES

US$ 000's

	2020	2019
Investment advisory expenses	13,091	14,186
Rent	4,002	4,976
Professional and consultancy fees	9,073	5,616
Legal expenses	4,379	3,502
Depreciation	2,268	2,172
Expenses relating to non-banking subsidiaries	17,428	4,562
Other operating expenses	14,945	16,831
	65,186	51,845

25. IMPAIRMENT ALLOWANCES

US$ 000's

	2020	2019
Bank balances	5	(126)
Treasury portfolio		
– Placements with financial institutions	(1,077)	161
– Equity and debt type securities	2,556	19
Financing assets (note 8)	9,160	44,804
Investment property (note 9)	–	799
Proprietary investments (note 10 (ii) and (iii))	13,476	–
Co-investments (note 11)	–	8,970
Other receivables	2,761	(146)
Commitments and financial guarantees	(82)	(217)
	26,799	54,264

26. GOVERNMENT ASSISTANCE AND SUBSIDIES

Due to Covid-19, the Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

During the year, the Group received financial assistance of US$ 4,954 thousands comprising reimbursement of staff costs and waiver of utility and other charges and zero-cost repo funding from the government of the Kingdom of Bahrain that has been recognised directly in equity.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

US$ 000's

	Related parties				
2020	**Associates/ Joint venture**	**Key management personnel**	**Significant shareholders/ entities in which directors are interested**	**Assets under management including special purpose entities and other entities**	**Total**
Transactions					
Sale of investment banking products	–	–	–	137,100	137,100
Assets					
Treasury portfolio	–	–	35,000	–	**35,000**
Financing assets	–	9,485	17,695	29,848	**57,028**
Proprietary investment	114,250	–	16,058	49,170	**179,478**
Co investment	–	–	–	70,715	**70,715**
Receivables and prepayments	4,622	–	–	132,616	**137,238**
Liabilities					
Customer current account	358	225	17,995	3,212	**21,790**
Placements from financial, non-financial institutions and individuals	–	5,584	112,568	–	**118,152**
Payables and accruals	–	500	2,732	74,242	**77,474**
Equity of investment account holders	1,095	639	99,579	865	**102,178**
Income					
Income from investment banking	–	–	–	73,266	**73,266**
Income from commercial banking	(886)	(5)	(7,342)	(24)	**(8,257)**
Income from proprietary and co-investments	(1,015)	–	–	8,854	**7,839**
Treasury and other income	–	–	–	5,159	**5,159**
Expenses					
Operating expenses	–	11,171 *	385	66	**11,622**

** The amount presented excluded bonus to key management personnel for 2020 as allocation has not been finalized at the date of approval of these consolidated financial statements.*

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

US$ 000's

2019	Related parties: Associates/ Joint venture	Related parties: Key management personnel	Related parties: Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	–	5,350	15,146	60,752	81,248
Proprietary investment	115,617	–	6,058	47,881	169,556
Co investment	–	–	–	51,950	51,950
Receivables and prepayments	2,393	–	5,000	60,642	68,035
Liabilities					
Clients' funds	72	–	–	15,409	15,481
Customer current account	–	4,732	–	–	4,732
Placements from financial, non-financial institutions and individuals	515	162	14,193	3,202	18,072
Payables and accruals	1,133	1,800	11,679	11,679	26,291
Equity of investment account holders	1,072	1,586	299,416	1,008	303,082
Income					
Income from investment banking	–	–	–	95,771	95,771
Income from commercial banking	(151)	292	(10,027)	(29)	(9,915)
Income from proprietary and co-investments	7,410	–	–	2,358	9,768
Real estate income	–	50	13,392	–	13,442
Treasury and other income	313	–	–	1,301	1,614
Expenses					
Operating expenses	–	16,718	–	–	16,718
Finance expenses	–	–	623	–	623

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

27. RELATED PARTY TRANSACTIONS (contd.)

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

US$ 000's

	2020	2019
Board members' remuneration, fees and allowance	1,673	3,213
Salaries, other short-term benefits and expenses	9,222	13,289
Post-employment benefits	276	216

28. ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

i. The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 3,012 million (31 December 2019: US$ 1,975 million). During the year, the Group had charged management fees amounting to US$ 4,895 thousand (31 December 2020: US$ 2,880 thousand) to its assets under management.

ii. Custodial assets comprise discretionary portfolio management ('DPM') of US$ 453,937 thousand, of which US$ 129,166 thousand has been invested in the Bank's investment products. Further, the Bank is also holding Sukuk of US$ 41,611 thousand on behalf of investors.

29. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

US$ 000's

	2020	2019
In thousands of shares		
Weighted average number of shares for basic and diluted earnings	3,341,730	3,343,148

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2020. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

30. ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank's Sharia Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2019 is US$ 0.0001542/share and the current year calculations for zakah are yet to be approved by the Group's Sharia Supervisory Board and will be provided for in the Bank's website.

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

31. EARNINGS PROHIBITED BY SHARIA

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 129 thousand (2019: US$ 336 thousand).

32. SHARIA SUPERVISORY BOARD

The Group's Sharia Supervisory Board comprise four Islamic scholars who review the Group's compliance with general Sharia 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 Sharia principles.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

33. MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 38.

US$ 000's

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	515,867	4,973	10,393	5,269	–	–	536,502
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	–	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	–	1,267,266
Real estate investment	–	–	–	871,993	940,322	–	1,812,315
Proprietary investments	–	2,448	56,273	110,131	87,256	–	256,108
Co-investments	–	2,676	8,987	108,597	6,059	–	126,319
Receivables and prepayments	128,512	23,874	43,250	410,022	–	–	605,658
Property and equipment	–	–	–	–	144,149	–	144,149
Total assets	**1,654,289**	**154,029**	**279,031**	**2,337,709**	**2,161,805**	**–**	**6,586,863**
Liabilities							
Client's funds	103,517	–	–	27,418	–	–	130,935
Placements from financial, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	–	2,418,000
Customer current account	38,477	14,374	15,607	17,836	54,462	–	140,756
Term financing	307,241	53,340	143,357	271,774	313,365	–	1,089,077
Payables and accruals	81,145	25,548	288,748	69,597	–	–	465,038
Total liabilities	**1,531,575**	**727,903**	**939,309**	**600,726**	**444,293**	**–**	**4,243,806**
Equity of investment account holders	**283,905**	**194,080**	**285,764**	**193,745**	**199,499**	**–**	**1,156,993**
Off-balance-sheet items							
Commitments	21,171	15,601	25,133	65,444	18,363	–	**145,712**
Restricted investment accounts	–	–	–	28,451	–	–	**28,451**

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

US$ 000's

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	328,004	12,538	14,553	9,503503	–	–	364,598
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	–	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	–	1,272,777
Real estate investment	–	–	4,349	899,472	902,188	–	1,806,009
Proprietary investments	2,451	–	18,718	115,505	131,501	–	268,175
Co-investments	–	2,676	–	87,080	6,751	–	96,507
Receivables and prepayments	115,841	113,598	77,342	133,584	4,324	–	444,689
Property and equipment	–	–	–	–	103,857	–	103,857
Total assets	1,504,825	287,618	480,907	1,931,815	1,740,108	–	5,945,273
Liabilities							
Client's funds	55,931	–	–	14,927	–	–	70,858
Placements from financial, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	–	2,447,249
Customer current account	40,746	15,000	16,288	18,615	56,838	–	147,487
Term financing	47,649	30,888	164,059	45,424	13,391	–	301,411
Payables and accruals	37,029	44,519	30,893	343,096	11,315	–	466,852
Total liabilities	1,183,354	563,058	619,856	973,579	94,010	–	3,433,857
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	–	1,218,545
Off-balance-sheet items							
Commitments	87,000	46,645	15,801	105,415	270	–	255,131
Restricted investment accounts	154	–	–	–	28,306	–	28,460

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

34. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) Industry Sector

US$ 000's

31 December 2020	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	526,253	5,571	4,678	536,502
Treasury portfolio	1,140,276	56,184	642,086	1,838,546
Financing Assets	112,111	555,192	599,963	1,267,266
Real estate investments	–	1,812,315	–	1,812,315
Proprietary investment	29,733	161,940	64,435	256,108
Co-investment	–	103,837	22,482	126,319
Receivables and prepayments	458,794	36,820	110,044	605,658
Property and equipment	3,137	22,233	118,779	144,149
Total assets	**2,270,304**	**2,754,092**	**1,562,467**	**6,586,863**
Liabilities				
Client's funds	3,152	–	127,783	130,935
Placements from financial, non-financial institutions and individuals	1,533,003	113,523	771,474	2,418,000
Customer accounts	2,471	18,615	119,670	140,756
Term financing	1,045,797	19,919	23,361	1,089,077
Payables and accruals	188,460	174,676	101,902	465,038
Total liabilities	**2,772,883**	**326,733**	**1,144,190**	**4,243,806**
Equity of Investment account holders	**82,707**	**156,952**	**917,334**	**1,156,993**
Off-balance-sheet items				
Commitments	–	65,102	80,610	145,712
Restricted investment accounts	–	25,817	2,634	28,451

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

US$ 000's

31 December 2019	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	358,145	4,190	2,263	364,598
Treasury portfolio	1,525,963	–	62,698	1,588,661
Financing Assets	20,842	548,799	703,136	1,272,777
Real estate investments	–	1,806,009	–	1,806,009
Proprietary investment	106,938	93,419	67,818	268,175
Co-investment	–	96,507	–	96,507
Receivables and prepayments	148,905	169,645	126,139	444,689
Property and equipment	–	20,155	83,702	103,857
Total assets	2,160,793	2,738,724	1,045,756	5,945,273
Liabilities				
Client's funds	3,197	15,376	52,285	70,858
Placements from financial, non-financial institutions and individuals	1,788,063	–	659,186	2,447,249
Customer accounts	5,725	19,687	122,075	147,487
Term financing	246,429	32,989	21,993	301,411
Payables and accruals	18,060	312,685	136,107	466,852
Total liabilities	2,061,474	380,737	991,646	3,433,857
Equity of Investment account holders	22,379	316,878	879,288	1,218,545
Off-balance-sheet items				
Commitments	–	162,886	92,245	255,131
Restricted investment accounts	104	25,746	2,610	28,460

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

34. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (contd.)

(b) Geographic Region

US$ 000's

31 December 2020	GCC Countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	451,512	4,105	1,349	32,788	46,748	536,502
Treasury portfolio	1,507,398	12	–	74,600	256,536	1,838,546
Financing assets	1,246,979	–	5,939	14,348	–	1,267,266
Real estate investment	982,767	490,031	339,517	–	–	1,812,315
Proprietary investment	205,089	–	–	–	51,019	256,108
Co-investments	38,975	–	49,199	35,663	2,482	126,319
Receivables and prepayments	513,902	10,116	11,128	14,840	55,672	605,658
Property and equipment	139,794	4,333	–	–	22	144,149
Total assets	**5,086,416**	**508,597**	**407,132**	**172,239**	**412,479**	**6,586,863**
Liabilities						
Client's funds	115,817	–	–	15,118	–	130,935
Placements from financial, non-financial institutions and individuals	2,315,744	87,805	199	–	14,252	2,418,000
Customer accounts	142,812	(788)	(1,958)	–	690	140,756
Financing liabilities	717,236	–	–	–	371,841	1,089,077
Payables and accruals	290,972	90,852	65,104	2,987	15,123	465,038
Total liabilities	**3,582,581**	**177,869**	**63,345**	**18,105**	**401,906**	**4,243,806**
Equity of investment account holders	1,133,272	4,000	19,610	–	111	**1,156,993**
Off-balance-sheet items						
Commitments	113,141	2,879	10,558	19,134	–	**145,712**
Restricted investment accounts	25,817	–	–	–	2,634	**28,451**

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

US$ 000's

31 December 2019	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	305,769	606	1,393	51,649	5,181	364,598
Treasury portfolio	1,338,826	10,028	–	29,900	209,907	1,588,661
Financing assets	1,242,257	–	37	14,307	16,176	1,272,777
Real estate investment	983,421	470,551	352,037	–	–	1,806,009
Proprietary investment	267,078	–	–	–	1,097	268,175
Co-investments	18,942	–	49,198	18,452	9,915	96,507
Receivables and prepayments	278,091	30,825	25,730	41,363	68,680	444,689
Property and equipment	101,602	2,255	–	–	–	103,857
Total assets	4,535,986	514,265	428,395	155,671	310,956	5,945,273
Liabilities						
Client's funds	55,409	521	–	14,928	–	70,858
Placements from financial, non-financial institutions and individuals	2,342,735	102,496	–	–	2,018	2,447,249
Customer accounts	145,165	–	1,639	–	683	147,487
Financing liabilities	119,205	–	–	–	182,206	301,411
Payables and accruals	263,952	123,157	65,701	13,408	634	466,852
Total liabilities	2,926,466	226,174	67,340	28,336	185,541	3,433,857
Equity of investment account holders	1,211,821	–	4,883	–	1,841	1,218,545
Off-balance sheet items						
Commitments	255,131	–	–	–	–	255,131
Restricted investment accounts	25,850	–	–	–	2,610	28,460

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

Notes to the Consolidated Financial Statements (contd.)

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35. OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large-scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

- **Corporate and treasury:** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the Corporate and treasury activities of the Group.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

Notes to the Consolidated Financial Statements (contd.)

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Information regarding the results of each reportable segment is included below:

US$ 000's

31 December 2020	**Real estate development**	**Investment banking**	**Commercial banking**	**Corporate and Treasury**	**Total**
Segment revenue	19,457	80,631	65,313	157,993	**323,394**
Segment expenses (including impairment allowances)	(21,628)	(69,152)	(44,343)	(138,928)	**(274,051)**
Segment result	(2,071)	11,480	20,970	18,964	**49,343**
Segment assets	1,746,751	929,392	2,693,884	1,216,836	**6,586,863**
Segment liabilities	256,879	615,022	1,159,795	2,212,110	**4,243,806**
Other segment information					
Impairment allowance	246	2,203	11,515	12,835	**26,799**
Equity accounted investees	5,702	18,335	54,013	–	**78,050**
Equity of investment account holders	–	–	858,057	298,936	**1,156,993**
Commitments	35,449	–	110,263	–	**145,712**

31 December 2019	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
Segment revenue*	40,416	95,851	67,790	117,555	321,612
Segment expenses (including impairment allowances)	(21,636)	(52,709)	(107,649)	(86,035)	(268,029)
Segment result	18,780	43,141	(39,859)	31,054	53,116
Segment assets	1,890,067	539,236	2,492,711	1,023,259	5,945,273
Segment liabilities	331,077	590,478	898,412	1,613,890	3,433,857
Other segment information					
Impairment allowance	49	130	54,081	4	54,264
Equity accounted investees	46,300	57,317	12,000	–	115,617
Equity of investment account holders	–	–	1,217,950	595	1,218,545
Commitments	25,541	–	214,090	15,500	255,131

** Includes segment result of discontinued operations, net.*

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

As at 31 December 2020 and 31 December 2019, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

As at 31 December 2020, the fair value of term financing was estimated at US$ 1,089,077 thousand (carrying value US$ 1,089,077 thousand) (31 December 2019: fair value US$ 301,411 thousand (carrying value US$ 301,411 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of term financing as these are largely floating rate instruments.

Fair Value Hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets and liabilities
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

US$ 000's

	Level 1	Level 2	Level 3	Total
31 December 2020				
i) Proprietary investments				
Investment securities carried at fair value through:				
– income statement	–	50,000	–	**50,000**
– equity	19,060	–	108,998	**128,058**
	19,060	**50,000**	**108,998**	**178,058**
(ii) Treasury portfolio				
Investment securities carried at fair value through:				
– income statement	–	173,181	155,250	**328,431**
– equity	648,991	–	–	**648,991**
	648,991	**173,181**	**155,250**	**977,422**
ii) Co-investments				
Investment securities carried at fair value through equity	–	–	126,319	126,319
	668,051	**223,181**	**390,567**	**1,281,799**

Notes to the Consolidated Financial Statements (contd.)

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US$ 000's

	Level 1	Level 2	Level 3	Total
31 December 2019				
i) Proprietary investments				
Investment securities carried at fair value through:				
- equity	27,324	–	125,234	152,558
	27,324	–	125,234	152,558
ii) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	–	239,807	–	239,807
- equity	284,904	–	–	284,904
	284,904	239,807	–	524,711
iii) Co-investments				
Investment securities carried at fair value through equity	–	–	96,507	96,507
	312,228	239,807	221,741	773,776

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

US$ 000's

	2020	2019
At 1 January	221,741	208,113
Total gains / (losses) in income statement	(1,326)	(14,205)
Transfer from Level 2	155,250	–
Disposals at carrying value	(41,685)	(1,680)
Purchases	63,623	29,513
Fair value changes during the year	(7,036)	–
At 31 December	**390,567**	221,741

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

37. COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

US$ 000's

	31 December 2020	31 December 2019
Undrawn commitments to extend finance	83,260	182,695
Financial guarantees	27,003	31,395
Capital commitments for infrastructure development projects	22,449	17,541
Commitment to lend	13,000	23,500
	145,712	255,131

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2020 due to the performance of any of its projects.

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

38. FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk.

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, sector risk and sector concentration risk, related party exposure, etc.).

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also, the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in of other revenue.

In September 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. payment holiday to customers till end of December 2020. However, customers will be charged profits during this payment holiday extension period, and hence the Group does not expect significant modification loss as a result of the extension. This payment holiday is expected to further delay expected contractual cash inflows of the Group for four months. However, the management will take appropriate steps to mitigate its impact on the liquidity position.

The Group has updated its inputs and assumptions for computation of ECL (refer note 4 (o)).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

Notes to the Consolidated Financial Statements (contd.)

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38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Management of investment and credit risk (contd.)

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

US$ 000's

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1-6 Low-Fair Risk	693,121	–	–	693,121
Gross carrying amount	693,121	–	–	693,121
Less expected credit losses				
Net carrying amount	**693,121**	**–**	**–**	**693,121**
Financing facilities				
Grade 8-10 Impaired	–	–	106,040	106,040
Past due but not impaired				
Grade 1-6 Low-Fair Risk	24,531	2,639	–	27,170
Grade 7 Watch list	69	43,875	–	43,944
Past due comprises:				
Up to 30 days	22,804	41,981	–	64,785
30-60 days	218	3,334	–	3,552
60-90 days	1,578	1,199	–	2,777
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	641,851	27,748	–	669,599
Grade 7 Watch list	554	14,162	–	14,716
Gross carrying amount	**667,005**	**88,424**	**106,040**	**861,469**
Less expected credit losses	19,178	5,130	20,928	45,236
Net carrying amount	**647,827**	**83,294**	**85,112**	**816,233**
Assets acquired for leasing				
Grade 8-10 impaired	–	–	40,342	40,342
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,602	28,576	–	57,178
Grade 7 Watch list	3,337	849	–	4,186
Past due comprises:				
Up to 30 days	7,377	955	–	8,332
30-60 days	5,347	295	–	5,642
60-90 days	19,215	28,175	–	47,390

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

US$ 000's

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	221,814	28,061	–	249,875
Grade 7 Watch list	26,244	3,440		29,684
Gross carrying amount	**279,997**	**60,926**	**40,342**	**381,265**
Less expected credit losses	1,446	1,127	7,995	10,568
Net carrying amount	**278,551**	**59,799**	**32,347**	**370,697**
Investment in Sukuk				
Grade 8 -10 Impaired	–	–	3,493	3,493
Grade 1-6 Low-Fair Risk	1,299,047	45,210	–	1,344,257
Gross carrying amount	**1,299,047**	**45,210**	**3,493**	**1,347,750**
Less: expected credit losses	1,738	870	3,493	6,101
Net carrying amount	**1,297,309**	**44,340**	**–**	**1,341,649**
Commitments and financial guarantees				
Grade 8-10 Impaired	–	–	1,928	1,928
Grade 1-6 Low-Fair Risk	136,532	6,968	–	143,500
Grade 7 Watch list	–	284	–	284
Gross carrying amount (note 37)	136,532	7,252	1,928	145,712
Less: expected credit losses	411	13	202	626
Net carrying amount	**136,121**	**7,239**	**1,726**	**145,086**
Total net carrying amount	**3,052,929**	**194,672**	**119,185**	**3,366,786**

Notes to the Consolidated Financial Statements (contd.)

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38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)
a) Credit risk (contd.)
Management of investment and credit risk (contd.)

US$ 000's

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions				
Grade 1 -6 Low-Fair Risk	547,684	–	–	547,684
Gross carrying amount	547,684	–	–	547,684
Less expected credit losses	(1,109)	–	–	(1,109)
Net carrying amount	546,575	–	–	546,575
Financing facilities				
Grade 8-10 Impaired	–	5,126	193,454	198,580
Past due but not impaired				
Grade 1-6 Low-Fair Risk	89,188	18,011	149	107,348
Grade 7 Watch list	24	18,215	16	18,255
Past due comprises:				
Up to 30 days	79,706	10,735	48	90,489
30-60 days	48	4,928	109	5,085
60-90 days	9,458	20,563	8	30,029
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	666,548	32,141	1,683	700,372
Grade 7 Watch list	231	4,721	3	4,955
Gross carrying amount	755,991	78,214	195,305	1,029,510
Less expected credit losses	- 10,153	- 7,487	- 81,525	- 99,165
Net carrying amount	745,838	70,727	113,780	930,345
Assets acquired for leasing				
Grade 1-6 Low-Fair Risk	–	–	93,202	93,202
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,549	19,896	2,040	55,485
Grade 7 Watch list	–	8,679	–	8,679
Past due comprises:				
Up to 30 days	29,761	19,793	279	49,833
30-60 days	3,788	6,920	1,761	12,469
60-90 days	–	1,862	–	1,862

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Commitments and financial guarantees				
Grade 8-10 Impaired	–	15,500	4,406	19,906
Grade 1-6 Low-Fair Risk	230,915	5,077	–	235,992
Grade 7 Watch list	–	32	–	32
Gross carrying amount (note 37)	230,915	20,609	4,406	255,930
Less: expected credit losses	– 464	– 133	– 202	–799
Net carrying amount	230,451	20,476	4,204	255,131
Total net carrying amount	2,915,487	128,516	206,337	3,250,340

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- Downgrade in risk rating according to the approved ECL policy;
- Facilities restructured during previous twelve months;
- Qualitative indicators; and
- Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Notes to the Consolidated Financial Statements (contd.)

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38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Generating the term structure of 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 jurisdiction or region and 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 changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast 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 (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement 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.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

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. 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. For the purpose of calculating ECL for the year ended 31 December 2020, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

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);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast 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. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2020 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Modified exposures subject to credit risk

The contractual terms of an exposure 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 a financial asset are modified and the modification does not result in de-recognition, 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 financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets 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 loan covenants. Both retail and corporate loans are subject to the forbearance policy.

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 (refer note 4). 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 purpose of calculating ECL on the commercial bank's financial assets and assets acquired for leasing for the year ended 31 December 2020, the Group has applied the 3 months as against 12 months, in order to assess consistent good payment behaviour of customer this is in line with the CBB concessionary measures.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured 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). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

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

- probability of default (PD);
- loss given default (LGD); and
- 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.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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 amortisation. The EAD of a financial asset is its gross carrying amount. For lending 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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

US$ 000's

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
Balance at 1 January 2020	14,395	2,775	98,082	**115,252**
Transfer to 12-month ECL	3,793	(2,597)	(1,196)	**-**
Transfer to lifetime ECL non-credit-impaired	(1,049)	6,585	(5,536)	**-**
Transfer to lifetime ECL credit-impaired	(2,629)	(3,100)	5,729	**-**
Net re-measurement of loss allowance	8,552	2,728	6,080	**17,360**
Charge for the period	(716)	–	(54,055)	**(54,771)**
Balance at 31 December	**22,346**	**6,391**	**49,104**	**77,841**

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

Balances with banks	15	–	–	**15**
Treasury portfolio	1,109	120	4,994	**6,223**
Financing assets	19,289	5,130	20,931	**45,350**
Other financial receivables	1,522	1,128	10,977	**13,627**
Proprietary investments	–	–	12,000	**12,000**
Financing commitments and financial guarantees	411	13	202	**626**
Balance at 31 December	**22,346**	**6,391**	**49,104**	**77,841**

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
Balance at 1 January 2019	14,776	10,392	49,843	75,011
Transfer to 12-month ECL	3,549	(2,966)	(583)	–
Transfer to lifetime ECL non-credit-impaired	(1,326)	1,602	(276)	–
Transfer to lifetime ECL credit-impaired	(2,286)	(2,273)	4,559	–
Net re-measurement of loss allowance	(63)	(3,637)	3,700	–
Charge for the period	(255)	(343)	40,839	40,241
Balance at 31 December	14,395	2,775	98,082	115,252

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

Balances with banks	8	–	–	8
Treasury portfolio	1,138	–	3,493	4,631
Financing assets	10,525	8,484	88,700	107,709
Other financial receivables	2,260	(5,842)	5,687	2,105
Financing commitments and financial guarantees	464	133	202	799
Balance at 31 December	14,395	2,775	98,082	115,252

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

a) Credit risk (contd.)

Renegotiated facilities

During the year, facilities of US$ 52,191 thousands (2019: USD 100,576 thousand) were renegotiated, out of which US$ 16,064 thousand (2019: US$ 2,907 thousand) are classified as neither past due nor impaired as of 31 December 2020. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US$ 221,782 thousand (2019: US$ 440,406 thousand) only instalments of US$ 112,878 thousand (2019: US$ 97,149 thousand) are past due as at 31 December 2020.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to US$ 29,204 (2019: Nil thousand) which were fully impaired. The Bank has recovered US$ 1,666 thousand from a financing facility written off in previous years (2018: US$ 2,557 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The geographical and industry wise distribution of assets and liabilities are set out in notes 33 (a) and (b).

US$ 000's

	As at 31 December 2020			As at 31 December 2019		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	45,141	31,401	**76,542**	53,531	86,111	139,642
Other	3,082	–	**3,082**	5,008	–	5,008
Against past due but not impaired						
Property	61,987	60,894	**122,881**	93,952	63,525	157,477
Other	1,666	–	**1,666**	3,069	–	3,069
Against neither past due nor impaired						
Property	373,642	278,973	**652,615**	256,578	237,881	494,459
Other	45,987	–	**45,987**	24,615	–	24,615
Total	**531,505**	**371,268**	**902,773**	436,753	387,517	824,270

The average collateral coverage ratio on secured facilities is 149.71% as at 31 December 2020 (31 December 2019: 130.5%).

An analysis of concentrations of credit risk of financing assets of the Group's business at the reporting date is shown below:

US$ 000's

	As at 31 December 2020			As at 31 December 2019		
Concentration by Sector	Financing assets	Assets acquired for leasing	Total	Financing assets	Assets acquired for leasing	Total
Banking and finance	11,725	–	**11,725**	20,841	–	20,841
Real estate	351,829	303,748	**655,577**	220,675	309,164	529,839
Construction	150,194	–	**150,194**	135,379	–	135,379
Trading	129,844	–	**129,844**	151,788	–	151,788
Manufacturing	38,772	–	**38,772**	37,016	–	37,016
Others	248,207	32,947	**281,154**	364,646	33,268	397,914
Total carrying amount	**930,571**	**336,695**	**1,267,266**	930,345	342,432	1,272,777

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

b) Liquidity risk

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

Management of liquidity risk

The effect of COVID-19 on the liquidity and funding risk profile of the banking system is evolving and is subject to ongoing monitoring and evaluation.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB from March 2020 to 30 June 2021. This payment holiday is expected to delay expected contractual cash inflows of the Group. However, the management will take appropriate steps to mitigate its impact on the liquidity position.

The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in the banking sector including, concessionary repos at zero percent, reduction of cash reserve ratio from 5% to 3%; and reduction in LCR and NSFR ratio from 100% to 80%;

In response to COVID-19 outbreak, the Group continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress.

As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2020 have been disclosed below.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in banking sector. Following are some of the significant measures that have an impact on the liquidity risk and regulatory capital profile of the Group:

- concessionary repo to eligible banks at zero percent;
- reduction of cash reserve ratio from 5% to 3%; and
- reduction in LCR and NSFR ratio from 100% to 80%.

In response to COVID-19 outbreak, the Group invoked its liquidity contingency plan and continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2020 have been disclosed below.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

US$ 000's

	Gross undiscounted cash flows						
31 December 2020	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Clients' funds	103,517	–	–	27,418	–	**130,935**	**130,935**
Placements from financial, non-financial institutions and individuals	972,171	565,735	544,618	358,306	84,380	**2,525,210**	**2,418,000**
Customer current accounts	38,477	14,374	15,607	17,836	54,462	**140,756**	**140,756**
Term financing	308,917	65,516	168,124	324,314	328,747	**1,195,618**	**1,089,077**
Payables and accruals	81,145	25,548	288,748	69,597	–	**465,038**	**465,038**
Total liabilities	**1,504,227**	**671,173**	**1,017,097**	**797,471**	**467,589**	**4,457,557**	**4,243,806**
Equity of investment account holders	762,918	194,080	285,764	193,745	199,499	**1,636,006**	**1,156,993**
Commitment and contingencies	21,171	15,601	25,133	65,444	18,363	**145,712**	**145,712**

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

US$ 000's

	Gross undiscounted cash flows						
31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Clients' funds	55,931	–	–	14,926	–	70,857	70,858
Placements from financial, non-financial institutions and individuals	1,061,149	579,770	469,679	386,881	4,859	2,502,338	2,447,249
Customer current accounts	40,746	15,000	16,288	18,615	56,838	147,487	147,487
Term financing	47,744	31,377	206,902	19,899	21,212	327,134	301,411
Payables and accruals	36,729	44,519	30,894	343,395	11,315	466,852	466,852
Total liabilities	1,242,299	670,666	723,763	783,716	94,224	3,514,668	3,433,857
Equity of investment account holders	186,358	236,726	345,896	236,624	254,350	1,259,954	1,218,545
Commitment and contingencies	87,000	46,645	15,801	105,415	270	255,131	255,131

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

38. FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework (contd.)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

US$ 000's

	Liquid asset/Total asset	
	2020	2019
At 31 December	36.35%	33.31%
Average for the year	35.62%	33.94%
Maximum for the year	36.35%	34.63%
Minimum for the year	34.48%	33.31%

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. Until 31 December 2021, the Bank is required to maintain LCR greater than 80%. As of 31 December 2020, the Bank had LCR ratio of 240%.

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 over reliance 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.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Until 31 December 2021, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2020, the Bank had NSFR ratio of 97%.

(c) Market Risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

US$ 000's

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
31 December 2020						
Assets						
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	1,267,266
Total assets	**1,009,910**	**120,058**	**160,128**	**831,697**	**984,019**	**3,105,812**
Liabilities						
Client's fund	103,517	–	–	27,418	–	130,935
Placements from financial institutions, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	2,418,000
Term financing	307,241	53,340	143,357	271,774	313,365	1,089,077
Total liabilities	**1,411,953**	**687,981**	**634,954**	**513,293**	**389,831**	**3,638,012**
Equity of investment account holders	**283,905**	**194,080**	**285,764**	**193,745**	**199,499**	**1,156,993**
Profit rate sensitivity gap	**(685,948)**	**(762,003)**	**(760,590)**	**124,659**	**394,689**	**(1,689,193)**
31 December 2019						
Assets						
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	1,272,777
Total assets	1,058,529	158,806	365,945	686,671	591,487	2,861,438
Liabilities						
Client's fund	55,931	–	–	14,927	–	70,858
Placements from financial institutions, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	2,447,249
Term financing	47,649	30,888	164,059	45,424	13,391	301,411
Total liabilities	1,105,579	503,539	572,675	611,868	25,857	2,819,518
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	1,218,545
Profit rate sensitivity gap	(227,300)	(573,675)	(541,252)	(154,041)	319,643	(1,176,625)

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

38. FINANCIAL RISK MANAGEMENT (contd.)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

US$ 000's

100 bps parallel increase/(decrease)	**2020**	2019
At 31 December	±16,892	±11,766
Average for the year	±15,584	±10,940
Maximum for the year	±16,892	±11,766
Minimum for the year	±15,593	±10,388

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

US$ 000's

	2020	2019
Placements with financial institutions	3.68%	3.27%
Financing assets	6.59%	6.71%
Debt type investments	6.57%	6.85%
Placements from financial institutions, other entities and individuals	4.38%	4.02%
Term financing	6.80%	6.71%
Equity of investment account holders	3.55%	1.83%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

US$ 000's Equivalent

	2020	2019
Sterling Pounds	1,449	9,511
Euro	(2,654)	(674)
Australian Dollars	13,528	12,223
Kuwaiti Dinar	39,887	41,867
Jordanian Dinar	6	6
Egyptian Pound	–	22,458
Moroccan Dirham	150,263	150,263
Tunisian Dinar	292,333	309,800
Indian Rupee	306,555	306,004
Other GCC Currencies (*)	(1,380,099)	(1,679,101)

(*) These currencies are pegged to the US Dollar.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2020

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

US$ 000's Equivalent

	2020	2019
Sterling Pounds	±72	±476
Euros	±133	±34
Australian dollar	±676	±611
Kuwaiti dinar	±1,994	±2,093
Egyptian Pound	±0.32	±1,123
Jordanian Dinar	–	±0.32
Moroccan Dirham	±7,513	±7,513
Tunisian Dinar	±14,617	±15,490
Indian rupee	±15,328	±15,300

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

During 2020, the Group did not have any significant issues relating to operational risks.

Notes to the Consolidated Financial Statements (contd.)

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39. CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

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

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

Tier 1 capital: includes CET1 and AT1.

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

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

Tier 2 capital

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

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

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

To combined the effect of Covid 19, the CBB has allowed the Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period 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.

Notes to the Consolidated Financial Statements (contd.)

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The Bank's regulatory capital position was as follows:

US$ 000's

	2020	2019
CET 1 Capital before regulatory adjustments	1,025,835	1,078,079
Less: regulatory adjustments	–	–
CET 1 Capital after regulatory adjustments	1,025,835	1,078,079
T 2 Capital adjustments	76,062	36,008
Regulatory Capital	1,115,945	1,122,871
Risk weighted exposure:		
Credit Risk Weighted Assets	7,647,064	7,776,802
Market Risk Weighted Assets	72,038	79,231
Operational Risk Weighted Assets	552,821	474,052
Total Regulatory Risk Weighted Assets	8,271,923	8,330,085
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	8,271,918	8,330,080
Capital Adequacy Ratio	13.49%	13.49%
Tier 1 Capital Adequacy Ratio	12.57%	13.06%
Minimum required by CBB	12.50%	12.50%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

40. COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or total owners' equity except to extent disclosed in notes 4 (a) and 12.

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