

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

Commercial registration	: 44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	: Bahrain Financial Harbour Office: 2901, 29 th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	: Jassim Al Seddiqi, <i>Chairman</i> Sheikh Ahmed Bin Khalifa Al-Khalifa (till 25 Feb 2021) Ghazi Faisal Ebrahim Alhajeri, (Vice Chairman from 7 July 2021) Hisham Ahmed Alrayes Rashid Nasser Al Kaabi Ali Murad (from 9 April 2020) Ahmed Abdulhamid AlAhmadi (from 9 April 2020) Alia Al Falasi (from 30 September 2020) Fawaz Talal Al Tamimi (from 30 September 2020) Edris Mohammed Rafi Alrafi (from 24 December 2020)
Chief Executive Officer	: Hisham Ahmed Alrayes
Auditors	:KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021**

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Chairman's Report-2021

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 2021. While 2021 saw the continuation of the COVID-19 pandemic and its impact across communities and markets globally, it also bore witness to the resilience and innovation that are spurred in the midst of uncertainty. Throughout the pandemic's peaks and troughs, economies began a road to recovery infused with a view towards long-term sustainability, while businesses found ways to adapt that inspired future-proofed strategies and processes.

As for us at GFH, 2021 marked a year in which we made great strides across the Group and delivered remarkable growth in profits and income year-over-year. COVID-19 allowed us to reveal the strength of our diversified business lines, and enabled us to demonstrate the Group's resilience – a trait that has underpinned our growth and successful diversification throughout our 22-year history. We continued to grow our investment banking, commercial banking, asset management and treasury businesses, as well as our investment portfolio and presence in key markets including the GCC, UK, Europe and the US.

Instrumental to our sustained growth despite the pandemic's challenges is our strategy of dynamic diversification and persistent pursuit of value creation. Long before the pandemic, our investment strategy prioritised identifying opportunities across a range of defensive sectors and recession-proof markets. In 2021, this allowed us to continue expanding our geographic reach, the sectors we are active in and the variety of asset classes that we invest in. As a result, we have exponentially grown our global portfolio of income-yielding, high-return investments assets and secured long-term value creation opportunities for our investors and shareholders.

The Group's total consolidated revenue was US\$368.5 million compared with US\$323.4 million in 2020, reflecting a year-on-year increase of 13.9%. Achieving this growth is made possible through the continued success of our business lines, and our pursuit of investments and activities that facilitate steady income generation. In addition to investment management, real estate and treasury activities have also recorded particularly positive contributions to our revenues.

Furthermore, we were able to report strong results for 2021 - made possible by our dedicated team's successful execution of the Group's strategy. Through a keen-eyed and responsive evaluation, they identified new income yielding opportunities while building on and extracting value from existing assets. For the year, the Group reported a consolidated net profit of US\$92.6 million as compared with US\$49.3 million from the previous year, an increase of 87.8%, and a net profit attributable to shareholders of US\$84.2 million compared with US\$45.1 million for the previous year, an increase of 86.7%.



The Group's total assets for the year grew from US\$6.6 billion in 2020 to US\$8.1 billion in 2021, an increase of 22.7%. The Group's Total Assets and Funds Under Management (AUM) increased from US\$12 billion in 2020 to around US\$15 billion in 2021, marking a year-on-year increase of 25%. The Group also ended the year with a Capital Adequacy Ratio of 13.2% and Return on Equity (ROE) ratio of ~9%, confirming our sustained positive financial performance.

We are pleased to have been recognised for our efforts and significant progress towards improving our model and reducing our overall credit risk profile over the last few years. Despite the challenging market headwinds caused by COVID-19, we have managed to continue to effectively implement our ongoing strategy to transform GFH from a purely Islamic wholesale bank into a fully integrated Sharia'a compliant financial group. Additionally, GFH's outlook has been upgraded to Stable by Capital Intelligence Ratings, which now rates the group's Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) as 'BB-' and 'B', respectively. The improvement reflects the group's sound liquidity, coupled with a sizeable liquid sovereign Sukuk portfolio, increasingly diversified sources of funding and increased share of non-Bahrain assets. The updated corporate ratings are also supported by GFH's extended debt maturity profile following a US\$500 million five-year Sukuk issue in 2020, low refinancing risk and satisfactory debt service capacity.

We are proud of the tremendous progress we made throughout 2021, which was made possible by the dedication and continued ingenuity of our teams across the Group. While the commercial impact of the pandemic continues to be felt by businesses and markets globally – our Group included – we were still able to achieve sustained positive progress and contributions across our business lines, and maintain investor and market confidence. In the twelve months ended December 2021, the Group successfully raised more than US\$2.3 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\$ 60 million at 6.07% on par value, divided into 4.57% cash dividends amounting to US\$45 million and 1.50% stock dividends of US\$15 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 14 October 2021 with several key ratifications and authorisations received from shareholders. One of these approvals included the continuation of listing the Group's shares on Boursa Kuwait as well as the repurchase of the Group's shares (treasury shares), up to a maximum of 10% of the total issued shares, for a number of purposes, subject to the approval of the Central Bank of Bahrain (CBB) including the acquisition of the shares of Khaleeji Commercial Bank B.S.C. (KHCB), pursuant to an acquisition offer, and strategic expansion in financial and investment institutions. The OGM also saw shareholders authorise the Board of Directors or its designees to take all necessary actions to implement the above activities. Similarly, the EGM saw shareholders approve our recommendation to issue sukuk in the amount of US\$300 million in the form of Additional Perpetual Tier 1 Capital.



While 2021 saw the continuation of uncertainty across markets and industries globally, our commitment towards pursuing value creation opportunities that generate strong returns for our investors and shareholders has allowed us to achieve a year. The corporate strategies we have established alongside the tireless dedication of our teams across the Group demonstrated our ability to not only persevere in the face of challenges, but to succeed through them – and enable our clients' success as well. In 2021, we identified recession-proof opportunities and expanded our offerings to include a wider range of geographies and defensive subsectors, allowing our clients' investment portfolios to grow more resilient and profitable.

It is important to note here that an investment opportunity's resilience and profitability is increasingly inextricably linked to its sustainability – not only in relation to operational efficiencies and financial soundness, but also in relation to how closely it integrates Environmental, Social & Governance (ESG) principles. To ensure we are able to continue realising value and solid returns for our investors and shareholders, and serving the communities in which we are operating, we are committed towards continually embedding ESG principles into our Group's policies and frameworks.

Building on this promise to deepen the integration of ESG principles across our Group's platforms and subsidiaries, and in recognition of our responsibility towards all our stakeholders – including investors, shareholders, employees and the communities we invest in – we are proud to have announced in January 2022 the establishment of "Infracorp". With over US\$3 billion of the Group's infrastructure and related assets now under its management, "Infracorp" specialises in investments that are hyper-focused on accelerating the growth and development of sustainable infrastructure assets across the MENA region and global markets.

With that, we have entered 2022 in a stronger position to execute our strategy to deliver solid returns and sustainable value creation opportunities through continued diversification and operational innovation. As we have done long before the onset of the pandemic and since our inception over twenty years ago, we will continue to navigate the challenges ahead and seek out the opportunities that will further accelerate our growth, and enhance value generation opportunities in the years ahead.

On behalf of the Group's Board of Directors, we would like to extend our 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 Crown Prince, Deputy Supreme Commander and Prime Minister for their dedicated leadership and progressive vision that have allowed for Bahrain to become a regional hub for advancement and innovation within the financial sector.

I would also like to take this opportunity to express our appreciation for our investors' and shareholders' continued trust and confidence in the face of ongoing market uncertainties, which have enabled us to persist in our growth throughout the past year. I would like to acknowledge the tireless



efforts, ingenuity and commitment of our management team and employees across the GFH Financial Group and its subsidiaries, which allowed the Group to deliver on its promise of value creation through dynamic diversification. I also want to thank our Board of Directors for their ongoing guidance and support in steering the Group towards further growth and success.

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

First: Remuneration of the Board of directors

Name	Fixed remunerations				
	Remunerations of the Chairman and BOD	Total allowance for attending Board and committee	Salaries	Others	Total
First: Independent Directors					
Alia Al Falasi	22,500	9,000	-	-	31,500
Ghazi Al Hajer	90,000	5,000	-	-	95,000
Fawaz Al Tamimi	22,500	4,000	-	-	26,500
Ali Murad	67,500	4,000	-	-	71,500
Ahmed Al Ahmadi	67,500	9,000	-	-	76,500
Edris Al Rafi	-	10,000	-	-	10,000
Amro Almenhali*	67,500	-	-	-	67,500
Bashar Al-mutawa*	22,500	-	-	-	22,500
Mazin Alsaeed*	22,500	-	-	-	22,500
Mosabah Almutairi*	67,500	-	-	-	67,500
Second: Non-Executive Directors:					
Jassim Alseddiqi	150,000	4,000	-	-	154,000
Rashed Alkaabi	90,000	5,000	-	-	95,000
Third: Executive Directors:					
Sheikh Ahmed AlKhalifa**	180,000	1,000	-	-	181,000
Hisham Alrayes	90,000	4,000	- (3)	- (3)	94,000
Mustafa Kheriba*	90,000	-	-	-	90,000
Total	1,050,000	55,000	-	-	1,105,000

Note: All amounts in US Dollars.

* These directors either resigned or their term ended during the year 2020.

** This director resigned during the year 2021.

Notes:

1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its non-executive and independent directors.
2. Board remuneration represents payments made during the year 2021 based on approval of the Annual General Meeting dated 6th April 2021.
3. Salaries and other benefits in their capacity as employees is reported in the second table below.

Second: Remuneration for Top 6 Executives:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/in-kind remuneration	Aggregate Amount
Remunerations of top 6 executives (including CEO and CFO)	2,762,781	3,430,000	1,473,083	7,665,864

Note: All amounts in US Dollars.

Notes:

1. In addition to the paid benefits reported above, the Bank also operates a non-recurring long-term share incentive scheme award that allocates shares awards that vests over a period of 6 years under normal terms and are subject to future performance conditions. During the period, the non-cash accounting charge recognized for vested benefits for 2021 amounted to USD 5,070,312 determined in accordance with the requirements of IFRS 2.
2. The total variable remuneration (including annual bonus / other incentives and share-based awards) included USD 6,088,247 under deferred payment and delivery terms.
3. Remuneration information above exclude any Board remuneration earned by executive management from their role in the board of investee companies or other subsidiaries.
4. Refer to the Remuneration related disclosures in Annual Report for a better understanding of the Bank's variable remuneration framework components.



Jassim AlSeddiqi
Chairman

6 February 2022
5 Rajab 1443 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2021

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 activities and compared them with the previously issued fatawa and rulings during the financial year 31st December 2021.

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

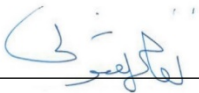
Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, 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 2021 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. It is to be noted that the bank will pay a portion of zakat amount due at the rate of 10%, and the shareholders are responsible for paying the remaining part and that the procedural action will be taken after obtaining the approval of the Ordinary General Assembly.
- 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.

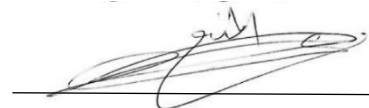
We extend our sincere thanks to all the regulatory authorities in the Kingdom of Bahrain and abroad for their support in procedural matters. Praise be to Allah, Lord of the worlds. Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.



Sheikh Nedham Yaqoubi



Sheikh Abdulaziz Al Qassar



Sheikh Abdulla Al Menai



Sheikh Fareed Hadi



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Independent auditors' report

To the Shareholders of

*GFH Financial Group B.S.C.
 PO Box 10006
 Manama
 Kingdom of Bahrain*

Opinion

We have audited the accompanying consolidated financial statements of GFH Financial Group Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of income, changes in 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 2021, and consolidated results of its operations, changes in owners' equity, its cash flows, changes in restricted investment accounts and its sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain (the "CBB").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2021.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Key Audit Matters (continued)

Impairment allowance on financing assets and assets acquired for leasing

Refer accounting policy in note 4(p), use of estimates and judgments in note 5 and management of credit risk in note 36 (a).

The key audit matter	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • of the significance of financing assets and assets acquired for leasing representing 16 % 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: <ul style="list-style-type: none"> a. <i>Use of complex models</i> 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. <i>Economic scenarios</i> 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. <i>Management overlays</i> 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. 	<p>Our audit procedures included:</p> <p>Control testing We performed walk throughs to identify the key systems, applications and controls used in the ECL processes.</p> <p>Key aspects of our controls testing involved the following:</p> <ul style="list-style-type: none"> • 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. <p>Tests of details</p> <ol style="list-style-type: none"> a) Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and b) 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.



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
	<p>Use of specialists</p> <ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 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. <p>Disclosures</p> <p>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.</p>

Valuation of unquoted equity investments

Refer accounting policy in note 4g(iv) and fair value of financial instruments in note 34.

The key audit matter	How the matter was addressed in our audit
<p>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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • we involved our own valuation specialists to assist us in: <ul style="list-style-type: none"> • 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.



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • comparing the key underlying financial data inputs used in the valuation to external sources, investee company financial and management information, as applicable. <p>Disclosures Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.</p>

Carrying value of development properties

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

The key audit matter	How the matter was addressed in our audit
<p>Development projects comprise projects under construction and long-term infrastructure projects. Development properties are stated at the lower of cost and net realisable value.</p> <p>We focused on this area due to:</p> <ul style="list-style-type: none"> • the significance of development property representing 16% 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 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • evaluating the appropriateness of the valuation methodologies used by the external valuers;



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • 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; and • 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. <p>Disclosures Based on the outcome of our evaluation, we assessed the adequacy of disclosures in the consolidated financial statements.</p>

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the 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 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 Shariah Supervisory Board.



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Responsibilities of Board of Directors for the Consolidated Financial Statements (continued)

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 judgement and maintain professional scepticism throughout the audit. We also:

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



INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS (continued)
GFH Financial Group B.S.C.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 Central Bank of Bahrain, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG Fakhro
 Partner Registration Number 137
 9 February 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2021

US\$ 000's

	note	31 December 2021	31 December 2020
ASSETS			
Cash and bank balances	6	722,471	536,502
Treasury portfolio	7	3,089,925	1,838,546
Financing assets	8	1,311,002	1,267,266
Investment in real estate	9	1,905,598	1,812,315
Proprietary investments	10	211,638	256,108
Co-investments	11	171,877	126,319
Receivables and other assets	12	531,488	605,658
Property and equipment	13	139,687	144,149
Total assets		8,083,686	6,586,863
LIABILITIES			
Clients' funds		216,762	130,935
Placements from financial, non-financial institutions and individuals	14	3,052,092	2,418,000
Customer current accounts		133,046	140,756
Term financing	15	1,750,667	1,089,077
Other liabilities	16	404,654	465,038
Total liabilities		5,557,221	4,243,806
Total equity of investment account holders	17	1,358,344	1,156,993
OWNERS' EQUITY			
Share capital	18	1,000,638	975,638
Treasury shares	18	(48,498)	(63,979)
Statutory reserve		27,970	19,548
Investment fair value reserve		(28,561)	5,593
Foreign currency translation reserve		(70,266)	(46,947)
Retained earnings		81,811	22,385
Share grant reserve	19	-	1,093
Total equity attributable to shareholders of Bank		963,094	913,331
Non-controlling interests		205,027	272,733
Total owners' equity		1,168,121	1,186,064
Total liabilities, equity of investment account holders and owners' equity		8,083,686	6,586,863

The consolidated financial statements were approved by the Board of Directors on 09 February 2022 and signed on its behalf by:



Jassim Al Seddiqi
Chairman



Ghazi Faisal Ebrahim Alhajeri
Vice Chairman




Hisham Alrayes
Chief Executive Officer
& Board member

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2021

US\$ 000's

		2021	2020
Investment banking income			
Asset management		8,083	4,895
Deal related income		102,304	75,736
		110,387	80,631
Commercial banking income			
Income from financing		79,333	80,400
Treasury and investment income		55,258	42,864
Fee and other income		4,630	4,582
Less: Return to investment account holders	17	(31,710)	(32,587)
Less: Finance expense		(35,685)	(29,946)
		71,826	65,313
Income from proprietary and co-investments			
Direct investment income, net		14,609	20,436
Dividend from co-investments		14,280	8,854
		28,889	29,290
Real estate income			
Development and sale		24,885	14,209
Rental and operating income		4,959	5,248
		29,844	19,457
Treasury and other income			
Finance income		11,400	19,395
Dividend and net gain on treasury investments		95,759	70,282
Other income, net	21	50,643	39,026
		157,802	128,703
Total income		398,748	323,394
Expenses			
Staff costs	22	63,231	47,072
Other operating expenses	23	70,299	65,186
Finance expense		137,020	134,994
Impairment allowances	24	35,581	26,799
Total expenses		306,131	274,051
Profit for the year		92,617	49,343
Attributable to:			
Shareholders of the Bank		84,224	45,095
Non-controlling interests		8,393	4,248
		92,617	49,343
Earnings per share			
Basic and diluted earnings per share (US cents)		2.50	1.33


 Jassim Al Seddiqi
 Chairman


 Ghazi Faisal Ebrahim Alhajeri
 Vice Chairman


 Hisham Alrayes
 Chief Executive Officer
 & Board member

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2021

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translatio n reserve	Retained earnings	Share grant reserve			Total
2021										
Balance at 1 January 2021 (as previously reported)	975,638	(63,979)	19,548	5,592	(46,947)	22,385	1,093	913,330	272,733	1,186,063
Effect of adoption of FAS 32 (note 4)	-	-	-	-	-	(2,096)	-	(2,096)	-	(2,096)
Balance at 1 January 2021 (restated)	975,638	(63,979)	19,548	5,592	(46,947)	20,289	1,093	911,234	272,733	1,183,967
Profit for the year	-	-	-	-	-	84,224	-	84,224	8,393	92,617
Fair value changes during the year	-	-	-	(786)	-	-	-	(786)	62	(724)
Transfer to income statement on disposal of sukuk	-	-	-	(33,367)	-	-	-	(33,367)	-	(33,367)
Total recognised income and expense	-	-	-	(34,153)	-	84,224	-	50,071	8,455	58,526
Bonus Shares issued for 2020	25,000	-	-	-	-	(25,000)	-	-	-	-
Dividends declared for 2020	-	-	-	-	-	(17,000)	-	(17,000)	-	(17,000)
Transfer to zakah and charity fund	-	-	-	-	-	(1,572)	-	(1,572)	(142)	(1,714)
Transfer to statutory reserve	-	-	8,422	-	-	(8,422)	-	-	-	-
Purchase of treasury shares	-	(45,025)	-	-	-	-	-	(45,025)	-	(45,025)
Sale of treasury shares	-	60,506	-	-	-	5,121	-	65,627	-	65,627
Foreign currency translation differences	-	-	-	-	(23,319)	-	-	(23,319)	(5,965)	(29,284)
Acquisition of NCI without a change in control (note 20)	-	-	-	-	-	23,078	-	23,078	(70,054)	(46,976)
Extinguishment of Share grant reserve to (retained earnings)	-	-	-	-	-	1,093	(1,093)	-	-	-
Balance at 31 December 2021	1,000,638	(48,498)	27,970	(28,561)	(70,266)	81,811	-	963,094	205,027	1,168,121

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2020 (continued)

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve			Total
2020										
Balance at 1 January 2020	975,638	(73,419)	125,312	9,245	(29,425)	(4,005)	1,198	1,004,544	288,327	1,292,871
Profit for the year	-	-	-	-	-	45,095	-	45,095	4,248	49,343
Fair value changes during the year	-	-	-	5,036	-	-	-	5,036	412	5,448
Reclassified to income on impairment of quoted equity securities	-	-	-	12,000	-	-	-	12,000	-	12,000
Reclassified to income on disposal of sukuk	-	-	-	(20,688)	-	-	-	(20,688)	-	(20,688)
Total recognised income and expense	-	-	-	(3,652)	-	45,095	-	41,443	4,660	46,103
Additional capital contribution to subsidiary	-	-	-	-	-	(59,893)	-	(59,893)	(14,311)	(74,204)
Modification loss on financing assets (note 2)	-	-	-	-	-	(13,893)	-	(13,893)	(11,179)	(25,072)
Government grant (note 2)	-	-	-	-	-	3,690	-	3,690	1,267	4,957
Dividends declared for 2019	-	-	-	-	-	(30,000)	-	(30,000)	-	(30,000)
Transfer to zakah and charity fund	-	-	-	-	-	(1,388)	-	(1,388)	(258)	(1,646)
Transfer to statutory reserve	-	-	4,509	-	-	(4,509)	-	-	-	-
Purchase of treasury shares	-	(107,518)	-	-	-	-	-	(107,518)	-	(107,518)
Sale of treasury shares	-	133,483	-	-	-	(22,985)	-	110,498	-	110,498
Treasury shares acquired for share incentive scheme	-	(16,525)	-	-	-	-	(105)	(16,630)	130	(16,500)
Foreign currency translation differences	-	-	-	-	(17,522)	-	-	(17,522)	(3,084)	(20,606)
NCI arising from acquisition of a subsidiary (note 20)	-	-	-	-	-	-	-	-	64,147	64,147
Distribution to NCI	-	-	-	-	-	-	-	-	(56,966)	(56,966)
Adjustment of accumulated losses against statutory reserve (note 18)	-	-	(110,273)	-	-	110,273	-	-	-	-
Balance at 31 December 2020	975,638	(63,979)	19,548	5,593	(46,947)	22,385	1,093	913,331	272,733	1,186,064

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

US\$ 000's

	31 December 2021	31 December 2020
OPERATING ACTIVITIES		
Profit for the year	92,617	49,343
Adjustments for:		
Income from commercial banking	(54,819)	(41,402)
Income from proprietary investments	(28,889)	(29,290)
Income from treasury and other income	(187,646)	(88,915)
Foreign exchange gain / (loss)	(2,190)	(1,329)
Finance expense	172,707	164,940
Impairment allowances	35,581	26,798
Depreciation and amortisation	4,776	6,150
	32,137	86,295
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	6,541	450,752
Financing assets	(43,736)	5,511
Other assets	(7,800)	(161,469)
CBB Reserve and restricted bank balance	(13,612)	39,623
Clients' funds	85,827	60,077
Placements from financial and non-financial institutions	634,092	(29,250)
Customer current accounts	(7,710)	(6,732)
Equity of investment account holders	201,351	(61,552)
Payables and accruals	(60,384)	(30,204)
Net cash generated from operating activities	826,706	353,051
INVESTING ACTIVITIES		
Payments for purchase of equipment	(3,604)	(674)
Proceeds from sale of proprietary and co-investments, net	13,391	(39,230)
Purchase of treasury portfolio, net	(1,177,088)	(621,110)
Proceeds from sale of investment in real estate	9,741	6,256
Dividends received from proprietary investments and co-investments	18,030	11,936
Advance paid for development of real estate	(6,515)	(19,751)
Net cash flows from acquisition of subsidiaries	-	26,803
Net cash used in investing activities	(1,146,045)	(635,770)
FINANCING ACTIVITIES		
Term financing, net	701,035	787,666
Purchase of GFH sukuk, net	(39,445)	-
Finance expense paid	(151,268)	(165,778)
Dividends paid	(17,575)	(37,433)
Sale (Purchase) of treasury shares, net	15,481	(13,814)
Net cash generated from financing activities	508,228	570,641
Net increase in cash and cash equivalents during the year	188,889	287,922
Cash and cash equivalents at 1 January *	655,455	367,533
Cash and cash equivalents at 31 December	844,344	655,455
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	664,388	492,031
Placements with financial institutions (original maturities of 3 months or less)	179,956	163,424
	844,344	655,455

* net of expected credit loss of US\$ 24 thousand (31 December 2020: US\$ 15 thousand)

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2021

31 December 2021	Balance at 1 January 2021			Movements during the year					Balance at 31 December 2021			
	No. of units (000)	Average value per share US\$	Total US\$ 000's	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
Company												
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	12	7.91	95	(2)	-	-	-	-	-	12	7.87	94
Safana Investment (RIA 1) #	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	(45)	5	119	-	-	-	2,633	1.03	2,712
			28,451	(47)	5	119	-	-	-			28,529

31 December 2020	Balance at 1 January 2020			Movements during the year					Balance at 31 December 2020			
	No. of units (000)	Average value per share US\$	Total US\$ 000's	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
Company												
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.91	103	(10)	-	-	-	-	-	12	7.91	95
Safana Investment (RIA 1) #	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1	2,633
			28,459	(10)	-	-	-	-	-			28,451

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

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2021

US\$ 000's

	2021	2020
Sources of zakah and charity fund		
Contributions by the Group	1,766	1,646
Non-Sharia income (note 29)	31	129
Total sources	1,797	1,775
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(1,970)	(1,839)
Total uses	(1,970)	(1,839)
Surplus of sources over uses	(173)	(64)
Undistributed zakah and charity fund at 1 January	5,346	5,407
Undistributed zakah and charity fund at 31 December (note 16)	5,173	5,343
Represented by:		
Zakah payable	954	1,493
Charity fund	4,219	3,850
	5,173	5,343

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

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 Shari’a 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 Shari’a 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 2021	Activities
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain	81.17%	Islamic retail bank
Al Areen Project companies		100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')		51.72%	Cement manufacturing
GBCORP BSC (c) (GBCORP) (note 20)		62.91%	Islamic investment firm
Residential South Real Estate Development Company (RSRED)		100%	Real estate development
Infracorp B.S.C (c) (Previously known as GFH Properties W.L.L.)		100%	Real estate development and management
Athena Private School for Special Education WLL		100%	Educational institution
GFH Capital Limited		United Arab Emirates	100%
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	90.27%	Real estate development
Tunis Bay Investment Company ('TBIC')		82.97%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together “India Projects”)		80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	53.63%	Investment in real estate
Roebuck A M LLP (“RAM”)	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, the Group has made a voluntary pre-conditional offer to acquire up to 100% of the issued and paid-up ordinary shares of Khaleeji Commercial Bank BSC (“KHCB”), representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by the Group representing up to 21.03% stake of KHCB’s issued and paid-up share capital, by way of shares exchange of 0.914 GFH shares per KHCB Share at the discretion of each shareholder of Khaleeji Commercial Bank BSC.

GFH Group is carrying out a group restructuring program (the ‘program’) which involves the spinning out of its infrastructure and real estate assets under a newly established entity “Infracorp B.S.C.” (“Infracorp”), which will be capitalized with more than US\$1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the gulf and global markets.

1 REPORTING ENTITY (continued)

Under this program certain real estate and infrastructure assets as well as certain investments in securities, equity accounted investees and subsidiaries will be transferred from the group to Infracorp for an in-kind consideration in the form of Sukuk and/ or equity shares issued by Infracorp. The final holding of the Group in the spin-off structure is still being ascertained.

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.;
- 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 (i) 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; and
- iii. recognition of specific impairment allowances and expected credit losses in line with the specific CBB guidelines for application of staging rules issued as part of its COVID-19 response measures.

The above framework for basis of preparation of the condensed consolidated interim financial information 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 comparatives.

Impact of COVID-19 concessionary measures*Modification of financial assets*

During the second quarter of 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to USD 25,072 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to USD 118,257 thousand (first deferral - March 2020 to September 2020) as part of its support to impacted customers. As at 31 December 2021, the Group has customers with financing facilities of USD 493,721 thousand under continuing deferral arrangement.

Financial assistance

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. As per the regulatory directive during 2020, financial assistance amounting to USD 2,098 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, was recognized directly in equity.

2. STATEMENT OF COMPLIANCE (continued)

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

Government grant

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 in the form of 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.

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.

3 *BASIS OF MEASUREMENT (continued)*

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 development 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.

3 *BASIS OF MEASUREMENT (continued)*

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.

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	<i>Deal related income</i> , earned by the Group from investee companies in connection with new acquisitions <i>Fee based income</i> , in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature
Commercial banking income	Islamic Shari'ah 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	<i>Dividends, gain / (loss) on co-investments of the Bank</i>
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.	<i>Development and sale income</i> , from development and sale of real estate projects of the Group based on percentage of completion (POC) method. <i>Rental and operating income</i> , 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.

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) Adoption of new standards during the year

(i) FAS 32 - Ijarah

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

FAS 32 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee.

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

(a) Change in accounting policy

Identifying an Ijarah

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration.

Measurement

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

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

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

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

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

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for the year ended 31 December 2021

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Adoption of new standards during the year (continued)

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

The Bank determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

- Extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- Termination options if it is reasonably certain that the Bank will not exercise that option.

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

ii) Net Ijarah liability

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

The gross Ijarah liability shall be initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

- Fixed Ijarah rentals less any incentives receivable;
- Variable Ijarah rentals including supplementary rentals; and
- Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

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

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

After the commencement date, the Bank measures the net Ijarah liability by:

- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or reflect revised Ijarah rentals.
- The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognises the following in the income statement:
 - Amortisation of deferred Ijarah cost; and
 - Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

After the commencement date, the Bank accounts for Ijarah contract modifications as follows:

- Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Adoption of new standards during the year (continued)

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset. For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

A lessee may elect not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and lease liability for the following:

- Short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

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

Impact as lessor on accounting for Ijara Muntahia Bittamleek contracts

There was no change in the accounting policies for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

(b) Impact on adoption of FAS 32

The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in lease liability as stated below. The lease contracts comprise office premises, school premises, leasehold lands, ATM sites, branches etc.

	Total Assets	Total Liabilities and EIAH	Total Equity
Closing balance (31 December 2020)	6,586,863	5,400,799	1,186,064
<u>Impact on adoption:</u>			
Right-of-use asset	58,949	-	-
Lease liability	-	61,045	-
Opening impact of FAS 32	-	-	(2,096)
Balance on date of initial application of 1 January 2021	6,645,812	5,461,844	1,183,968

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

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

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

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

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

- i) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- ii) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

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

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

(ii) FAS 39 Financial Reporting for Zakah

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

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

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

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

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

Some of the significant revisions to the standard are as follows:

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) New standards, amendments and interpretations issued but not yet effective (continued)**

- f) Disclosure of Zakah and Charity have been relocated to the notes;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting;
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FAS's; and
- l) The illustrative financial statements are not part of this standard and will be issued separately.

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

(c) 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2021**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Basis of consolidation (continued)****(iii) Non-controlling interests (NCI) (continued)**

- 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.

(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 26. For the purpose of reporting assets under management, the gross value of assets managed are considered.

(v) Loss of control

When the Group loses 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 exist 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.

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)*(c) Basis of consolidation (continued)**(vi) Equity accounted investees (continued)*

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.

(d) 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.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021

US\$ 000's

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*
 (e) *Foreign currency transactions (continued)*

(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.

(f) 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.

(g) Investment securities

Investment securities are categorised as proprietary 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 (c) (ii) and (vi)).

(i) Categorization and classification

The 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.*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)
(g) Investment securities (continued)

(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
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US\$ 000's

- 4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*
(g) *Investment securities (continued)*
(iv) *Measurement principles (continued)*

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.

(h) Financing assets

Financing assets comprise Shari'a 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.

(i) 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.

(j) Placements with and from financial and other institutions

These comprise placements made with/ from financial and other institutions under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(k) 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.

(l) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)
(l) Investment property (continued)

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.

(m) 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.

(n) 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.

(o) 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 of intangible assets.

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.

(p) 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Impairment of exposures subject to credit risk (continued)

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').

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(p) Impairment of exposures subject to credit risk (continued)****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.

(q) 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.

(r) 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(r) Impairment of non-financial assets (continued)**

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.

(s) 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.

(t) 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.

(u) 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.

(v) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a 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 35).

(w) Dividends

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

(x) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)
(x) Share capital and reserves (continued)**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.

(y) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. 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.

The Group allocates specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

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

Restricted investment accounts

Restricted investment accounts represent 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 Mudharaba 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.

(z) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Revenue recognition (continued)

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.

(aa) Earnings prohibited by Shari'a

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

(bb) 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.

(cc) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(cc) Employees benefits (continued)****➤ 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.

(dd) 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.

(ee) 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.

(ff) 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.

(gg) 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.

(hh) 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(p) and note 36(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.

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 emerging 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

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5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

(a) Judgements (continued)

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 with profit for retail and small business customers.

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 2020.

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 4g(i)).

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US\$ 000's

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**(a) Judgements (continued)****(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 (g) (iii))**(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(p) and note 36(a).

(ii) Measurement of fair value of unquoted equity investments

The group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cashflows, income approach and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matter of significant judgment and therefore, cannot be determined with precision. There is no certainty about future events such as continued operating profits and financial strengths. It is reasonably possible based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flows models have been used to estimate fair values, the future cashflows have been estimated by the management based on information form and discussion with representatives of investee companies and based on the latest available audited and unaudited financial statements. The basis of valuation has been reviewed by the management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the board of directors for inclusion in the consolidated financial statements.

Valuation of equity investments are measured at fair value through equity which involves judgment and is normally based on one of the following

- Valuation by independent external value for underlying properties / projects;
- Recent arms-length market transaction;
- Current fair value of another contract that is substantially similar;
- Present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- Application of other valuation models.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

US\$ 000's

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

(b) Estimations (continued)

(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 (r). For equity-accounted investees with indicators of impairment, the recoverable amount 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.

6 CASH AND BANK BALANCES

	31 December 2021	31 December 2020
Cash	12,153	13,339
Balances with banks	523,735	404,580
Balances with Central Bank of Bahrain:		
- Current account	146,026	77,697
- Reserve account	40,557	40,886
	722,471	536,502

The reserve account with the Central Bank of Bahrain of US\$ 40,557 thousand (2020: US\$ 40,886 thousand) and balances with banks of US\$ 17,526 thousand (2020: US\$ 3,585 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US\$ 24 thousand (2020: US\$ 15 thousand).

7 TREASURY PORTFOLIO

	31 December 2021	31 December 2020
Placements with financial institutions	180,000	169,998
Equity type investments		
<i>At fair value through income statement</i>		
- Structured notes	403,986	328,431
Debt type investments		
<i>At fair value through equity</i>		
- Quoted sukuk	1,656,088	648,991
<i>At amortised cost</i>		
- Quoted sukuk *	860,616	693,737
- Unquoted sukuk	3,486	3,493
Less: Impairment allowances	(14,251)	(6,104)
	3,089,925	1,838,546

7 *TREASURY PORTFOLIO (continued)*

* Includes quoted sukuk of US\$ 290,642 thousand (31 December 2020: US\$ 302,260 thousand) pledged against term-financing of US\$ 215,077 thousand (31 December 2020: US\$ 200,204 thousand) (note 15).

a) Equity type investments - At fair value through income statement

	2021	2020
At 1 January	328,431	239,807
Additions	557,681	687,496
Disposals during the year, at carrying value	(464,903)	(597,273)
Fair value changes	(17,223)	(1,599)
At 31 December	403,986	328,431

8 FINANCING ASSETS

	31 December 2021	31 December 2020
Murabaha	995,324	971,164
Musharaka	-	276
Wakala	239	239
Mudharaba	2,576	2,690
Istisnaa	-	3,565
Assets held-for-leasing (Ijarah)	384,312	345,342
	1,382,451	1,323,276
Less: Impairment allowances	(71,449)	(56,010)
	1,311,002	1,267,266

Murabaha financing receivables are net of deferred profits of US\$ 46,130 thousand (2020: US\$ 50,032 thousand).

The movement on impairment allowances is as follows:

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	20,841	6,255	28,914	56,010
Net transfers	796	822	(1,618)	-
Net charge for the period (note 24)	(1,640)	(64)	18,080	16,376
Transfer to off balance sheet	-	-	(12)	(12)
Disposal	(2)	96	(1,019)	(925)
At 31 December 2021	19,995	7,109	44,345	71,449

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	11,601	8,366	89,754	109,721
Net transfers	228	(4,512)	4,285	1
Net charge for the period (note 24)	9,301	2,401	(2,542)	9,160
Write-offs	-	-	(29,204)	(29,204)
Disposal	(289)	-	(33,379)	(33,668)
At 31 December 2020	20,841	6,255	28,914	56,010

9 INVESTMENT IN REAL ESTATE

	31 December 2021	31 December 2020
Investment Property		
- Land	529,076	481,315
- Building	63,758	63,757
	592,834	545,072
Development Property		
- Land	592,926	761,032
- Building	719,838	506,211
	1,312,764	1,267,243
	1,905,598	1,812,315

(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 (2020: US\$ 40.84 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2021 was US\$ 766,848 thousand (31 December 2020: US\$ 686,913 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. These are level 3 valuations in fair value hierarchy.

For sensitivity analysis of investment properties, an increase or decrease of 5% in value of properties will not impact the income statement as the carrying value of the properties are much lower than the impacted fair values.

	2021	2020
At 1 January	545,072	531,253
Reclassification from Other Assets	17,338	
Additions during the year	30,424	21,035
Disposals	-	(7,216)
At 31 December	592,834	545,072

(ii) *Development properties*

This represent properties under development for sale in UAE, Bahrain, North Africa and India.

	2021	2020
At 1 January	1,296,803	1,274,756
Additions during the year	21,151	10,637
Disposals	(5,190)	(18,150)
At 31 December	1,312,764	1,267,243

10 PROPRIETARY INVESTMENTS

	31 December 2021	31 December 2020
Equity type investments		
<i>At fair value through income statement (i)</i>		
- Structured notes	41,197	40,000
- Unquoted securities	10,000	10,000
	51,197	50,000
<i>At fair value through equity</i>		
- Listed equity securities * (ii)	13	19,060
- Unquoted equity securities (iii)	91,425	108,998
	91,438	128,058
Equity-accounted investees (iv)	69,003	78,050
	211,638	256,108

* Listed equity securities of US\$ Nil thousand (2020: US\$ 19,047 thousand) are pledged against Murabaha facility (note 15).

(i) Equity type investments – At fair value through income statement

	2021	2020
At 1 January	50,000	-
Additions during the year	-	50,000
Fair value changes during the year	1,197	-
At 31 December	51,197	50,000

(ii) Listed equity securities at fair value through equity

	2021	2020
At 1 January	19,060	27,324
Disposals during the year	(19,047)	(1,095)
Transfer from fair value reserve	-	4,831
Impairment during the year	-	(12,000)
At 31 December	13	19,060

10 PROPRIETARY INVESTMENTS (continued)

(iii) Unquoted equity securities fair value through equity

	2021	2020
At 1 January	108,998	125,234
Distributions during the year	9,286	-
Sale during the year	(21,003)	-
Capital repayments during the year	(5,856)	(6885)
Impairment during the year	-	(1,476)
Fair value changes	-	(7,875)
At 31 December	91,425	108,998

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding		Nature of business
		2021	2020	
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	22.97%	23.01%	Real estate holding and development

	2021	2020
At 1 January	78,050	115,617
De-recognition on acquiring a controlling stake	-	(34,812)
Additions during the year	-	33,327
Disposals during the year	(6,111)	(35,168)
Share of loss for the year, net	(2,936)	(914)
At 31 December	69,003	78,050

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.

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10 PROPRIETARY INVESTMENTS (continued)

Summarised financial information of associates that have been equity-accounted investments not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

	2021	2020
Total assets	269,790	293,817
Total liabilities	43,936	23,717
Total revenues	100,940	10,384
Total profit / (loss)	(3,720)	(10,494)

11 CO-INVESTMENTS

	31 December 2021	31 December 2020
<i>At fair value through equity</i>		
- Unquoted equity securities	164,548	126,319
<i>At fair value through income statement</i>		
- Unquoted equity securities	7,330	-
	171,877	126,319

12 RECEIVABLES AND OTHER ASSETS

	31 December 2021	31 December 2020
Investment banking receivables	148,985	115,740
Financing to projects, net	42,383	40,803
Receivable on sale of development properties	59,914	59,733
Advances and deposits	58,222	74,276
Employee receivables	18,898	15,578
Profit on sukuk receivable	17,273	10,174
Lease rentals receivable	2,175	34,005
Goodwill on acquisition	6,810	6,810
Prepayments and other receivables	187,503	253,652
Less: Impairment allowances net of write-off	(10,675)	(5,113)
	531,488	605,658

13 PROPERTY AND EQUIPMENT

	31 December 2021	31 December 2020
Land	17,958	17,811
Buildings and other leased assets	31,323	46,936
Others including furniture, vehicles and equipment	90,406	79,402
	139,687	144,149

Depreciation on property and equipment during the year was US\$ thousand 4,776 (2020: US\$ 6,150 thousand).

14 PLACEMENTS FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS 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\$ 84.3M million (2020: US\$ 84.3 million) from a non-financial entity which is currently subject to regulatory sanctions.

	31 December 2021	31 December 2020
Financial institutions	2,112,577	1,639,923
Non-financial institutions and individuals	939,515	778,077
	3,052,092	2,418,000

15 TERM FINANCING

	31 December 2021	31 December 2020
Murabaha financing	1,449,852	748,265
Sukuk	250,943	289,818
Ijarah financing	20,093	22,303
Other borrowings	29,779	28,691
	1,750,667	1,089,077

	31 December 2021	31 December 2020
Current portion	1,275,981	466,812
Non-current portion	474,686	622,265
	1,750,667	1,089,077

Murabaha financing comprise:

- 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; and
- Short-term and medium-term facilities of US\$ 1,417,800 thousand (2020: US\$ 724,653 thousand) are secured by quoted sukuk of US\$ 2,070,315 thousand (2020: US\$ 585,000 thousand), structured notes of US\$ 403,986 thousand (2020: US\$ 328,431 thousand) (note 7) and equity type investments of Nil (2020: US\$ 19,047 thousand) (note 10).

Sukuk

During 2020, the Group raised US\$ 300 million through issuance of unsecured sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025. The Bank has repurchased cumulative sukuk of USD 49 million during the year ended 2020 and 2021.

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 non-banking subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through

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15 *TERM FINANCING (continued)*

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.

16 OTHER LIABILITIES

	31 December 2021	31 December 2020
Employee related accruals	18,089	5,364
Board member allowances and accruals	2,499	499
Unclaimed dividends	4,574	5,150
Mudaraba profit accrual	12,992	14,805
Provision for employees' leaving indemnities	3,155	3,302
Zakah and Charity fund	5,173	5,344
Advance received from customers *	70,051	71,547
Accounts payable	136,838	150,046
Other accrued expenses and payables	151,283	208,981
	404,654	465,038

* Represents amount received in advance from the customers on account of real estate assets to be delivered by the Group.

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

	31 December 2021	31 December 2020
Placements and borrowings from financial institutions – Wakala	231,722	298,337
Mudaraba	1,126,622	858,656
	1,358,344	1,156,993

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:

	31 December 2021	31 December 2020
Balances with banks	46,368	88,294
CBB reserve account	40,557	40,886
Placements with financial institutions	70,003	76,950
Debt type instruments – sukuk	456,310	693,576
Financing assets	745,106	257,287
	1,358,344	1,156,993

As at 31 December 2021, the balance of profit equalisation reserve and investment risk reserve was Nil (2020: Nil).

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17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH) (continued)

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.

	2021		2020	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	89.08%	10.92%	87.96%	12.04%
3 months Mudharaba	76.60%	23.40%	75.35%	24.65%
6 months Mudharaba	69.15%	30.85%	71.57%	28.43%
12 months Mudharaba	59.52%	40.48%	62.50%	37.50%
18 months Mudharaba	52.84%	47.16%	60.09%	39.91%
24 months Mudharaba	73.67%	26.33%	67.35%	32.65%
36 months Mudharaba	52.43%	47.57%	55.72%	44.28%

* Includes savings, Al Waffer and Call Mudaraba accounts of KHCB.

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

	2021	2020
Returns from jointly invested assets	(65,862)	(57,401)
Banks share as Mudarib	34,152	24,812
Return to investment account holders	(31,711)	(32,589)

The above returns as the Mudarib are forming part of Income from commercial banking in the statement of income. During the year, average mudarib share as a percentage of total income allocated to IAH was 61.73% (2020: 60.72%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 3.11% (2020: 3.17%).

In addition to the Murabaha allocation, the Groups also provides wakala services to the investors wherein the Group's has generated a total returns from the jointly invested assets of USD 15,372 million (2020: USD 11,145 million) which is forming part of the Income from the treasury operations and the income from the propriory and co-investments in the statement of income. The returns to investment account holders are USD 10,145 million (2020: USD 7,356 million) which are included with the finance expenses in the statement of income. The difference between the returns from the invested assets and the returns to the investment account holder of USD 4,227 million (2020: USD 2,790 million) is the Group's share of return in its capacity of the wakil.

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 and wakala 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.

18 SHARE CAPITAL

Authorised:

9,433,962,264 shares of US\$ 0.265 each (2020: 9,433,962,264 shares of US\$ 0.265 each)

Issued and fully paid up:

3,775,990,064 shares of US\$ 0.265 each (2020:
3,681,650,441 shares of US\$ 0.265 each)

31 December 2021	31 December 2020
2,500,000	2,500,000
1,000,638	975,638

The movement in the share capital during the year is as follows:

	2021	2020
At 1 January	975,638	975,638
Issue of bonus shares	25,000	-
At 31 December	1,000,638	975,638

As at 31 December 2021, the Bank held 213,806,890 (31 December 2020: 313,358,202) of treasury shares. Furthermore, the bank had vested shares of 54,196,667 for US\$ 11,963,207 (2020: 38,657,329).

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%	2,271,927,550	8,142	60%
1% up to less than 5%	1,504,062,514	20	40%
Total	3,775,990,064	8,162	100%

* Expressed as a percentage of total outstanding shares of the Bank.

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders.

In the shareholders meeting held on 6 April 2021, the following were approved:

- Cash dividend of 1.86% of the paid-up share capital amounting to US\$ 17 million;
- Stock dividend of 2.56% of the paid-up share capital amounting to US\$ 25 million;
- Appropriation of US\$ 1,104,000 towards charity, civil society institutions and Zakat for the year 2020; and
- Transfer of US\$ 4,509,500 to statutory reserve.

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18 SHARE CAPITAL (continued)

Proposed appropriations

The Board of Directors proposes the following appropriations for 2021 subject to shareholders' and regulatory approval:

- Cash dividend of 4.57% of the paid-up share capital amounting to US\$ 45 million;
- Stock dividend of 1.50% of the paid-up share capital amounting to US\$ 15 million;
- Transfer of US\$ 8.42 million to statutory reserve; and
- US\$ 1 million towards charity and US\$ 484 thousand towards zakah for the year.

Treasury shares

As at 31 December 2021, the Bank holds 85,100,000 (31 December 2020 - 94,300,000) shares as part of its treasury shares which are held under a market making arrangement with an approved securities broker.

19 SHARE GRANT RESERVE

	2021	2020
At 1 January	1,093	1,198
Extinguishment of share grant reserve to retained earnings	(1,093)	-
Issue/disposal of share under incentive scheme	-	(105)
At 31 December	-	1,093

20 ACQUISITION OF ADDITIONAL INTERESTS IN AN EXISTING SUBSIDIARY

During the year, the Group acquired additional stake in the following key subsidiaries:

The Group's existing stake and additional stake acquired are given below.

	Current Stake	Additional stake acquired	Total Stake
Khaleeji Commercial Bank BSC ('KHCB')	55.41%	25.76%	81.17%
GBCORP BSC (c) ('GBCORP')	50.41%	12.5%	62.91%

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)	66,647
Consideration to NCI (based on transaction price)	43,569
Increase in equity attributable to shareholders of the Bank	23,078

21 OTHER INCOME

Other income includes write back of liabilities no longer required of US\$ 24.3 (2020: US\$ 23.2 million) after settlement arrangements were concluded for some of the non-banking subsidiaries, recoveries of expenses from project companies of US\$ 0.3 million (2020: US\$ 8.4 million) and income of non-financial subsidiaries of US\$ 26.0 million (2020: US\$ 7.4 million).

22 STAFF COST

	2021	2020
Salaries and benefits	55,294	39,706
Social insurance and end of service benefits	3,111	3,154
Share-based payments	4,196	4,212
	63,231	47,072

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
2018 – 2021 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus (DAB)	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 associated with the DAB shares. DAB Shares are entitled for dividends, if any, but released over the deferral period.
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 rateable vesting schedule over a period of six years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share-based payment charges. 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.

Share incentive scheme

	2021		2020	
	No. of Shares	USD 000's	No. of Shares	USD 000's
Opening balance	245,264,354	29,763	37,531,546	11,039
Awarded during the period				
- Deferred Annual Bonus	42,087,569	6,429	5,316,072	1,259
- LTIP shares	-	-	257,715,531	26,860
Bonus shares				
- Deferred Annual Bonus	1,679,932			
- LTIP shares	4,569,552			
Forfeiture and other adjustments	(1,369,114)	(9,426)	-	-
Transfer to employees / settlement	(107,906,694)	(9,684)	(55,298,795)	(9,395)
Closing balance	184,325,599	17,082	245,264,354	29,763

22 STAFF COST (continued)

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

23 OTHER OPERATING EXPENSES

	2021	2020
Investment advisory expenses	10,860	13,091
Rent	2,523	4,002
Professional and consultancy fees	10,211	9,073
Legal expenses	579	4,379
Depreciation	2,541	2,268
Expenses relating to non-banking subsidiaries	22,797	17,428
Other operating expenses	20,788	14,945
	70,299	65,186

24 IMPAIRMENT ALLOWANCES

	2021	2020
Bank balances	8	5
Treasury portfolio		
- Placements with financial institutions	12	(1,077)
- Equity and debt type securities	8,135	2,556
Financing assets (note 8)	16,376	9,160
Proprietary investments (note 10 (ii) and (iii))	-	13,476
Co-investments (note 11)	690	-
Other receivables	11,428	2,761
Commitments and financial guarantees	(1,068)	(82)
	35,581	26,799

25 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.

25 RELATED PARTY TRANSACTIONS (continued)

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2021					
Assets					
Treasury portfolio	-	-	37,148	-	37,148
Financing assets	-	7,817	33,407	16,482	57,706
Proprietary investment	114,387	-	20,328	48,011	182,726
Co investment	-	-	-	76,794	76,794
Receivables and other assets	8,060	623	300	171,559	180,542
Liabilities					
Customer current account	1,488	366	10,517	64	12,435
Placements from financial, non-financial institutions and individuals	-	4,430	-	-	4,430
Payables and accruals	-	2,688	1,528	33,678	37,894
Equity of investment account holders	1,088	355	54,276	772	56,491

	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2021					
Income					
Income from investment banking	-	-	-	119,389	119,389
Income from commercial banking					
- Income from financing	-	310	2,332	-	2,642
- Fee and other income	(3,005)	-	-	698	(2,307)
- Less: Return to investment account holders	24	3	5,111	13	5,151
- Less: Finance expense	-	50	-	-	50
Income from proprietary and co-investments	4	-	8,017	19,727	27,748
Real Estate Income	-	120	-	-	120
Treasury and other income	-	-	(440)	1,742	1,302
Expenses					
Operating expenses	-	7,174	743	117	8,034

* The amount presented excluded bonus to key management personnel for 2021 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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25 RELATED PARTY TRANSACTIONS (continued)

	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
2020					
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 other assets	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

	Related parties				
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
2020					
Income					
Income from investment banking	-	-	-	73,266	73,266
Income from commercial banking	(886)	(5)	(7,342)	(24)	(8,257)
- <i>Income from financing</i>	-	265	2,618	-	2,883
- <i>Fee and other income</i>	-	-	5	-	5
- <i>Less: Return to investment account holders</i>	37	5	4,828	24	4,894
- <i>Less: Finance expense</i>	-	265	5,138	-	5,403
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

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.

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25 RELATED PARTY TRANSACTIONS (continued)

The key management personnel compensation is as follows:

	2021	2020
Board members' remuneration, fees and allowance	1,154	1,673
Salaries, other short-term benefits and expenses	7,643	9,222
Post-employment benefits	685	276

26 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\$ 5,297 million (31 December 2020: US\$ 4,360 million). During the year, the Group had charged management fees and performance fee amounting to US\$ 3,855 thousand (31 December 2020: US\$ 4,895 thousand) and US\$ 4,228 thousand (31 December 2020: US\$ Nil) respectively to its assets under management.
- ii. Custodial assets comprise discretionary portfolio management ('DPM') of US\$ 639,599 thousand, of which US\$ 407,877 thousand has been invested in the Bank's investment products. Further, the Bank is also holding Sukuk of US\$ 16,256 thousand on behalf of its customers.

27 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.

	2021	2020
<i>In thousands of shares</i>		
Weighted average number of shares for basic and diluted earnings	3,375,296	3,378,454

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.

28 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 Shari'a Supervisory Board and notified to shareholders annually. The current year calculations for zakah are yet to be approved by the Group's Shari'a 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.

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29 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-sharia sources. Accordingly, all non-sharia income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-sharia 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\$ 30 thousand (2020: US\$ 129 thousand).

30 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board comprise four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

31 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 36.

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
31 December 2021						
Assets						
Cash and bank balances	704,672	6,772	9,650	1,377	-	722,471
Treasury portfolio	1,026,476	91,561	31,243	454,734	1,485,911	3,089,925
Financing assets	308,830	64,197	95,926	418,316	423,733	1,311,002
Real estate investment	-	-	-	937,463	968,135	1,905,598
Proprietary investments	-	-	53,806	61,755	96,077	211,638
Co-investments	-	2,676	23,607	139,535	6,059	171,877
Receivables and prepayments	149,490	14,283	109,058	214,392	44,265	531,488
Property and equipment	-	-	-	-	139,687	139,687
Total assets	2,189,468	179,489	323,290	2,227,572	3,163,867	8,083,686
Liabilities						
Client's funds	152,925	-	63,837	-	-	216,762
Placements from financial, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	3,052,092
Customer current account	35,801	13,666	14,841	16,958	51,780	133,046
Term financing	578,012	185,494	512,475	84,031	390,655	1,750,667
Payables and accruals	96,565	22,225	229,286	56,578	-	404,654
Total liabilities	2,231,037	953,074	1,473,459	351,754	547,897	5,557,221
Equity of investment account holders	237,280	269,297	377,042	235,597	239,128	1,358,344
<i>Off-balance sheet items</i>						
Commitments	114	3,308	17,268	118,611	16,127	155,428
Restricted investment accounts	-	-	-	28,529	-	28,529

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31 MATURITY PROFILE (continued)

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	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
<i>Off-balance sheet items</i>						
Commitments	21,171	15,601	25,133	65,444	18,363	145,712
Restricted investment accounts	-	-	-	28,451	-	28,451

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32 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**(a) Industry sector****31 December 2021****Assets**

Cash and bank balances

Treasury portfolio

Financing Assets

Real estate investments

Proprietary investment

Co-investment

Receivables and prepayments

Property and equipment

Total assets**Liabilities**

Client's funds

Placements from financial, non-financial institutions and individuals

Customer accounts

Term financing

Payables and accruals

Total liabilities**Equity of Investment account holders****Off-balance sheet items**

Commitments

Restricted investment accounts

	Banks and financial institutions	Real estate	Others	Total
	709,908	5,691	6,872	722,471
	2,224,184	6,012	859,729	3,089,925
	124,783	499,559	686,660	1,311,002
	662,501	1,212,772	30,325	1,905,598
	10,427	154,228	46,983	211,638
	-	153,270	18,607	171,877
	444,477	7,245	79,766	531,488
	5,770	23,492	110,425	139,687
	4,182,050	2,062,269	1,839,367	8,083,686
	212,789	-	3,973	216,762
	2,579,106	790	472,196	3,052,092
	779	13,610	118,657	133,046
	1,706,299	19,919	24,449	1,750,667
	135,118	138,440	131,096	404,654
	4,634,091	172,759	750,371	5,557,221
	220,935	60,469	1,076,940	1,358,344
	-	68,701	86,727	155,428
	-	25,698	2,831	28,529

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US\$ 000's

32 Concentration of assets, liabilities and equity of investment account holders (continued)
 a Industry sector (continued)

	Banks and financial institutions	Real estate	Others	Total
31 December 2020				
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

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for the year ended 31 December 2021

US\$ 000's

32 Concentration of assets, liabilities and equity of investment account holders (continued)

b Geographic region

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2021						
Assets						
Cash and bank balances	577,879	2,097	1,097	67,254	74,144	722,471
Treasury portfolio	2,542,088	95,093	100,244	61,575	290,925	3,089,925
Financing assets	1,295,063	-	-	-	15,939	1,311,002
Real estate investment	1,076,694	489,903	329,444	-	9,557	1,905,598
Proprietary investment	157,830	-	-	-	53,808	211,638
Co-investments	52,459	-	72,235	44,701	2,482	171,877
Receivables and prepayments	496,230	10,440	11,589	8,072	5,157	531,488
Property and equipment	133,854	5,655	-	-	178	139,687
Total assets	6,332,097	603,188	514,609	181,602	452,190	8,083,686
Liabilities						
Client's funds	212,789	-	-	-	3,973	216,762
Placements from financial, non-financial institutions and individuals	2,963,662	88,205	225	-	-	3,052,092
Customer accounts	136,274	(260)	(496)	-	(2,472)	133,046
Financing liabilities	732,099	-	-	374,028	644,540	1,750,667
Payables and accruals	233,933	69,064	68,577	30,871	2,209	404,654
Total liabilities	4,278,757	157,009	68,306	404,899	648,250	5,557,221
Equity of investment account holders	1,334,623	1,700	21,907	3	111	1,358,344
Off-balance sheet items						
Commitments	135,342	-	-	20,086	-	155,428
Restricted investment accounts	25,896	-	-	-	2,633	28,529

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).

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US\$ 000's

32 Concentration of assets, liabilities and equity of investment account holders (continued)

b Geography sector (continued)

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2020						
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).

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33 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 32 (b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2021					
Segment revenue	29,844	110,387	71,825	186,692	398,748
Segment expenses (including impairment allowances)	(15,801)	(73,943)	(43,144)	(173,243)	(306,131)
Segment result	14,043	36,244	28,682	13,648	92,617
Segment assets	1,758,446	1,068,340	3,095,984	2,160,916	8,083,686
Segment liabilities	159,790	576,991	1,228,774	3,591,666	5,557,221
<i>Other segment information</i>					
Impairment allowance	-	15,260	12,693	7,628	35,581
Equity accounted investees	5,764	18,339	44,900	-	69,003
Equity of investment account holders	-	-	1,126,622	231,722	1,358,344
Commitments	20,086	-	135,342	-	155,428

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US\$ 000's

33 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2020					
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
<i>Other segment information</i>					
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

34 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 2021 and 31 December 2020, 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 2021, the fair value of term financing was estimated at US\$ 1,089,077 thousand (carrying value US\$ 1,089,077 thousand) (31 December 2020: 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).

34 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2021

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's-
<i>(i) Proprietary investments</i>				
Investment securities carried at fair value through:				
- income statement	-	51,197	-	51,197
- equity	13	-	91,425	91,438
	13	51,197	91,425	142,635
<i>(ii) Treasury portfolio</i>				
Investment securities carried at fair value through:				
- income statement	-	224,086	179,900	403,986
- equity	1,656,088	-	-	1,656,088
	1,656,088	224,086	179,900	2,060,074
<i>iii) Co-investments</i>				
Investment securities carried at fair value through equity				
	-	-	164,548	164,548
Investment securities carried at fair value through income statement				
	-	-	7,330	7,330
	-	-	171,877	171,877
	1,656,101	275,283	443,203	2,374,587

31 December 2020

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's-
<i>(iii) Proprietary investments</i>				
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
<i>(iv) Treasury portfolio</i>				
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
<i>iii) Co-investments</i>				
Investment securities carried at fair value through equity				
	-	-	126,319	126,319
	668,051	223,181	390,567	1,281,799

34 FINANCIAL INSTRUMENTS (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2021	2020
At 1 January	390,567	221,741
Total gains / (losses) in income statement	(17,223)	(1,326)
Transfer from Level 2	24,650	155,250
Disposals at carrying value	(27,531)	(41,685)
Purchases	69,129	63,623
Fair value changes during the year	3,611	(7,036)
At 31 December	443,203	390,567

The sensitivity analysis for Level 3 of non-trading investments were carried out using valuation techniques such as comparable methods, discounted cash flow methods, asset valuations and residual method with the key unobservable inputs such as market multiples, discount rates and occupancy rates. The reasonable possible shift in case of +/-5% in the real estate properties will not lead to any impact on income statement as the carrying value of such investments are kept at a reasonably lower value compared to existing fair values. Similarly the reasonable possible shift of +/-0.5% discount rate in the discounted cash flow method or +/-1x of market multiple for equity investments or +/-1% in the occupancy rates of the underlying properties will not impact the profit and loss as the fair value of such investments are reasonably higher than the carrying value of such investments.

35 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2021	31 December 2020
Undrawn commitments to extend finance	95,347	83,260
Financial guarantees	39,995	27,003
Capital commitments for infrastructure development projects	16,171	22,449
Commitment to lend	3,915	13,000
	155,428	145,712

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.

36 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.

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.

The Group had updated its inputs and assumptions for computation of ECL (refer note 4 p).

36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 credit review of the commercial banking exposure is managed and governed by the Board of Directors of KHCB and is consistent with the practices appropriate for retail banks. The risk assessment approach is used by the Parent Bank in determining where impairment provisions may be required against specific investment / credit exposures at its board. 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.

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.

36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposures subject to credit risk

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	902,427	-	-	902,427
Gross carrying amount	902,427	-	-	902,427
Less expected credit losses		-	-	-
Net carrying amount	902,427	-	-	902,427
Financing facilities				
Grade 8 -10 Impaired	-	-	97,592	97,592
Past due but not impaired				
Grade 1-6 Low-Fair Risk	16,618	19,313	-	35,931
Grade 7 Watch list	19	7,536	-	7,555
<u>Past due comprises:</u>				
Up to 30 days	15,311	26,491	-	41,802
30-60 days	281	-	-	281
60-90 days	1,045	358	-	1,403
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	686,667	66,544	-	753,211
Grade 7 Watch list	5,305	64,538	-	69,843
Gross carrying amount	708,609	157,931	97,592	964,134
Less expected credit losses	19,246	4,645	33,467	57,358
Net carrying amount	689,363	153,286	64,125	906,774
Assets acquired for leasing				
Grade 8-10 impaired	-	-	33,984	33,984
Past due but not impaired				
Grade 1-6 Low-Fair Risk	16,249	-	-	16,249
Grade 7 Watch list	732	745	-	1,477
<u>Past due comprises:</u>				
Up to 30 days	8,222	-	-	8,222
30-60 days	1,902	64	-	1,966
60-90 days	6,857	681	-	7,538
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	273,124	65,268	-	338,392
Grade 7 Watch list	650	27,565	-	28,215

36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	290,755	93,578	33,984	418,317
Less expected credit losses	643	2,464	10,984	14,091
Net carrying amount	290,112	91,114	23,000	404,226
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,496	3,496
Grade 1-6 Low-Fair Risk	2,449,638	67,011	-	2,516,649
Gross carrying amount	2,449,638	67,011	3,496	2,520,145
Less: expected credit losses	7,183	3,571	3,496	14,250
Net carrying amount	2,442,455	63,440	-	2,505,895
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	16	16
Grade 1-6 Low-Fair Risk	138,887	16,501	-	155,388
Grade 7 Watch list	-	24	-	24
Gross carrying amount (note 35)	138,887	16,525	16	155,428
Less: expected credit losses	-	-	-	-
Net carrying amount	138,887	16,525	16	155,428
Total net carrying amount	4,463,244	324,365	87,141	4,874,750

36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	706,500	-	-	706,500
Gross carrying amount	706,500	-	-	706,500
Less expected credit losses	-	-	-	-
Net carrying amount	706,500	-	-	706,500
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
<u>Past due comprises:</u>				
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	756,304	27,748	-	784,052
Grade 7 Watch list	554	14,163	-	14,717
Gross carrying amount	781,458	88,425	106,040	975,923
Less expected credit losses	19,178	5,130	20,928	45,236
Net carrying amount	762,280	83,295	85,112	930,687
Assets acquired for leasing				
Grade 8-10 impaired	-	-	42,353	42,353
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
<u>Past due comprises:</u>				
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
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	185,891	28,061	-	213,952
Grade 7 Watch list	26,244	3,440	-	29,684

36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	244,074	60,926	42,353	347,353
Less expected credit losses	1,446	1,127	8,201	10,774
Net carrying amount	242,628	59,799	34,152	336,579
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,493	3,493
Grade 1-6 Low-Fair Risk	1,297,516	45,210	-	1,342,726
Gross carrying amount	1,297,516	45,210	3,493	1,346,219
Less: expected credit losses	1,738	870	3,493	6,101
Net carrying amount	1,295,778	44,340	-	1,340,118
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 35)	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	3,143,307	194,673	120,990	3,458,970

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

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 2021 and 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.

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 2021 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 2021, 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.

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.

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.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2021**

US\$ 000's

36 FINANCIAL RISK MANAGEMENT (continued)

2021	12month ECL (Stage1)	Lifetime ECL not credit impaired (Stage2)	Lifetime ECL Credit impaired (Stage3)	Total 2021
Balance at 1 January	22,346	6,271	37,239	65,856
Transfer to 12-month ECL	3,512	(1,772)	(1,740)	-
Transfer to lifetime ECL non- credit-impaired	(3,029)	3,928	(899)	-
Transfer to lifetime ECL credit- impaired	(435)	(512)	947	-
Write-off	-	-	(4,811)	(4,811)
Charge for the period	5,264	2,717	27,600	35,581
Balance at 31 December	27,658	10,632	58,336	96,626

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

2021	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2021
Balances with banks	24	-	-	24
Treasury portfolio	7,232	3,523	3,496	14,251
Financing assets	19,886	7,109	44,454	71,449
Other financial receivables	307	-	10,368	10,675
Financing commitments and financial guarantees	209	-	18	227
Balance at 31 December	27,658	10,632	58,336	96,626

2020	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
Balance at 1 January	14,395	2,655	98,082	115,132
Transfer to 12-month ECL	3,793	(2,597)	(1,196)	-
Transfer to lifetime ECL non- credit-impaired	(324)	955	(631)	-
Transfer to lifetime ECL credit- impaired	(2,629)	(3,101)	5,730	-
Net re-measurement of loss allowance	(1,024)	5,630	(80,681)	(76,075)
Charge for the period	8,135	2,729	15,935	26,799
Balance at 31 December	22,346	6,271	37,239	65,856

36 FINANCIAL RISK MANAGEMENT (continued)

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

2020

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
Balances with banks	15	-	-	15
Treasury portfolio	1,109	-	4,995	6,104
Financing assets	19,289	5,130	31,591	56,010
Other financial receivables	1,522	1,127	452	3,101
Financing commitments and financial guarantees	411	14	201	626
Balance at 31 December	22,346	6,271	37,239	65,856

Renegotiated facilities

During the year, facilities of USD 50,942 thousands (2020: USD 52,191 thousand) were renegotiated, out of which USD 47,936 thousand (2020: USD 16,064 thousand) are classified as neither past due nor impaired as of 31 December 2021. 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 USD 108,488 thousand (2020: USD 221,782 thousand) only instalments of USD 48,560 thousand (2020: USD 112,878 thousand) are past due as at 31 December 2021.

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 USD 13 thousand (2020: USD 29,204 thousand) which were fully impaired. The Group has recovered USD 1,918 thousand from a financing facility written off in previous years (2020: USD 1,665 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.

	31 December 2021			31 December 2020		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	47,584	34,241	81,825	45,141	31,401	76,542
Other	3,249	-	3,249	3,082	-	3,082
<u>Against past due but not impaired</u>						
Property	65,342	65,605	130,947	61,987	60,894	122,881
Other	1,756	-	1,756	1,666	-	1,666
<u>Against neither past due nor impaired</u>						
Property	393,867	304,204	698,071	373,642	278,973	652,615
Other	48,475	-	48,475	45,987	-	45,987
Total	560,273	404,050	964,323	531,505	371,268	902,773

The average collateral coverage ratio on secured facilities is 148.99% as at 31 December 2021 (31 December 2020: 149.71%).

Concentration risk

The geographical and industry wise distribution of assets and liabilities are set out in notes 32 (a) and (b).

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.

36 FINANCIAL RISK MANAGEMENT (continued)

An analysis of concentrations of credit risk of financing assets of the Group's business at the reporting date is shown below:

Concentration by Sector	31 December 2021			31 December 2020		
	Financing assets	Assets acquired for leasing	Total	Financing assets	Assets acquired for leasing	Total
Banking and finance	12,156	-	12,156	11,725	-	11,725
Real estate	235,845	340,058	575,903	351,829	303,748	655,577
Construction	143,714	-	143,714	150,194	-	150,194
Trading	136,464	-	136,464	129,844	-	129,844
Manufacturing	35,923	-	35,923	38,772	-	38,772
Others	342,672	64,170	406,842	248,207	32,947	281,154
Total carrying amount	906,774	404,228	1,311,002	930,571	336,695	1,267,266

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 2022. 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 2021 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 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 31 for the expected maturity profile of assets and liabilities.

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36 FINANCIAL RISK MANAGEMENT (continued)

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2021							
Financial liabilities							
Clients' funds	152,925	-	63,837	-	-	216,762	216,762
Placements from financial, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	3,052,092	3,052,092
Customer current accounts	35,801	13,666	14,841	16,958	51,780	133,046	133,046
Term financing	578,012	185,494	512,475	84,031	390,655	1,750,667	1,750,667
Payables and accruals	96,562	22,225	229,286	56,581	-	404,654	404,654
Total liabilities	2,231,034	953,074	1,473,459	351,757	547,897	5,557,221	5,557,221
Equity of investment account holders							
Commitment and contingencies	981,081	269,297	377,042	235,597	239,127	2,102,144	1,358,344
	228	3,308	17,268	118,611	16,128	155,543	155,428

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.

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2020							
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							
Commitment and contingencies	762,918	194,080	285,764	193,745	199,499	1,636,006	1,156,993
	21,171	15,601	25,133	65,444	18,363	145,712	145,712

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:

	Liquid asset / Total asset	
	2021	2020
At 31 December	47.16%	36.35%
Average for the year	43.14%	35.62%
Maximum for the year	47.16%	36.35%
Minimum for the year	40.14%	34.48%

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 2021, the Bank had LCR ratio of 221%.

	Average balance	
	31 December 2021	31 December 2020
Stock of HQLA	292,998	244,049
Net cashflows	148,599	103,188
LCR %	221%	240%
Minimum required by CBB	80%	80%

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36 FINANCIAL RISK MANAGEMENT (continued)

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

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 2021, the Bank had NSFR ratio of 101%.

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,070,314	-	-	49,953	1,120,267
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits		182,112	25,962	2,749	200,420
6	Less stable deposits	-	1,314,514	430,372	90,957	1,661,355
7	Wholesale funding:					
8	Operational deposits					
9	Other Wholesale funding	-	2,860,814	861,346	773,058	1,896,078
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	136,864	18,759	71,437	71,437
13	Total ASF					4,949,558
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	1,493,881				73,941
15	Deposits held at other financial institutions for operational purposes					
16	Performing financing and sukuk/ securities:	-	636,283	-	720,739	708,071
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	5,000	-	174,023	150,419

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36 FINANCIAL RISK MANAGEMENT (continued)

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	320,720	91,696	205,595	339,845
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	615,521	634,536	291,421	916,449
24	Other assets:					
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'a-compliant hedging assets		-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	2,672,214	-	-	-	2,672,214
30	OBS items		-	-	-	27,946
31	Total RSF		1,577,524	726,232	1,391,778	4,888,886
32	NSFR(%)					101%

As at 31 December 2020

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,009,571	-	-	85,635	1,095,206
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	793,480	306,688	231,458	1,221,609
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	2,042,390	485,665	1,016,610	1,845,431
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	81,718	29,287	182,725	182,725
13	Total ASF	-	-	-	-	4,344,971
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	50,531
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:	-	453,447	20,628	906,357	838,420
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	127,045	-	214,171	245,568
19	Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	147,516	101,279	-	124,398
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	22,064	14,342
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-

36 FINANCIAL RISK MANAGEMENT (continued)

23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	260,664	19,500	395,881	535,963
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	2,652,216	-	-	-	2,652,216
30	OBS items	-	-	-	-	13,743
31	Total RSF	-	988,673	141,407	1,538,473	4,475,181
32	NSFR (%)	-	-	-	-	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.

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.

36 FINANCIAL RISK MANAGEMENT (continued)

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2021	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	1,026,479	91,561	31,243	454,734	1,485,908	3,089,925
Financing assets	308,832	64,197	95,926	418,316	423,731	1,311,002
Total assets	1,335,311	155,758	127,169	873,050	1,909,639	4,400,927
Liabilities						
Client's fund	152,925	-	63,837	-	-	216,762
Placements from financial institutions, non-financial institutions and individuals	1,367,734	731,689	653,020	194,187	105,462	3,052,092
Term financing	578,012	185,494	512,475	84,031	390,655	1,750,667
Total liabilities	2,098,671	917,183	1,229,332	278,218	496,117	5,019,521
Equity of investment account holders	237,281	269,297	377,042	235,597	239,127	1,358,344
Profit rate sensitivity gap	(1,000,641)	(1,030,722)	(1,479,205)	359,235	1,174,395	(1,976,938)

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
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)

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:

	2021	2020
100 bps parallel increase / (decrease)		
At 31 December	±19,769	±16,892
Average for the year	±18,108	±15,584
Maximum for the year	±19,879	±16,892
Minimum for the year	±16,082	±15,593

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:

	2021	2020
Placements with financial institutions	3.18%	3.68%
Financing assets	6.09%	6.59%
Debt type investments Sukuk	6.38%	6.57%
Placements from financial institutions, other entities and individuals	4.76%	4.38%
Term financing	2.55%	6.80%
Equity of investment account holders	2.56%	3.55%

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:

	2021 US\$ '000 Equivalent	2020 US\$ '000 Equivalent
Sterling Pounds	1,895	1,449
Euro	(2,619)	(2,654)
Australian Dollars	13,528	13,528
Kuwaiti Dinar	39,793	39,887
Other GCC Currencies (*)	(1,376,341)	(1,380,093)

(*) These currencies are pegged to the US Dollar.

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:

	2021 US\$ '000 Equivalent	2020 US\$ '000 Equivalent
Sterling Pounds	±95	±72
Euros	± (131)	±133
Australian dollar	±676	±676
Kuwaiti dinar	±1,990	±1,994
Egyptian Pound	-	±0.32
<i>Structural positions of foreign operation</i>		
Moroccan Dirham	±7,891	±7,513
Tunisian Dinar	±15,238	±14,617
Indian rupee	±13,635	±15,328

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 5b(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 2021, the Group did not have any significant issues relating to operational risks.

37 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.

37 CAPITAL MANAGEMENT (continued)

The Bank's regulatory capital position was as follows:

	31 December 2021	31 December 2020
CET 1 Capital before regulatory adjustments	1,063,515	1,025,835
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	1,063,515	1,025,835
T 2 Capital adjustments	53,374	76,062
Regulatory Capital	1,116,889	1,101,897
Risk weighted exposure:		
Credit Risk Weighted Assets	7,574,496	7,647,064
Market Risk Weighted Assets	38,325	72,038
Operational Risk Weighted Assets	655,034	552,821
Total Regulatory Risk Weighted Assets	8,267,855	8,271,923
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	8,267,850	8,271,918
Capital Adequacy Ratio	13.51%	13.49%
Tier 1 Capital Adequacy Ratio	12.86%	12.57%
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.

38 COMPARATIVES

Except for the prospective adoption of FAS-32 Ijara (refer note 4 (a) (ii)), 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.

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(The attached information do not form part of the consolidated financial statement)

for the year ended 31 December 2021

US\$ 000's

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global slowdown with uncertainties in the economic environment. This included disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures.

The pandemic as well as the resulting measures have had a significant knock-on impact on the Bank and its principal subsidiaries and its associates (collectively the "Group"). The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The Central Bank of Bahrain (CBB) announced various measures to combat the effect of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measures include the following:

- 1) Payment holiday for 6 months to eligible customers without any additional profits;
- 2) Concessionary repo to eligible retail banks at zero Percent;
- 3) Reduction of cash reserve ratio from 5% to 3%;
- 4) Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- 5) Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The onset of COVID-19 and the aforementioned measures resulted in the following significant effects to the financial position and operations of the Group:

- 6) The CBB mandated 6-month payment holiday required the retail banking subsidiary of the Group to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- 7) The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received various forms of financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures.
- 8) The mandated 6 months payments holiday also included the requirement to suspend minimum payments and service fees on credit card balances and reduction in transaction related charges, this resulted in a significant decline in the Group's fees income from its retail banking operations.
- 9) The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During year ended 31 December 2021, financing assets bookings were 19.43% lower than the same period of the previous year.

for the year ended 31 December 2021

US\$ 000's

- a. Decreased consumer spending caused by the economic slow-down in the booking of new consumer financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday. The Group's liquidity ratios and regulatory CAR were impacted but it continues to meet the revised regulatory requirement. The consolidated CAR, LCR and NSFR as of 31 December 2021 was 13.51%, 221% and 101% respectively.
- b. The stressed economic situation resulted in the Bank recognizing incremental ECL on its financing exposures.
- c. The overall economic effect of the pandemic was also reflected in the displacement and volatility in global debt and capital markets in YTD 2021 due to which the group had to recognize valuation losses on its Sukuk and investment portfolios.

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the period, the Bank achieved a net profit of USD 84.2 million, which is higher than USD 45.1 million in the same period of the previous year, registering a increase of 86.7%.

A summary of the significant areas of financial impact during 2020 described above is as follows:

	Net Impact recognized in the Group's consolidated income statement	Net Impact on the Group's consolidated financial position	Net Impact recognized in the Group's consolidated owners' equity
Average reduction of cash reserve	-	26,257	-
Concessionary repo at 0%	(737)	129,676	(737)
Modification loss	-	(25,072)	25,072
Investment portfolio decline	(19,193)	(31,576)	(20,643)
Modification loss amortization	25,072	25,072	-
Incremental ECL provisions	(7,161)	(7,161)	-
Government grants	-	-	4,953
Lower fee income (retail banking)	(830)	-	-

Information reported in the table above only include components or line items in the financial statements where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or incremental costs and hence may not necessarily reconcile with amounts reported in the interim financial information for 31 December 2020.

The above supplementary information is provided to comply with CBB circular number OG/259/2020 (reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as indication of the results if the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of date of preparation of this information. Circumstances may change which may result in this information to be out-of-date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.