ITHMAAR BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

ITHMAAR BANK B.S.C. (C)
Consolidated financial statements for the year ended 31 December 2020

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In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2020 until 31 December 2020, corresponding to the Year from 6 Jumada Al-Awal 1441 H until 16 Jumada Al-Awal 1442 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) and subsidiaries (the Bank) performed the following during the financial year ended at 31 December 2020:

1. Issued fatwas and Sharia resolutions related to Ithmaar's products and activities through Ithmaar Bank's Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards implementing Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined the books, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.

4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, consolidated income statement and the Bank's overall banking activities.

5. Examined and approved Sharia reports which are published by the Sharia Coordination and Implementation Department, Internal Sharia Audit Department and External Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the year ended at 31 December 2020. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, the resolution of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The Bank's management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2020 until 31 December 2020, corresponding to the Year from 6 Jumada Al-Awal 1441 H until 16 Jumada Al-Awal 1442 H.

In view of the above, the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank business in general:

a. Ithmaar's overall operations and activities were conducted in full in compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board approved standard contracts.

b. Mudaraba profit and loss distribution reserve is in compliance with the principles and provisions of Islamic Sharia.

c. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Ithmaar Bank's accounts are consolidated under Ithmaar Holding. Thus, Zakat calculation will be included in the consolidated Financial Statements of Ithmaar Holding.

ii: What has been transferred to the Bank after reorganization:

The Sharia Supervisory Board has reviewed the structure of the Bank, its projects and its subsidiaries following the establishment of the Holding Company and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary (for commercial operations in Bahrain and Pakistan) and to ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2020 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities, according to Note (36), the Sharia Supervisory Board guides the shareholders of Bank to dispose of impermissible earnings which has been calculated, in the current years financial statements, at 4.78 Bahraini fils per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Nizam Yacooby **Member**	His Eminence Shaikh Mohsin Al-Asfoor **Member**	His Eminence Shaikh Osama Bahar **Member**	His Eminence Shaikh Abdulla Al Manee'a **Chairman**

ITHMAAR BANK B.S.C. (C)
Directors' Report for the year ended 31 December 2020

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the year ended 31 December 2020, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended.

Principal activities

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017.

The principal activities of the Group are a wide range of financial services, including retail, commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2020, together with the consolidated results for the year ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of BD15.3 million for the year ended 31 December 2020 attributable to the equity shareholders of the Group, as compared to a net loss of BD1.4 million for 2019. Total assets at 31 December 2020 amounted to BD3,094.8 million (31 December 2019: BD2,979 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2020 was 12.65% (31 December 2019: 13.52%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 34 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2020:

HRH Prince Amr Mohammed Al-Faisal (Chairman)
Tunku Yaacob Khyra
Governor Abdelhamid Mohamed Abou Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Mohammed A. Rahman Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Dr. Amani Khaled Bouresli
Sheikh Mohamed Abdullah El Khereiji
Ms. Elham Ebrahim Hasan
Mr. Omar Abdi Ali

Directors' sitting fees

Directors' sitting fees for 2020 amounted to BD116,493 (2019: BD119,886).

Dividend

No dividend has been proposed for 2020 (2019: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2021.

By order of the Board of Directors

HRH Prince Amr Mohammed Al-Faisal
Chairman
18 February 2021

Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all materials respects, the consolidated financial position of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 31 December 2020, its consolidated financial performance, consolidated cash flows and consolidated statement of changes in restricted investment accounts, for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain ("CBB").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in restricted investment accounts for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

PricewaterhouseCoopers M.E Limited, Office no. 4701, Building no. 1459, Road no. 4626,
Block no. 346, P.O. Box 60771, Manama/Sea Front, Kingdom of Bahrain, Floor 47, West Tower,
Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

Independent Auditor’s Report to the Shareholders of Ithmaar Bank B.S.C. (c) (continued)

Report on the audit of the consolidated financial statements (continued)

Other information

The Board of Directors are responsible for the other information. The other information comprises the Directors’ report and the Report of the Sharia Supervisory Board (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report and the Annual Report which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group’s undertaking to operate in accordance with Islamic Sharia Rules and Principles are the responsibility of the Group’s Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS as modified by CBB and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), CBB Volume 2 and for such internal control as the Board of Directors determines is necessary to enable the preparation of the 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.

Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c) (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's 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 auditor's 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 Auditing Standards for Islamic Financial Institutions issued by AAOIFI 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 the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c) (continued)

Report on the audit of the consolidated financial statements (continued)

Report on other legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rule Book (Volume 2), we report the followings:

i. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith.

ii. The financial information contained in the Directors' report and the Report of the Sharia Supervisory Board is consistent with the consolidated financial statements.

iii. Except for the matter described below in connection with the non-compliance with the requirements of the CBB's Rulebook Volume 2 – Licensing Requirements module – LR-2.5.2A, nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, the CBB Rule Book (Volume 2) and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2020 or its financial position as at that date.

   - The total consolidated shareholders' equity of the Bank as at 31 December 2020 stood at less than BD 100 million which is a non-compliance with the requirements of the CBB's Rulebook Volume 2 – Licensing Requirements module – LR-2.5.2A.

iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that the Bank has complied with the Islamic Sharia Principles and Rules as determined by the Sharia Supervisory Board of the Group during the period under audit.

PricewaterhouseCoopers M.E Limited
18 February 2021
Partner's registration number: 196
Manama, Kingdom of Bahrain

ITHMAAR BANK B.S.C. (C)
Consolidated statement of financial position
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2020	At 31 December 2019
		(Audited)	**(Audited)**
ASSETS			
Cash and balances with banks and central banks	3	239,332	253,124
Commodity and other placements with banks, financial and other institutions	4	85,612	127,602
Murabaha and other financings	5	1,347,337	1,497,391
Musharaka financing		350,420	239,452
Sukuk and investment securities	6	755,225	523,702
Assets acquired for leasing	7	145,346	148,084
Other assets	8	47,953	55,544
Investment in real estate		2,316	2,398
Development properties	9	73,359	75,838
Fixed assets	10	22,274	22,235
Intangible assets	11	25,603	33,576
Total assets		**3,094,777**	**2,978,946**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTERESTS AND OWNERS' EQUITY			
Customers' current accounts	12	661,739	572,466
Due to banks, financial and other institutions	13	435,764	501,616
Due to investors	14	514,234	589,550
Other liabilities	15	102,998	104,908
Total liabilities		**1,714,735**	**1,768,540**
Equity of unrestricted investment accountholders	16	1,275,162	1,063,928
Minority interests	17	55,049	67,307
Total liabilities, equity of unrestricted investment accountholders and minority interests		**3,044,946**	**2,899,775**
Share capital	18	100,000	100,000
Reserves		(34,033)	7,590
Accumulated losses		(16,136)	(28,419)
Total owners' equity		**49,831**	**79,171**
Total liabilities, equity of unrestricted investment accountholders, minority interests and owners' equity		**3,094,777**	**2,978,946**

These consolidated financial statements were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:

HRH Prince Amr Mohammed Al-Faisal
Chairman

Elham Hasan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated income statement
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2020 (Audited)	Year ended 31 December 2019 (Audited)
INCOME			
Income from assets financed by unrestricted investment account holders		91,603	82,551
Less: return to unrestricted investment accounts and impairment provisions		(55,655)	(54,359)
Group's share of income from unrestricted investment accounts as a Mudarib		35,948	28,192
Income from murabaha and other financings	20	52,139	77,958
Income from other investments	21	53,410	41,854
Other income	22	20,700	23,212
Total income		**162,197**	**171,216**
Less: profit paid to banks, financial and other institutions		(75,173)	(87,630)
Operating income		**87,024**	**83,586**
EXPENSES			
Administrative and general expenses	23	(63,507)	(59,250)
Depreciation and amortization	10,11	(9,032)	(8,669)
Total expenses		**(72,539)**	**(67,919)**
Net income before provision for impairment and overseas taxation		**14,485**	**15,667**
Provision for impairment (net)	24	(15,587)	(2,779)
Net (loss)/income before overseas taxation		**(1,102)**	**12,888**
Overseas taxation	25	(9,867)	(10,408)
NET (LOSS)/PROFIT FOR THE YEAR		**(10,969)**	**2,480**
Attributable to:			
Equity holders of the Bank		(15,294)	(1,352)
Minority interests	17	4,325	3,832
		(10,969)	**2,480**
Basic and diluted (losses)/earnings per share	19	**Fils (15.29)**	**Fils (1.35)**

These consolidated financial statements were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:

HRH Prince Amr Mohammed Al-Faisal Chairman	Elham Hasan Director	Ahmed Abdul Rahim CEO

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of changes in owners' equity for the year ended 31 December 2020
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves								
	Share capital	Statutory reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Share premium	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2020 (Audited)	**100,000**	**299**	**5,193**	**(1,453)**	**744**	**(37,473)**	**40,280**	**7,590**	**(28,419)**	**79,171**
Adjustments resulting from reclassification of investments on adoption of FAS 33 (note 2)	**-**	**-**	4,019	**-**	**-**	**-**	**-**	**4,019**	**-**	**4,019**
At 1 January 2020 (Audited)	**100,000**	**299**	**9,212**	**(1,453)**	**744**	**(37,473)**	**40,280**	**11,609**	**(28,419)**	**83,190**
Set off of accumulated losses (note 1)	-	-	-	-	-	-	(40,280)	**(40,280)**	40,280	**-**
Net loss for the year	-	-	-	-	-	-		**-**	(15,294)	**(15,294)**
Modification loss net of Government assistance (note 2)	-	-	-	-	-	-	-	**-**	(14,836)	**(14,836)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	**-**	2,133	**2,133**
Movement in fair value of sukuk and investment securities	-	-	(1,895)	-	-	-	-	**(1,895)**	-	**(1,895)**
Movement in hedging reserve (note 32)	-	-	-	(1,307)	-	-	-	**(1,307)**	-	**(1,307)**
Foreign currency translation adjustments	-	-	(8)	-	(23)	(2,129)	-	**(2,160)**	-	**(2,160)**
At 31 December 2020 (Audited)	**100,000**	**299**	**7,309**	**(2,760)**	**721**	**(39,602)**	**-**	**(34,033)**	**(16,136)**	**49,831**

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in owners' equity for the year ended 31 December 2019

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves								
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Hedging reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share premium**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2019 (Audited)	**100,000**	**299**	**3,446**	**-**	**808**	**(30,655)**	**40,280**	**14,178**	**(28,793)**	**85,385**
Net loss for the year	-		-	-	-	-		**-**	(1,352)	**(1,352)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	**-**	1,726	**1,726**
Movement in fair value of sukuk and investment securities	-	-	1,734	-	-	-	-	**1,734**	-	**1,734**
Movement in hedging reserve (note 32)	-	-	-	(1,453)	-	-	-	**(1,453)**	-	**(1,453)**
Foreign currency translation adjustments	-	-	13	-	(64)	(6,818)	-	**(6,869)**	-	**(6,869)**
At 31 December 2019 (Audited)	**100,000**	**299**	**5,193**	**(1,453)**	**744**	**(37,473)**	**40,280**	**7,590**	**(28,419)**	**79,171**

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of cash flows
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2020 (Audited)	Year ended 31 December 2019 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation		(1,102)	12,888
Adjustments for:			
Depreciation and amortization	10,11	9,032	8,669
Provision for impairment (net)		15,587	2,779
Income from other investments		(53,410)	(41,854)
Loss on sale of fixed assets		50	287
Operating loss before changes in operating assets and liabilities		(29,843)	(17,231)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(9,070)	(19)
Changes in operating assets and liabilities:			
Murabaha and other financings		121,776	128,063
Musharaka financing		(118,395)	(73,730)
Other assets		6,508	17,335
Customers' current accounts		101,647	48,317
Due to banks, financial and other institutions		(60,020)	(53,453)
Due to investors		(54,691)	13,236
Other liabilities		(1,963)	(83,260)
(Decrease)/Increase in equity of unrestricted investment accountholders		216,010	81,535
Taxes paid		(7,009)	(10,628)
Net cash provided by operating activities		**164,950**	**50,165**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		2,748	6,774
Sukuk and investment securities		(193,949)	39,083
Purchase of fixed assets		(3,760)	(9,303)
Net cash (used in)/provided by investing activities		**(194,961)**	**36,554**
FINANCING ACTIVITIES			
Minority interests		-	(201)
Net cash used in financing activities		**-**	**(201)**
Foreign currency translation adjustments		(4,269)	(7,976)
Net (decrease)/increase in cash and cash equivalents		**(34,280)**	**78,542**
Cash and cash equivalents at the beginning of the year		**312,560**	**234,018**
Cash and cash equivalents at the end of the year	4	**278,280**	**312,560**

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2020

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2020	Fair value movements	At 31 December 2020
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	5,333	(527)	4,806
US Real Estate Placements*	9,514	-	9,514
TOTAL	**17,203**	**(527)**	**16,676**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2019

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2019	Fair value movements	At 31 December 2019
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	5,896	(563)	5,333
US Real Estate Placements*	9,514	-	9,514
TOTAL	**17,766**	**(563)**	**17,203**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 38 on pages 18 to 73 form an integral part of the consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (C) (the “Bank”) was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the “CBB”) on 14 August 2016.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust (“DMIT”), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017. Since Ithmaar remained the ultimate parent before and after this reorganization, this transaction has been accounted as a business combination under common control and the related assets and liabilities have been transferred at their book values. No financial transactions were incurred by the Bank between the date of incorporation 12 May 2016 and 1 January 2017.

Subsequent to reorganization, the transfer of the legal ownership of certain assets and liabilities from Ithmaar to the Bank are in progress.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

The Group’s activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders’ 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. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank’s head office, 16 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	2020	**2019**	**Country of Incorporation**	**Principal business activity**
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	90	66	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	50	50	Kingdom of Bahrain	Mortgage finance

During the year the Group acquired additional 2,547 units of Dilmunia Development Fund I L.P. as part of settlement of certain financings. The acquisition resulted in increase of shareholding from 66% to 90% without change in control.

1 INCORPORATION AND ACTIVITIES (continued)

1.1 As of 31 December 2020, the consolidated equity of the Group stood at BD49.8 million, which is below the minimum regulatory capital required by the CBB of BD100 million as per LR module of Volume 2 rulebook. To meet the regulatory minimum requirement, the Board of Directors is in the process of issuing Additional Tier 1 capital instruments (AT1) up to BD62 million which is expected to be completed by 31 March 2021. This has been approved by the CBB on 1 October 2020 and by the shareholders at the Extraordinary General Meeting held on 20 September 2020 (which also approved the offset of accumulated losses amounting to BD 40.3 million out of the Group's total accumulated losses of BD 43.9 million as of 30 June 2020 against the available balance in the share premium account).

The Group's management assessed its liquidity and equity projections for the coming twelve months from the date of the consolidated financial statements including various stress scenarios as follows:

- Assuming the lifting of sanctioned deposits and partial repayments
- Stressing the expected outflows of the liabilities
- Stressing the expected inflows from financings
- Increased availability of liquid assets in the form of government securities
- Stressing the estimated change in fair values of equity and debt instruments

The Board of Directors have reviewed the above projections and believes that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for a period of at least one year from the date of issue of this consolidated financial statements. Accordingly, this consolidated financial statements is prepared on a going concern basis.

1.2 On 14 September 2020, Ithmaar Holding signed a non legally binding Memorandum of Understanding (MoU) with Bank of Bahrain and Kuwait B.S.C. (BBK) where BBK is interested in considering the acquisition of certain assets forming part of Bahrain operations of Ithmaar Bank B.S.C (c) and other specific assets of a related party. The potential acquisition, which is subject to the Board of Directors, shareholders and regulatory approvals is still currently in its preliminery stage and subject to the completion of all necessary due diligence as well as signing a detailed and legally binding sale and purchase agreement by the concerned parties, as appropriate, incorporating all the terms of the proposed transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

(i) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS), except for:

a) recognition of modification losses on all financing assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 32 for further details; and

b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the income statement. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note 32 for further details.

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

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

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar (the parent) converted to an Islamic retail bank in April 2010. These are currently presented in accordance with FAS as modified by the CBB standards in the consolidated financial statements for the year ended 31 December 2020 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 40.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2020.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

A. New standards, amendments and interpretations not yet effective but early adopted

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

The Group has early adopted FAS 31 as issued by AAOIFI effective 1 January 2021. This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi AlIstithmar) transactions and instruments, in the hands of both the principal and the agent.

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

The adoption of this standard did not have a significant impact on the consolidated financial statements.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

A. New standards, amendments and interpretations not yet effective but early adopted (continued)

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" supersedes earlier FAS 25 "Investments in Sukuk, Shares and Similar Instruments" and produces revised guidance for classification and measurement of investments to align with international practices.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The adoption of this standard has resulted in amendment of the following accounting policies:

Investments carried at amortised cost

Sukuk and debt-type instruments (monetary or non-monetary) are carried at amortised cost where the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the investment and having reasonably determinable effective yield. These investments are measured using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated income statement. These investments are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Investments carried at fair value through equity

These represent investments (Equity-type or debt-type instruments) held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment.

These investments are initially recognised at fair value plus transaction costs. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes owners' in equity under "Investments fair value reserve", taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

These investments are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments". As part of impairment assessment, the Group assesses at the end of each reporting date whether there is any objective evidence that an investment carried at fair value through equity is impaired. Among other factors that may be considered for impairment, a significant or prolonged decline in the fair value of an equity investment below its cost is also an objective evidence of impairment.

Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if not classified as fair value through equity or amortised cost. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the consolidated income statement.

The implementation of FAS 33 has resulted in re-classification of investment securities amounting to BD427 million from amortized cost to investments held at fair value through equity. Accordingly, the cumulative changes in fair value of BD4 million (refer note 6) have been recognized in opening balance of fair value reserve in the owners' equity.

FAS 34 "Financial Reporting for Sukuk-holders"

FAS 34 "Financial Reporting for Sukuk-holders" aims to establish the principles of accounting and financial reporting for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including Sukuk-holders.

The adoption of this standard did not have a significant impact on the consolidated financial statements.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

B. New standards, amendments and interpretations issued but not effective and not early adopted by the Group.

FAS 32 "Ijarah"

FAS 32 "Ijarah" supersedes the earlier FAS 8 "Ijarah and Ijarah Muntahia Bittamleek" and is effective from the financial periods beginning on or after 1 January 2021.

This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee.

This standard brings significant changes from its predecessor standard (FAS 8), inter alia, in the following aspects:

a. Changes in the classification. Ijarah transactions under in this standard are classified into the following:
   i. Operating Ijarah;
   ii. Ijarah MBT with expected transfer of ownership after the end of the Ijarah term –either through a sale or gift; and
   iii. Ijarah MBT with gradual transfer –with gradual transfer ownership during the Ijarah term including Diminishing Musharaka Ijarah;

b. New recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting;

c. Requirement to identify and separate Ijarah and non-Ijarah components, if needed;

d. New recognition and measurement principles for an Ijarah MBT through gradual transfer / Diminishing Musharaka Ijarah, whereby the lessee shall recognize the 'combined asset' (including the right-of-use asset and the proportionate asset already owned by the lessee) whereas the lessor shall recognize the proportionate asset owned. FAS 8 requirements of recording monthly depreciation and gain and loss for such transactions are done away with;

e. Allowing effective rate of return/ profit rate method for accounting for rental income, in the hand of the lessor;

f. Testing for impairment of right-of-use asset shall be subject to requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments"; and

g. Detailed guidelines are provided for presentation and disclosures with enhanced disclosure by lessor and lessee of information as compared to previous requirements in FAS 8.

The Group is in process of assessing the impact of this standard on the consolidated financial statements.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Control is also presumed to exist if the Group has power to govern the financial and operating policies of a company with the objective of obtaining benefits from its operations. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Intra-Group balances and minority interests

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interests and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions are eliminated.

The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies (for group reporting purposes).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

Functional and presentation currency
Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

For group companies, items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency does not have any impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investments carried at fair value through equity are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders' equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect 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 that are believed to be reasonable under the circumstances.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. 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.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs where it does not exercise control. In determining whether the Group exercises control over an SPE, judgements are made about the objectives of the SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to obtain benefit from the SPE's operations by having power to govern its financial and operational policies.

3 Impairment of goodwill and intangible assets

Goodwill other intangibles assets acquired through business combinations have been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The Group tests whether goodwill or intangible assets have suffered any impairment in accordance with the impairment accounting policy.

The recoverable amount of the cash-generating units are generally determined based on higher of Value-in-Use (VIU) and Fair Value Less Cost to Disposal (FVLCTD).

VIU calculations are determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units.

For FVLCTD calculations, the Comparable Companies Multiple (CCM) method is used, whereby the price to book value (P/B) multiple of the comparable listed banks operating in the region were considered. The key assumptions used in estimating the recoverable amounts of cash-generating units are assessed to ensure reasonableness of the FVLCTD.

The above methods require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

During the current period, the management used the used the higher of VIU or FVLCTD method in assessing the recoverable amount of the goodwill and other intangible assets. As a result, the management used judgement in the percentage of the control premium and marketability discount used in the calculation of the effective P/B multiple for the FVLCTD method.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

4. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (“ECL”) in accordance with impairment policy.

The staging and ECL of related party exposures is consdered separately from the other financing assets. The ECL is assessed using the cash shortfall method since the underlying collateral can be taken over without having to apply any haircut. Furthter, the increase in credit risk is also assessed separately for related parties, given their commitment to honour the amounts due to the Group.

The economic uncertainties caused by COVID-19 have required the Group to update the inputs and assumptions used for the determination of ECL as at 31 December 2020. ECL were estimated based on a range of forecast economic conditions available as at latest available date.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

5. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets and anticipated support from major shareholder.

6. Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2. 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.

During the year, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring up to six months instalments. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. The Group uses judgement to individually differentiate between a borrowers' short-term liquidity constraints taking into account of customers who requested for further deferment and a change in its lifetime credit risk.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

7. Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking economic scenario which reflects the Group's view of the most likely future macro-economic conditions.

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Many of the macroeconoic variables which were used in the ECL model are updated or published by external agencies or government agencies.

The Group has reviewed its portfolio which is expected to be most impacted due to COVID-19 to determine if any provisions are necessary. The Group continues to individually assess significant exposures to adequately safeguard against any adverse movements due to COVID-19.

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group’s policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 in accordance with note 2

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 in accordance with note 2

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

An Investment instruments shall be measured at amortised cost if both the following conditions are met:

a. the investment is held within a business model whose objective is to hold such investments in order to collect expected cashflows till maturity of the instrument; and

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

These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

An Investment will be measured at Fair Value through equity if both the following conditions are met:

a. the investment is held within a business model whose objective is achieved by noth collecting the expected cashflows and selling the investments; and

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

Any other investment instruments not classified as per amortised cost or fair value through equity, are classified as fair value through income statement (FVIS).

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at fair value through income statement to be classified as investments at fair value through equity.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the Investments is solely to collect contractual cash flows. Another example is the debt investment securities, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Investment in real estate

All properties held for earning periodical income or for capital appreciation purposes or both are classified as investment in real estate (held-for-use).

Investment in real estate is initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

All properties where decision is made to sell and the sale is expected to occur within 12 months of reporting date (subject to availability of identified willing buyer) are classified as Investment in real estate Held-for-sale.

Investment in real estate Held-for-sale is measured at fair value in accordance with the fair value model.

5. Development properties

Development properties represent land held by the Group for development and sale in the ordinary course of business, and include expenditure incurred in acquiring the properties and other costs incurred in bringing them to their existing condition.

Development properties are carried at lower of cost or estimated net realisable value. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure.

6. Mudaraba

Mudaraba investments are recorded at cost.

Share of the Group's profit or loss from the Mudaraba are recognized in the consolidated income statement upon distribution or deduction from Mudaraba capital (in case of losses).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

7. Fair value

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measured at cost.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 in accordance with note 2

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of minority interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(j) Intangible assets (continued)

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, taxation related to the subsidiaries incorporated in tax jurisdictions are recorded as per local regulations.

(l) Value Added Tax (VAT)

The Bank is subject to VAT at 5% on certain financial services as applicable from 1 January 2019. The amount of VAT liability is determined by applying the VAT rate on eligible turnover, reduced by the VAT paid on eligible expenses (input VAT). The irrecoverable portion of input VAT is recognized as expense in the consolidated income statement.

(m) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(n) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

For share incentive based variable remuneration, provision is recognized in accordance with the CBB guidelines, based on the adjusted net asset value of the latest audited consolidated financial statements.

(o) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(p) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' 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.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(q) Profit Equalisation Reserve (PER)

PER is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of managing rate of return risk (including displaced commercial risk).

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(r) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(s) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changed in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(t) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(u) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group's consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(v) Revenue recognition

1. Profit participation and management fees

   Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

   Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

   Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

   Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

   Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

   In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from investments carried at amortised cost

   All gains or losses from investments carried at amortised cost are recognised in consolidated statement of income.

7. Income from investments carried at fair value through income statement

   All gains or losses from investments carried at fair value through income statement are recognised in consolidated statement of income.

8. Income from investments carried at fair value through equity

   The realised gains or losses along with the amounts previously recognised in equity are recognised in the consolidated income statement.

   Dividend income is recognised in the consolidated statement of income when right to receive payment is established.

9. Fees and commissions

   Fees and commissions are recognised when earned.

   Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

   Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(w) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib’s share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(x) Assets transfer between Owner’s equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner’s equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(y) Shari’a compliant risk management instruments and hedge accounting

The Group uses certain shari’a compliant risk management instruments (similar to derivatives) to economically hedge exposures to foreign exchange and profit rate risks. Such instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. The fair value of a hedging instrument is the equivalent to its prevailing market rates or is based on broker quotes. Instruments with positive market values are disclosed as assets and instruments with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into shari’a compliant risk management instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the consolidated income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of changes in owners’ equity.

Cash flow hedging attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of changes in owners’ equity and presented in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(y) Shari'a compliant risk management instruments and hedge accounting (continued)

Hedges directly affected by variable profit rate benchmark reforms

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark variable profit rate is not altered as a result of global variable profit rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark variable profit rate will not be altered as a result of variable profit rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the variable profit rate benchmark cash flows designated as a hedge will not be altered as a result of variable profit rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the variable profit rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from variable profit rate benchmark reform about the timing and the amount of the variable profit rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

(z) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 "Impairment, credit losses & onerous commitments" as follows:

1. Financings & receivables

Financings, receivables (including off-balance sheet exposures) are measured using the Expected Credit Losses (ECL) model in accordance with the Credit Losses Approach.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

Basis of Preparation - Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

• Determining the criteria for significant increase in credit risk;
• Determining the criteria for definition of default;
• Choosing appropriate models and assumptions for the measurement of ECL;
• Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

• Establishing groups of similar receivables for the purpose of measuring ECL

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

ECL – Significant increase in credit risk (SICR)

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

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

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

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

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. However due to CBB relaxtion 74 days past due has been considered as SICR.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

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

• Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.

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

• Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the banks. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

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

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

• All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
• All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
• All or any of the facility/ies wherein 'specific provision' is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

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

• financial assets that are not credit-impaired at the reporting date: as the 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);

• financial assets 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;

• financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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

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

I. Probability of default (PD);
II. Loss given default (LGD);
III. Exposure at default (EAD).

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

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. If a counterparty or exposure migrates between ratings 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. In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

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

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

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. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) and Economist Intelligence Unit (EIU) database for the relevant exposure country.

Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP growth rate and oil price.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth rate and oil prices.

Based on consideration of a variety of external actual and forecast information, The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

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

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

- Auto finance;
- Mortgage finance;
- Personal Finance; and
- Credit cards.

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

The PD’s derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD’s separately for Corporate and Retail portfolio.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

• All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
• Debt instruments that are measured at amortised cost or at fair value through equity.
• Financing commitments that are not measured at fair value through profit and loss (FVTPL)
• Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
• Lease receivables and contract assets
• Balances with banks
• Related party balances
• Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

2. **Investments**

Development properties

Development properties are carried at lower of cost or estimated net realisable value in accordance with the Net realisable value approach. This includes the situation when there is a possible indication of decline in the value of such properties. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure. Impairment losses are recognised in the consolidated income statements.

Intangible assets

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement.

Assets classified as Held for sale

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Other investments

All other investments (excluding investments carried at fair value through income statement) are assessed for impairment in accordance with the Impairment approach.

Impairment loss represents the amount by which an investment's carrying value exceeds its recoverable amount.

In case of indications of possible impairment, the recoverable amount of an investment is determined as being the higher of its fair value less costs of disposal and its value-in-use.

Impairment losses are recognised in the consolidated income statement, taking into account the split between owners and unrestricted investment accounts.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	38,265	3,720	41,985	62,643	1,112	63,755
Cash and balances with banks and central banks	146,304	51,043	197,347	156,993	32,376	189,369
	184,569	**54,763**	**239,332**	**219,636**	**33,488**	**253,124**

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	80,933	4,743	85,676	123,284	4,411	127,695
Less: Provision for impairment	(64)	-	(64)	(93)	-	(93)
	80,869	**4,743**	**85,612**	**123,191**	**4,411**	**127,602**

Cash and cash equivalents for the purpose of consolidated statement of cash flows are as under:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	184,569	54,763	239,332	219,636	33,488	253,124
Commodity and other placements with banks, financial and other institutions	80,869	4,743	85,612	123,191	4,411	127,602
Less: Placement maturing after ninety days	64	(4,743)	(4,679)	-	(4,411)	(4,411)
Less: Balances with central bank relating to minimum reserve requirement	(38,265)	(3,720)	(41,985)	(62,643)	(1,112)	(63,755)
	227,237	**51,043**	**278,280**	**280,184**	**32,376**	**312,560**

5 MURABAHA AND OTHER FINANCINGS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	955,985	530,847	1,486,832	1,137,602	490,852	1,628,454
Less: Provision for impairment	(121,648)	(17,847)	(139,495)	(121,026)	(10,037)	(131,063)
	834,337	**513,000**	**1,347,337**	**1,016,576**	**480,815**	**1,497,391**

Other financings represents conventional loans and advances totalling BD301.5 million (31 December 2019: BD482.3 million) made by a subsidiary of the Bank.

The movement in provision for impairment is as follows:	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	121,026	10,037	131,063	131,029	12,874	143,903
Charge for the year	15,513	7,747	23,260	15,283	1,030	16,313
Write back during the year	(3,469)	(22)	(3,491)	(18,386)	-	(18,386)
Utilised during the year	(11,619)	-	(11,619)	(554)	(3,676)	(4,230)
Reclassification	2,194	79	2,273	-	-	-
Exchange differences and other movements	(1,997)	6	(1,991)	(6,346)	(191)	(6,537)
At 31 December	**121,648**	**17,847**	**139,495**	**121,026**	**10,037**	**131,063**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Held for trading						
Debt-type instruments – unlisted	15,441	-	15,441	75,652	-	75,652
Equity-type securities – listed	1,451	-	1,451	222	-	222
	16,892	**-**	**16,892**	**75,874**	**-**	**75,874**
Investment securities at fair value through equity						
Debt-type instruments – listed	77,034	38,302	115,336	-	-	-
Debt-type instruments – unlisted	380,573	94,543	475,116	-	-	-
Equity-type securities – listed	22,572	-	22,572	21,482	-	21,482
Equity-type securities – unlisted	3,353	-	3,353	1,989	-	1,989
	483,532	132,845	616,377	23,471	-	23,471
Provision for impairment	(5,645)	-	(5,645)	(3,990)	-	(3,990)
	477,887	**132,845**	**610,732**	**19,481**	**-**	**19,481**
Investment securities carried at amortised cost						
Sukuk – unlisted	1,254	23,427	24,681	79,647	72,732	152,379
Other debt-type instruments – listed	-	102,141	102,141	37,256	**-**	37,256
Other debt-type instruments – unlisted	3,270	1,119	4,389	243,945	-	243,945
	4,524	126,687	131,211	360,848	72,732	433,580
Provision for impairment	(3,610)	-	(3,610)	(5,233)	-	(5,233)
	914	**126,687**	**127,601**	**355,615**	**72,732**	**428,347**
	495,693	**259,532**	**755,225**	**450,970**	**72,732**	**523,702**

Sukuk and investment securities include conventional investments totalling BD494.4 million (31 December 2019: BD413.9 million) made by a subsidiary of the Bank.

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	9,223	-	9,223	9,447	-	9,447
Charge for the year	1,568	-	1,568	867	-	867
Write back during the year	(1,205)	-	(1,205)	(151)	-	(151)
Exchange differences and other movements	(331)	-	(331)	(940)	-	(940)
At 31 December	**9,255**	**-**	**9,255**	**9,223**	**-**	**9,223**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2020				
Investment securities at fair value through income statement				
Debt-type instruments	-	15,441	-	15,441
Equity-type securities – listed	1,451	-	-	1,451
Investment securities at fair value through equity				
Debt-type instruments – listed	113,552	-	-	113,552
Debt-type instruments – unlisted	-	476,413	-	476,413
Equity securities	14,496	6,271	-	20,767
	129,499	**498,125**	**-**	**627,624**

	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Investment securities at fair value through income statement				
Debt-type instruments	-	75,652	-	75,652
Equity-type securities – listed	222	-	-	222
Investment securities at fair value through equity				
Equity securities	19,286	195	-	19,481
	19,508	**75,847**	**-**	**95,355**

There was no movement between level 1 and level 2 during the year

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 ASSETS ACQUIRED FOR LEASING

	31 December 2020			31 December 2019		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	165,773	(20,427)	145,346	162,562	(14,478)	148,084

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2020	31 December 2019
Relating to owners	1,181	1,208
Relating to unrestricted investment accounts	144,165	146,876
	145,346	148,084

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 OTHER ASSETS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	25,841	29,348	55,189	33,922	21,122	55,044
Due from related parties	5,121	-	5,121	8,209	-	8,209
Taxes – deferred	521	-	521	3,519	-	3,519
Taxes – current	66	-	66	4,589	-	4,589
Assets acquired against claims	2,912	-	2,912	3,103	-	3,103
	34,461	29,348	63,809	53,342	21,122	74,464
Provision for impairment	(11,355)	(4,501)	(15,856)	(14,340)	(4,580)	(18,920)
	23,106	**24,847**	**47,953**	**39,002**	**16,542**	**55,544**

The movement in provision for impairment is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	14,340	4,580	18,920	14,227	4,582	18,809
Charge for the year	744	-	744	259	-	259
Write back during the year	(1,548)	-	(1,548)	(33)	-	(33)
Reclassification	(2,165)	(79)	(2,244)	-	-	-
Exchange differences and other movements	(16)	-	(16)	(113)	(2)	(115)
At 31 December	**11,355**	**4,501**	**15,856**	**14,340**	**4,580**	**18,920**

9 DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2020	31 December 2019
Land	52,236	52,287
Development costs	21,123	23,551
	73,359	**75,838**

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 FIXED ASSETS

	Relating to owners			Relating to owners		
			31 December 2020			31 December 2019
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	14,253	(3,697)	10,556	14,276	(3,719)	10,557
Leasehold improvements	13,185	(8,522)	4,663	12,244	(8,007)	4,237
Furniture and equipment	27,189	(20,627)	6,562	26,498	(19,459)	7,039
Motor vehicles	1,116	(623)	493	1,015	(613)	402
	55,743	**(33,469)**	**22,274**	**54,033**	**(31,798)**	**22,235**

Depreciation charge for the year ended 31 December 2020 amounted to BD3 million (31 December 2019: BD2.7 million).

11 INTANGIBLE ASSETS

	Relating to owners				
					31 December 2020
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(26,794)	(4,591)	2,838
Customer relations	42,814	(29,459)	-	(5,088)	8,267
Core deposits	58,641	(42,152)	-	(6,659)	9,830
Others	17,936	(13,268)	-	-	4,668
	153,614	**(84,879)**	**(26,794)**	**(16,338)**	**25,603**

	Relating to owners				
					31 December 2019
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(22,809)	(4,415)	6,999
Customer relations	42,814	(27,433)	-	(5,247)	10,134
Core deposits	58,641	(39,219)	-	(7,183)	12,239
Others	16,334	(12,130)	-	-	4,204
	152,012	**(78,782)**	**(22,809)**	**(16,845)**	**33,576**

Amortisation charge for the year ended 31 December 2020 amounted to BD6 million (31 December 2019: BD6 million).

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2020	31 December 2019
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	-	3,985
Faysal Bank Limited	2,838	3,014
	2,838	**6,999**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement. The impact of every 0.1 times change in P/B multiple will result in reduction of goodwill by BD0.4 million.

12 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to BD84.1 million which is subject to sanctions under US measures (31 December 2019: BD76.9 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2020			31 December 2019		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Due to banks	363,595	54,912	418,507	389,043	64,861	453,904
Due to financial and other institutions	17,257	-	17,257	47,712	-	47,712
	380,852	**54,912**	**435,764**	**436,755**	**64,861**	**501,616**

Due to banks, financial and other institutions include balances totalling BD165.2 million from two counterparties which are subject to sanctions under US measures (31 December 2019: BD161.4 million).

Due to banks, financial and other institutions include conventional deposits totalling BD106.5 million (31 December 2019: BD112.6 million), accepted by a subsidiary of the Bank.

At 31 December 2020, there were collateralized borrowings in aggregate BD72.5 million (31 December 2019: BD86.3 million).

14 DUE TO INVESTORS

	Relating to owners	
	31 December 2020	**31 December 2019**
Due to corporate institutions	268,850	291,881
Due to individuals	218,191	271,686
Due to financial institutions	27,193	25,983
	514,234	**589,550**

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

15 OTHER LIABILITIES

	31 December 2020			31 December 2019		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Accounts payable	70,334	32,615	102,949	78,848	26,000	104,848
Due to related parties	49	-	49	60	-	60
	70,383	**32,615**	**102,998**	**78,908**	**26,000**	**104,908**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Note	31 December 2020	31 December 2019
Cash and balances with banks and central banks	3	54,763	33,488
Commodity and other placements with banks, financial and other institutions	4	4,743	4,411
Murabaha and other financings	5	513,000	480,815
Musharaka financing		350,319	234,446
Sukuk and investment securities	6	259,532	72,732
Assets acquired for leasing	7	144,165	146,876
Other assets	8	24,847	16,542
Due from the Group (net)		272,483	299,648
		1,623,852	1,288,958
Customers' current accounts		(261,163)	(134,169)
Due to banks, financial and other institutions	13	(54,912)	(64,861)
Other liabilities	15	(32,615)	(26,000)
Equity of unrestricted investment accountholders		**1,275,162**	**1,063,928**

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provision amounting to BD26.3 million (31 December 2019: BD16.9 million). The movement of impairment provision relating to unrestricted investment accountholders has been disclosed in note 24.

Other liabilities include the profit equalization reserve and the movement is as follows:

	31 December 2020	31 December 2019
At 1 January	7,351	8,313
Net addition/(utilisation) during the year	(3,016)	(962)
At 31 December	**4,335**	**7,351**

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2020	31 December 2019
At 1 January	-	566
Net addition/(utilisation) during the year	-	(566)
At 31 December	**-**	**-**

The average gross rate of return in respect of unrestricted investment accounts was 4.9% per annum for 2020 (2019: 4.6%) of which 3.2% per annum (2019: 3.1%) was distributed to the investors and the balance was either set aside as provision for impairment, management fee of BD0.9 million (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17 MINORITY INTERESTS

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2020		31 December 2019	
	Minority %		Minority %	
Faysal Bank Limited	33	43,770	33	39,338
Dilmunia Development Fund I L.P.	10	10,282	34	26,972
Sakana Holistic Housing Solutions B.S.C. (C)	50	997	50	997
		55,049		**67,307**

Minority interests in the consolidated income statement of BD4.3 million (31 December 2019: BD3.8 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

18 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 1 January 2019	1,000,000	100,000
At 31 December 2019 (Audited)	**1,000,000**	**100,000**
Issued and fully paid		
Total outstanding as at 1 January 2020	1,000,000	100,000
At 31 December 2020 (Audited)	**1,000,000**	**100,000**

The Bank’s total issued and fully paid share capital at 31 December 2020 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. the Chief Executive Officer owns 1 share and remaining shares are held by Ithmaar Holding B.S.C. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2020 was 10.5 million shares (31 December 2019: 10.5 million shares) of which the unvested shadow shares amount to 3.4 million shares (31 December 2019: BD6.1 million shares).

19 EARNINGS PER SHARE (BASIC & DILUTED)

Losses per share (Basic & Diluted) are calculated by dividing the net loss attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	Year ended 31 December 2020	Year ended 31 December 2019
Net loss attributable to shareholders (BD ’000)	(15,294)	(1,352)
Weighted average number of issued and fully paid up ordinary shares (’000)	1,000,000	1,000,000
Losses Earnings per share (Basic & Diluted) - Fils	**(15.29)**	**(1.35)**

Earnings per share on non-sharia compliant income and expenses is included under note 36.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

20 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners Year ended 31 December 2020	Relating to owners Year ended 31 December 2019
Income from Islamic financings	9,629	10,122
Income from other financings	42,510	67,836
	52,139	**77,958**

21 INCOME FROM OTHER INVESTMENTS

	Relating to owners Year ended 31 December 2020	Relating to owners Year ended 31 December 2019
Income from investment securities at amortised cost	272	31,885
Income/(loss) from investment securities at fair value through equity	43,774	(153)
Income from investment securities at fair value through income statement	9,024	10,097
Income from investment in real estate	340	25
	53,410	**41,854**

22 OTHER INCOME

	Relating to owners Year ended 31 December 2020	Relating to owners Year ended 31 December 2019
Income from banking services	17,164	14,412
Income from commodity placements	3,726	7,666
Foreign exchange (loss)/income	(239)	847
Other income	49	287
	20,700	**23,212**

23 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners Year ended 31 December 2020	Relating to owners Year ended 31 December 2019
Salaries and other benefits	28,582	26,373
Office expenses	22,262	21,732
Professional fees	4,308	2,585
Other administrative expenses	8,355	8,560
	63,507	**59,250**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 PROVISION FOR IMPAIRMENT

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	171,798	16,914	188,712	176,184	18,830	195,014
Charge for the year	21,809	9,850	31,659	21,349	2,199	23,548
Write back during the year	(6,222)	(320)	(6,542)	(18,570)	(63)	(18,633)
Utilised during the year	(11,619)	-	(11,619)	(4,073)	(3,676)	(7,749)
Exchange differences	(1,499)	(98)	(1,597)	(3,092)	(376)	(3,468)
At 31 December	**174,267**	**26,346**	**200,613**	**171,798**	**16,914**	**188,712**

Provision utilised during the year represents write-offs during the period, which pertains to stage 3.

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	121,648	17,847	139,495	121,026	10,037	131,063
Commodity and other placements with banks, financial and other institutions	64	-	64	93	-	93
Musharaka financing	-	3,998	3,998	-	2,297	2,297
Sukuk and investment securities	9,255	-	9,255	9,223	-	9,223
Other assets	10,698	4,501	15,199	13,782	4,580	18,362
Off-balance sheet related	657	-	657	558	-	558
Investment in real estate	5,151	-	5,151	4,307	-	4,307
Intangible assets	26,794	-	26,794	22,809	-	22,809
	174,267	**26,346**	**200,613**	**171,798**	**16,914**	**188,712**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 PROVISION FOR IMPAIRMENT (continued)

Loss allowance

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**325,008**	**-**	**-**	**325,008**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	254,605	25,545	-	280,150
Acceptable risks (4-6)	1,211,143	21,993	151	1,233,287
Watch list (7)	-	43,950	-	43,950
Non performing (8-10)	-	-	113,916	113,916
Carrying amount - Corporate	**1,465,748**	**91,488**	**114,067**	**1,671,303**
Retail (un-rated)	489,158	51,457	37,992	578,607
Carrying amount including unfunded	**1,954,906**	**142,945**	**152,059**	**2,249,910**
Sukuk and investment securities	**127,617**	**-**	**3,594**	**131,211**
Other receivables	**34,797**	**1,087**	**12,810**	**48,694**
Loss allowance	**(36,416)**	**(8,406)**	**(118,873)**	**(163,695)**
Total Financial assets carrying amount	**2,405,912**	**135,626**	**49,590**	**2,591,128**

31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**380,781**	**-**	**-**	**380,781**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	366,113	15,680	-	381,793
Acceptable risks (4-6)	1,049,464	51,389	151	1,101,004
Watch list (7)	-	40,756	-	40,756
Non performing (8-10)	-	-	159,480	159,480
Carrying amount - Corporate	**1,415,577**	**107,825**	**159,631**	**1,683,033**
Retail (un-rated)	506,051	7,404	21,395	534,850
Carrying amount including unfunded	**1,921,628**	**115,229**	**181,026**	**2,217,883**
Sukuk and investment securities	**428,283**	**-**	**5,297**	**433,580**
Other receivables	**44,232**	**4,911**	**13,916**	**63,059**
Loss allowance	**(38,184)**	**(3,487)**	**(116,414)**	**(158,085)**
Total Financial assets carrying amount	**2,736,740**	**116,653**	**83,825**	**2,937,218**

Gross financings (funded) as of 31 December 2020 amounted to BD1.1 billion, BD0.3 billion and BD0.2 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: BD1.1 billion, BD0.3 billion and BD0.2 billion). Collateral coverage for gross financing as of 31 December 2020 was 80%, 40% and 48% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: 83%, 46% and 49%).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 PROVISION FOR IMPAIRMENT (continued)

Included in Stage 1 under “Acceptable risks (4-6)” is the financing extended to the Group’s affiliate, IB Capital, amounting to BD584 million. This financing originated on 2 January 2017 as part of the reorganization pursuant to the Extraordinary General Meeting (EGM) held on 28 March 2016 where the shareholders approved to restructure the erstwhile Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets with IB Capital holding the non-core assets. The financing is collateralized by the underlying assets of IB Capital and the recovery is based on the sale of these underlying assets through an asset sale plan approved by the Board of Directors of the Group.

As part of the Group’s staging policy to determine whether credit risk has significantly increased since initial recognition, the Group compared the risk of default at the assessment date with the risk of default at initial recognition.Following factors were analyzed as part of this assessment:

- The recovery of the financing at initial recognition was based on the sale of the underlying assets by IB Capital.
- the delays in the sale of underlying assets during 2020 were mainly due to the COVID-19 pandemic. All principal and profit payments are current.
- The ECL has been calculated under various stressed scenarios and the resulting impairment is within the existing ECL range.

Accordingly, the Group concluded that there has been no significant increase in credit risk of the exposure since initial recognition and classification of the above financing in Stage 1 is appropriate as of 31 December 2020.

25 OVERSEAS TAXATION

	Relating to owners Year ended	
	31 December 2020	31 December 2019
Current taxes	9,139	12,178
Deferred taxes	728	(1,770)
	9,867	**10,408**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2020	31 December 2019
At 1 January	4,589	9,410
Charge for the year	(9,139)	(12,178)
Payments made	7,009	10,628
Exchange differences and other movements	(2,393)	(3,271)
At 31 December	**66**	**4,589**

Deferred tax asset/(liability)

	31 December 2020	31 December 2019
At 1 January	3,519	3,664
Charge for the year	(728)	1,770
Charges due to fair value reserve	(1,406)	(816)
Exchange differences and other movements	(864)	(1,099)
At 31 December	**521**	**3,519**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail/ Commercial banking business, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2020				31 December 2019			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income	86,250	682	92	**87,024**	84,171	(360)	(225)	**83,586**
Total expenses	(69,840)	(2,699)	-	**(72,539)**	(64,954)	(2,965)	-	**(67,919)**
Net income/(loss) before provision and overseas taxation	**16,410**	**(2,017)**	**92**	**14,485**	**19,217**	**(3,325)**	**(225)**	**15,667**
Provision and overseas taxation	(25,317)	(137)	-	**(25,454)**	(12,993)	(194)	-	**(13,187)**
Net (loss)/income for the year	**(8,907)**	**(2,154)**	**92**	**(10,969)**	**6,224**	**(3,519)**	**(225)**	**2,480**
Attributable to:								
Equity holders of the Bank	(13,877)	(1,477)	60	**(15,294)**	1,104	(2,307)	(149)	**(1,352)**
Minority interests	4,970	(677)	32	**4,325**	5,120	(1,212)	(76)	**3,832**
	(8,907)	**(2,154)**	**92**	**(10,969)**	**6,224**	**(3,519)**	**(225)**	**2,480**
Total assets	**3,015,551**	**77,720**	**1,506**	**3,094,777**	**2,894,497**	**82,694**	**1,755**	**2,978,946**
Total liabilities and equity of unrestricted investment account holders	**2,980,370**	**9,527**	**-**	**2,989,897**	**2,819,800**	**-**	**12,668**	**2,832,468**

The Group constitutes of two geographical segments which are Middle East & Asia

	31 December 2020			31 December 2019		
	Middle East & Africa	Asia	Total	Middle East & Africa	Asia	Total
Operating income	10,826	76,198	**87,024**	14,520	69,066	**83,586**
Total expenses	(26,458)	(46,081)	**(72,539)**	(24,413)	(43,506)	**(67,919)**
Net (loss)/income before provision and overseas taxation	**(15,632)**	**30,117**	**14,485**	**(9,893)**	**25,560**	**15,667**
Provision and overseas taxation	(10,518)	(14,936)	**(25,454)**	(2,850)	(10,337)	**(13,187)**
Net (loss)/income for the year	**(26,150)**	**15,181**	**(10,969)**	**(12,743)**	**15,223**	**2,480**
Attributable to:						
Equity holders of the Bank	(25,401)	10,107	**(15,294)**	(11,485)	10,133	**(1,352)**
Minority interests	(749)	5,074	**4,325**	(1,258)	5,090	**3,832**
	(26,150)	**15,181**	**(10,969)**	**(12,743)**	**15,223**	**2,480**
Total assets	**1,420,563**	**1,674,214**	**3,094,777**	**1,500,169**	**1,478,777**	**2,978,946**
Total liabilities and equity of unrestricted investment account holders	**1,416,147**	**1,573,750**	**2,989,897**	**1,483,168**	**1,349,300**	**2,832,468**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

27 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

28 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2020	31 December 2019
Acceptances and endorsements	25,215	22,257
Guarantees and irrevocable letters of credit	222,311	165,417
Customer and other claims	79,653	83,242
	327,179	**270,916**

Commitments

	31 December 2020	31 December 2019
Undrawn facilities, financing lines and other commitments to finance	**601,813**	**540,196**

29 CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD
As at 31 December 2020			
Total currency exposure	168,815	15,142	223,709
Reasonable shift	6.48%	0.45%	0.36%
Total effect on income/equity	**10,939**	**68**	**805**

	PKR	EUR	USD
As at 31 December 2019			
Total currency exposure	194,024	85,392	205,511
Reasonable shift	7.51%	2.23%	0.19%
Total effect on income/equity	**14,571**	**1,904**	**390**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as compared to the one year forward rate for the same period.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2020	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	54,328	115,723	43,014	17,597	578	8,092	239,332
Commodity and other placements with banks, financial and other institutions	8,947	11,766	63,199	1,700	-	-	85,612
Murabaha and other financings	467,603	380,100	378,739	96,689	-	24,206	1,347,337
Musharaka financing	-	350,420	-	-	-	-	350,420
Sukuk and investment securities	41,557	651,532	62,136	-	-	-	755,225
Assets acquired for leasing	-	-	145,346	-	-	-	145,346
Other assets	9,210	16,381	19,733	989	450	1,190	47,953
Investment in real estate	-	2,316	-	-	-	-	2,316
Development properties	-	-	73,359	-	-	-	73,359
Fixed assets	-	21,497	777	-	-	-	22,274
Intangible assets	21,163	4,440	-	-	-	-	25,603
Total assets	**602,808**	**1,554,175**	**786,303**	**116,975**	**1,028**	**33,488**	**3,094,777**
Customer current accounts	72,765	391,697	97,645	88,692	40	10,900	661,739
Due to banks, financial and other institutions	93,292	138,084	39,928	41,214	123,242	4	435,764
Due to investors	22,684	487,065	-	1,250	-	3,235	514,234
Other liabilities	-	58,494	14,712	961	935	27,896	102,998
Total liabilities	**188,741**	**1,075,340**	**152,285**	**132,117**	**124,217**	**42,035**	**1,714,735**
Equity of unrestricted investment accountholders	140,527	310,020	823,140	-	-	1,475	1,275,162
Total liabilities and equity of unrestricted investment accountholders	**329,268**	**1,385,360**	**975,425**	**132,117**	**124,217**	**43,510**	**2,989,897**
Contingent liabilities and commitments	283,199	566,657	24,615	24,751	653	29,117	**928,992**
31 December 2019							
Total assets	651,418	1,428,148	831,943	36,044	581	30,812	2,978,946
Total liabilities and equity of unrestricted investment accountholders	366,736	1,234,124	974,274	121,436	124,023	11,875	2,832,468
Contingent liabilities and commitments	165,318	566,657	24,615	24,751	653	29,118	811,112

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30 MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cash and balances with banks and central banks	239,332	-	-	-	-	239,332
Commodity and other placements with banks, financial and other institutions	71,624	9,245	4,743	-	-	85,612
Murabaha and other financings	36,409	89,514	755,782	250,846	214,786	1,347,337
Musharaka financing	6,272	23,029	37,922	162,517	120,680	350,420
Sukuk and investment securities	149,764	287,238	41,712	62,387	214,124	755,225
Assets acquired for leasing	212	3	355	2,415	142,361	145,346
Other assets	34,877	34	10,760	-	2,282	47,953
Investment in real estate	-	-	2,316	-	-	2,316
Development properties	-	-	-	-	73,359	73,359
Fixed assets	-	-	-	15,049	7,225	22,274
Intangible assets	-	-	-	-	25,603	25,603
Total assets	**538,490**	**409,063**	**853,590**	**493,214**	**800,420**	**3,094,777**
Customer current accounts	661,739	-	-	-	-	661,739
Due to banks, financial and other institutions	178,671	59,877	178,517	8,117	10,582	435,764
Due to investors	355,543	70,835	85,989	1,854	13	514,234
Other liabilities	87,523	-	6,713	8,762	-	102,998
Total liabilities	**1,283,476**	**130,712**	**271,219**	**18,733**	**10,595**	**1,714,735**
Equity of unrestricted investment accountholders	637,730	155,132	334,955	147,345	-	1,275,162
Total liabilities and equity of unrestricted investment accountholders	**1,921,206**	**285,844**	**606,174**	**166,078**	**10,595**	**2,989,897**
Net position	**(1,382,716)**	**123,219**	**247,416**	**327,136**	**789,825**	**104,880**
Contingent liabilities and commitments	536,271	170,876	94,761	121,799	5,285	**928,992**
31 December 2019						
Total assets	**695,391**	**382,459**	**266,798**	**1,021,597**	**612,701**	**2,978,946**
Total liabilities and equity of unrestricted investment accountholders	**1,585,708**	**465,134**	**520,817**	**260,809**	**-**	**2,832,468**
Net position	**(890,317)**	**(82,675)**	**(254,019)**	**760,788**	**612,701**	**146,478**
Contingent liabilities and commitments	**450,883**	**143,485**	**102,711**	**111,852**	**2,181**	**811,112**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2020	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	individuals	Textile	Other	Total
Cash and balances with banks and central banks	239,332	-	-	-	-	-	-	239,332
Commodity and other placements with banks, financial and other institutions	85,612	-		-	-	-	-	85,612
Murabaha and other financings	593,490	266,864	41,763	87,476	286,450	27,892	43,402	1,347,337
Musharaka financing	510	177,723	4,818	78,289	62,045	12,232	14,803	350,420
Sukuk and investment securities	517,224	99,766	133,490	3,394	1,119	-	232	755,225
Assets acquired for leasing	-	1,624	1,163	76	142,483	-	-	145,346
Other assets	17,501	25,255	4,641	-	-	-	556	47,953
Investment in real estate	-	-	2,316	-	-	-	-	2,316
Development properties	-	-	73,359	-	-	-	-	73,359
Fixed assets	21,497	-	777	-	-	-	-	22,274
Intangible assets	25,603	-	-	-	-	-	-	25,603
Total assets	**1,500,769**	**571,232**	**262,327**	**169,235**	**492,097**	**40,124**	**58,993**	**3,094,777**
Customer current accounts	3,296	217,787	39,741	84,263	157,792	5,643	153,217	661,739
Due to banks, financial and other institutions	364,539	20,043	-	51,182	-	-	-	435,764
Due to investors	27,193	158,110	17,649	88,839	113,621	16,118	92,704	514,234
Other liabilities	28,219	7,903	8,073	16,929	3,458	30,449	7,967	102,998
Total liabilities	**423,247**	**403,843**	**65,463**	**241,213**	**274,871**	**52,210**	**253,888**	**1,714,735**
Equity of unrestricted investment accountholders	23,883	365,492	49,384	170,895	616,904	5,910	42,694	1,275,162
Total liabilities and equity of unrestricted investment accountholders	**447,130**	**769,335**	**114,847**	**412,108**	**891,775**	**58,120**	**296,582**	**2,989,897**
Contingent liabilities and commitments	**196,908**	**437,489**	**19,184**	**19,879**	**5,684**	**63,801**	**186,047**	**928,992**
31 December 2019								
Total assets	**1,396,929**	**451,163**	**129,487**	**402,991**	**511,226**	**27,462**	**59,688**	**2,978,946**
Total liabilities and equity of unrestricted investment accountholders	**574,021**	**596,431**	**100,785**	**350,542**	**818,556**	**7,920**	**384,213**	**2,832,468**
Contingent liabilities and commitments	**233,389**	**328,597**	**13,637**	**59,372**	**7,330**	**44,210**	**124,577**	**811,112**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2020	**Asia / Pacific**	**Middle East**	**Europe**	**Others**	**Total**
Cash and balances with banks and central banks	145,648	44,980	18,049	30,655	239,332
Commodity and other placements with banks, financial and other institutions	11,766	73,846	-	-	85,612
Murabaha and other financings	415,457	926,008	5,872	-	1,347,337
Musharaka financing	350,420	-	-	-	350,420
Sukuk and investment securities	651,698	103,527	-	-	755,225
Assets acquired for leasing	-	145,346	-	-	145,346
Other assets	16,396	31,557	-	-	47,953
Investment in real estate	2,316	-	-	-	2,316
Development properties	-	73,359	-	-	73,359
Fixed assets	21,497	777	-	-	22,274
Intangible assets	4,440	21,163	-	-	25,603
Total assets	**1,619,638**	**1,420,563**	**23,921**	**30,655**	**3,094,777**
Customer current accounts	440,771	134,485	83,449	3,034	661,739
Due to banks, financial and other institutions	138,084	284,455	13,225	-	435,764
Due to investors	514,234	-	-	-	514,234
Other liabilities	55,718	46,504	776	-	102,998
Total liabilities	**1,148,807**	**465,444**	**97,450**	**3,034**	**1,714,735**
Equity of unrestricted investment accountholders	324,328	950,703	-	131	1,275,162
Total liabilities and equity of unrestricted investment accountholders	**1,473,135**	**1,416,147**	**97,450**	**3,165**	**2,989,897**
Contingent liabilities and commitments	**896,907**	**32,085**	**-**	**-**	**928,992**
31 December 2019					
Total assets	**1,478,777**	**1,467,163**	**28,615**	**4,391**	**2,978,946**
Total liabilities and equity of unrestricted investment accountholders	**1,349,300**	**1,401,253**	**79,047**	**2,868**	**2,832,468**
Contingent liabilities and commitments	**779,283**	**31,829**	**-**	**-**	**811,112**

32 RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Bank's financing and off-balance sheet financial instruments.

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant increase in Credit Risk (SICR).

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 2).

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

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

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

As of 31 December 2020, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2020, the Group had NSFR ratio of 119%.

32 RISK MANAGEMENT (continued)

Credit Risk (continued)

Modification loss net of Government assistance

During the current period, 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 BD16 million arising from the 6-month payment holidays provided to financing customers without charging additional profits has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD555 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD1.2 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

Credit Risk Mitigation

Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While the existence of collateral is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collateral valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Bank prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

Bank has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

32 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The CBB has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019. The Bank maintains LCR of 147% (31 December 2019: 160.73%) and NSFR of 119% (31 December 2019: 113%) which are above regulatory minimum of 100%.The 90 day average LCR as of 31 December 2020 is 165% (31 December 2019: 145%) .

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulaory capital profile of the Group:

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

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

32 RISK MANAGEMENT (continued)

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Group has a profit rate swap in place with respect to its borrowing from a financial institution whereby the Group replaced its floating rate profit to fixed rate profit. The change in the notional amount of the swap is recognized in the fair value reserve at the reporting date.

Management of market risk is the responsibility of the relevant business units with the Group companies with oversight by the Asset-Liability Committee (ALCO).

Shari'a compliant risk management hedging instruments

Types of instruments:		2020		2019
Profit rate swaps - Liability	65,598	2,760	65,598	1,453
	65,598	**2,760**	**65,598**	**1,453**

Profit rate swaps:		2020		2019
	Less than one year	More than one year	Less than one year	More than one year
Net exposure	1,362	1,398	645	808
Average fixed profit rate	3.03%	3.03%	3.03%	3.03%

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Bank is able to manage the operational risks to an acceptable level.

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.

Reputational Risk

The Reputational Risk Management is defined as the risk arising risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

Credit risk

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2020			31 December 2019		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Gross exposure						
Past due but performing financing exposures	89,895	87,155	177,050	50,413	36,400	86,813
Non performing financing exposures	74,353	66,976	141,329	96,357	88,358	184,715
	164,248	**154,131**	**318,379**	**146,770**	**124,758**	**271,528**
Fair value of collateral						
Past due but performing financing exposures	96,727	55,323	152,050	43,610	36,311	79,921
Non performing financing exposures	15,621	57,745	73,366	21,352	67,257	88,609
	112,348	**113,068**	**225,416**	**64,962**	**103,568**	**168,530**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2020			31 December 2019		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Restructured financings	1,675	1,008	**2,683**	670	2,530	**3,200**

Financings restructured from non-performing portfolio and being classified as watchlist for a 12-month period from date of restructuing (cooling period) as of 31 December 2020 amounted to BD4.1 million (31 December 2019: BD4.7 million)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2019	**Up to one month**	**One-three months**	**Three-twelve months**	**One-five years**	**Over five years**	**Non rate sensitive**	**Total**
Cash and balances with banks and central banks	-	-	-	-	-	239,332	239,332
Commodity and other placements with banks, financial and other institutions	68,336	12,533	4,743	-	-	-	85,612
Murabaha and other financings	123,123	89,514	754,688	271,359	108,653	-	1,347,337
Musharaka financing	6,272	23,029	37,922	204,166	79,031	-	350,420
Sukuk and investment securities	173,063	287,238	37,323	232,785	23,430	1,386	755,225
Assets acquired for leasing	-	-	484	2,414	142,448	-	145,346
Other assets	-	-	-	-	-	47,953	47,953
Total financial assets	**370,794**	**412,314**	**835,160**	**710,724**	**353,562**	**288,671**	**2,971,225**
Customer current accounts	-	-	-	-	-	661,739	661,739
Due to banks, financial and other institutions	262,825	59,526	90,643	22,770	-	-	435,764
Due to investors	355,543	70,835	85,989	1,867	-	-	514,234
Other liabilities	-	-	-	-	-	102,998	102,998
Total financial liabilities	**618,368**	**130,361**	**176,632**	**24,637**	**-**	**764,737**	**1,714,735**
Equity of unrestricted investment accountholders	590,754	178,719	388,688	117,001	-	-	1,275,162
Total financial liabilities and equity of unrestricted investment accountholders	**1,209,122**	**309,080**	**565,320**	**141,638**	**-**	**764,737**	**2,989,897**
Total repricing gap	**(838,328)**	**103,234**	**269,840**	**569,086**	**353,562**	**(476,066)**	**(18,672)**
31 December 2019							
Total financial assets	**550,976**	**153,003**	**810,920**	**474,658**	**527,193**	**328,149**	**2,844,899**
Total financial liabilities and equity of unrestricted investment accountholders	**1,152,669**	**309,068**	**546,464**	**140,727**	**6,166**	**677,374**	**2,832,468**
Total repricing gap	**(601,693)**	**(156,065)**	**264,456**	**333,931**	**521,027**	**(349,225)**	**12,431**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

Profit rate risk (continued)

	USD	PKR	AED
As at 31 December 2020			
Total profit rate exposure	252,377	140,562	123,189
Reasonable shift	1.54%	3.55%	1.69%
Total effect on income	**3,887**	**4,990**	**2,082**

	USD	PKR	AED
As at 31 December 2019			
Total profit rate exposure	254,483	166,754	123,442
Reasonable shift	1.06%	1.05%	1.14%
Total effect on income	**2,698**	**1,751**	**1,407**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.
(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
(c) Associated companies of the Bank.
(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

					31 December 2020
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	601,130	-	-	812	601,942
Sukuk and investment securities	331	-	-	-	331
Other assets	4,926	-	-	195	5,121
Liabilities					
Customers' current accounts	6,115	203	-	927	7,245
Due to banks, financial and other institutions	19,547	3,771	-	-	23,318
Other liabilities	49	-	-	-	49
Equity of unrestricted investment accounts	20,394	-	-	2,405	22,799
Commitments	1,281	-	-	-	1,281

					31 December 2020
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(360)	-	-	(72)	(432)
Income from murabaha and other financings	9,736	-	-	-	9,736
Profit paid to banks, financial and other institutions	(449)	(695)	-	-	(1,144)
Other income - Management fees	(510)	-	-	-	(510)
Expenses					
Administrative and general expenses	(206)	-	(19)	-	(225)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2019
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	596,028	-	4,828	790	601,646
Sukuk and investment securities	331	-	-	-	331
Other assets	8,053	-	-	156	8,209
Liabilities					
Customers' current accounts	4,592	4,004	-	311	8,907
Due to banks, financial and other institutions	40,668	27,194	-	-	67,862
Other liabilities	60	-	-	-	60
Equity of unrestricted investment accounts	16,461	-	-	1,564	18,025
Commitments	1,281	-	-	-	1,281

					31 December 2019
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(296)	-	-	(47)	(343)
Income from murabaha and other financings	9,971	-	-	-	9,971
Profit paid to banks, financial and other institutions	(378)	(1,304)	-	-	(1,682)
Other income - Management fees expenses	(595)	-	-	-	(595)
Expenses					
Administrative and general expenses	(205)	-	(20)	-	(225)

Certain collaterals amounting to BD27.8 million (31 December 2019: BD31 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

With respect to financing facility of BD4.8 million relating to a member of the board of directors, no profit is accrued since profit is linked to exit of a specific investment (held as collateral).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The subsidiaries comply with the directives of the respective local regulators for their capital management.

	31 December 2020	**31 December 2019**
Tier 1	109,946	121,126
Tier 2	22,473	24,768
Total Capital Base	**132,419**	**145,894**
Total Risk-Weighted Exposures	1,046,552	1,079,303
Capital Adequacy Ratio	**12.65%**	**13.52%**

35 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2020 (31 December 2019: Nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2020	**31 December 2019**
INCOME		
Income from other financings	42,510	67,836
Income from investments	53,240	41,856
Other income	6,568	8,448
Gross income	**102,318**	**118,140**
Less: profit paid to banks, financial and other institutions - note (ii)	(51,779)	(61,327)
Total income	**50,539**	**56,813**
EXPENSES		
Administrative and general expenses - note (i)	(28,110)	(30,056)
Depreciation and amortisation	(4,001)	(4,161)
Total expenses	**(32,111)**	**(34,217)**
Net income before provision for impairment and overseas taxation	**18,428**	**22,596**
Provision for impairment (net)	(5,562)	(2,965)
Net income before overseas taxation	**12,866**	**19,631**
Overseas taxation	(5,689)	(10,179)
NET INCOME FOR THE YEAR	**7,177**	**9,452**
Attributable to:		
Equity holders of the Bank	4,778	6,292
Minority interests	2,399	3,160
	7,177	**9,452**
Basic and diluted earnings per share	**Fils 4.78**	**Fils 6.29**

Note (i) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (ii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 500 (2019: 414) out of total 576 branches (2019: 555).

37 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

38 SUBSEQUENT EVENT

There have been no events subsequent to 31 December 2020 that would significantly impact the amounts reported in the consolidated financial statements as at 31 December 2020.