CREATING POSSIBILITIES TOGETHER

ANNUAL REPORT 2021

بنــك الإثمــار

Ithmaar Bank

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AT A GLANCE

Ithmaar Bank B.S.C. (closed) (Ithmaar Bank, Ithmaar or Bank) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain (CBB) and provides retail, commercial, treasury and financial institutions, and other banking services.

Ithmaar Bank is a wholly-owned subsidiary of Ithmaar Holding B.S.C. (Ithmaar Holding, the Group or the Company), a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the CBB and listed on the Bahrain Bourse and Dubai Financial Market (DFM). Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT).

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. Ithmaar Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan).

VISION, MISSION AND VALUES

Our Vision

To help all stakeholders and communities realise their long-term ambitions.

Our Mission

To empower people, businesses and communities to thrive by extending simple, personalised and innovative financial solutions.

Our Values

- Comply with Sharia principles
- Honesty, integrity and objectivity in all our relationships
- Market and customer focused
- Continuous improvement, creativity, innovation and willingness to bring about changes; and
- Active role in the community

FINANCIAL HIGHLIGHTS

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	2021	2020	2019	2018
Net profit [BD 000]	**5,161**	(10,969)	2,480	14,140
Net profit/(loss) attributable to shareholders [BD 000]	**(512)**	(15,294)	(1,352)	1,409
Net income before provision for impairment and overseas taxation [BD 000]	**13,420**	14,485	15,667	13,700
Total equity attributable to shareholders [BD 000]	**43,730**	49,831	79,171	85,385
Book value per share [Fils]	**44**	50	79	85
Earnings per share [Fils]	**-0.51**	-15.29	-1.35	1.41
Total assets [BD 000]	**3,327,499**	3,094,777	2,978,946	3,127,795
Funds under management [restricted investment accounts] [BD 000]	**16,663**	16,676	17,203	17,203
Return on average shareholders’ equity	**-1.09%**	-23.71%	-1.64%	1.17%
Return on average assets	**0.16%**	-0.36%	0.08%	0.44%
Capital adequacy ratio	**12.90%**	12.65%	13.52%	13.43%
Cost to operating income ratio	**84.72%**	83.36%	81.26%	83.65%

JOINT MESSAGE

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to report that Ithmaar Bank's commitment to focus on its core Islamic banking business has borne fruit, effectively turning the Bank's financial performance around and setting the stage for the Bank's next phase of evolution.

This next phase, which will see the Bank focus exclusively on serving corporate customers, particularly the fast-growing SME sector, follows an announcement in January 2022 that Ithmaar Bank's parent company, Ithmaar Holding, and Al Salam Bank agreed in principle on the acquisition by Al Salam Bank of the consumer banking business of Ithmaar Bank in Bahrain, as well as Ithmaar Holdings' ownership stake in both BBK and Solidarity Group Holding.

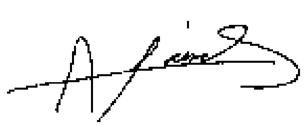
Following the proposed transaction, which is subject to the approval of Ithmaar Holding's shareholders and the relevant authorities, Ithmaar Bank will remain a wholly-owned subsidiary of Ithmaar Holding and continue as an innovative and agile Sharia-compliant corporate banking institution, maintaining its operations as an Islamic bank that is licensed and regulated by the Central Bank of Bahrain and focused on corporate banking and related services. When implemented, the proposed transaction will perfectly position us to best capitalise on the challenges and opportunities that lie ahead, and add an important milestone in our decades-long history as key pioneers of the region's Islamic banking and finance industry.

The announcement of the proposed transaction concluded a year of gradual recovery from the economic effects of the COVID-19 pandemic, as was clearly reflected in the Bank's 2021 financial performance.

Ithmaar Bank's year-end financial results show a net profit attributable to equity holders for the three-month period ended 31 December 2021 of BD2.11 million, a 119 percent increase compared to the net loss of BD11.11 million reported for the same period in 2020. Total net profit for the three-month period ended 31 December 2021 was BD3.82 million, a 137 percent increase compared to the BD10.26 million net loss reported for the same period in 2020. Despite the profit for the quarter, the Bank reported a net loss attributable to equity holders for the year ended 31 December 2021 of BD0.51 million, a 97 percent reduction compared to the net loss of BD15.29 million reported for 2020. Total net profit for the year ended 31 December 2021 is BD5.16 million, a 147 percent increase compared to the net loss of BD10.97 million reported for 2020. This improvement, with a significant reduction in losses, is due mainly to the gradual economic recovery in 2021 from the effects of the global Covid-19 pandemic resulting from lower impairment provisions compared to the previous year.

The results also show that the group's share of income from unrestricted investment accounts as a Mudarib increased to BD18.01 million for the three-month period ended 31 December 2021, a 117 percent increase compared to BD8.29 million for the same period in 2020. This contributed to increasing the group's share of income from unrestricted investment accounts as a Mudarib to BD53.48 million for the year ended 31 December 2021, a 49 percent increase compared to BD35.95 million for 2020. This increase is mainly due to the increase in the Islamic financing portfolio of Faysal Bank Limited (FBL), our subsidiary in Pakistan, and further testimony to our strong core income potential when the proposed transaction with Al Salam bank is implemented.

We take this opportunity, as always, to thank our customers as well as each one of Ithmaar Bank's employees for their truly valuable contributions as well as the members of the Board of Directors and the Sharia Supervisory Board for their continued support. We take this opportunity, also, to thank the Bank's investors and all other stakeholders for their continued confidence and, in particular, the Central Bank of Bahrain and the Ministry of Industry, Commerce and Tourism for their guidance and support.



Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

"This next phase, which will see the Bank focus exclusively on serving corporate customers, particularly the fast-growing SME sector, follows an announcement in January 2022 that Ithmaar Bank's parent company, Ithmaar Holding, and Al Salam Bank agreed in principle on the acquisition by Al Salam Bank of the consumer banking business of Ithmaar Bank in Bahrain, as well as Ithmaar Holdings' ownership stake in both BBK and Solidarity Group Holding."

HRH Prince Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Economic Outlook

The global economy enters 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spreads, countries have reimposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies. The ongoing retrenchment of China's real estate sector and slower-than-expected recovery of private consumption also have limited growth prospects.

Global growth is expected to moderate from 5.9 in 2021 to 4.4 percent in 2022, which is half a percentage point lower for 2022 than in the October World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies. A revised assumption removing the Build Back Better fiscal policy package from the baseline, earlier withdrawal of monetary accommodation, and continued supply shortages produced a downward 1.2 percentage-points revision for the United States. In China, pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers have induced a 0.8 percentage-point downgrade. Global growth is expected to slow to 3.8 percent in 2023. Although this is 0.2 percentage point higher than in the previous forecast, the upgrade largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies become more effective.

Elevated inflation is expected to persist for longer than envisioned in the October WEO, with ongoing supply chain disruptions and high energy prices continuing in 2022. Assuming inflation expectations stay well anchored, inflation should gradually decrease as supply-demand imbalances wane in 2022 and monetary policy in major economies responds.

Risks to the global baseline are tilted to the downside. The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localized wage pressures mean uncertainty around inflation and policy paths is high. As advanced economies lift policy rates, risks to financial stability and emerging market and developing economies' capital flows, currencies, and fiscal positions-especially with debt levels having increased significantly in the past two years-may emerge. Other global risks may crystallize as geopolitical tensions remain high, and the ongoing climate emergency means that the probability of major natural disasters remains elevated.

With the pandemic continuing to maintain its grip, the emphasis on an effective global health strategy is more salient than ever. Worldwide access to vaccines, tests, and treatments is essential to reduce the risk of further dangerous COVID-19 variants. This requires increased production of supplies, as well as better in-country delivery systems and fairer international distribution. Monetary policy in many countries will need to continue on a tightening path to curb inflation pressures, while fiscal policy-operating with more limited space than earlier in the pandemic-will need to prioritize health and social spending while focusing support on the worst affected. In this context, international cooperation will be essential to preserve access to liquidity and expedite orderly debt restructurings where needed. Investing in climate policies remains imperative to reduce the risk of catastrophic climate change.

Source: International Monetary Fund (IMF) - World Economic Outlook (WEO) Update, January 2022

REVIEW OF OPERATIONS CONTINUED

The Gulf Cooperation Council (GCC)

GCC policymakers moved quickly to mitigate the health and economic impacts of twin COVID-19 and oil price shocks. Infection rates have declined across the GCC to well below previous peaks, though countries have experienced successive waves of the virus, and economic recoveries have begun to take hold. Nevertheless, GCC policymakers must navigate a challenging and uncertain landscape.

The pandemic continues to cloud the global outlook as countries are in different phases of recovery, with varied growth prospects and policy space.

Protecting public health and supporting the most vulnerable remain the top priority for GCC policymakers. Vaccination rollout for all residents should continue, while contingency health plans should be in place to respond to any recurrent virus outbreaks.

Macroeconomic policies should remain accommodative until recoveries are firmly established. Fiscal support has been critical and should be maintained as needed to avoid long-lasting crisis effects and mitigate social impacts, and increasingly targeted to ensure its efficiency and contain fiscal burdens. Where policy space is more limited, targeted support should be maintained, while identifying fiscal savings from cutting or reallocating non-priority spending. Macro-financial policies to ensure liquidity and spur credit growth should be extended, as needed, while increasingly targeted to viable firms and complemented by close monitoring of financial stability risks.

As the COVID-19 crisis abates and economic recoveries are well-established, policies should address medium- and long-term challenges made more pressing by the pandemic: Fiscal policy should be geared toward achieving growth friendly consolidation with the aim to ensure long-term fiscal and external sustainability. To this end, priority should be given to strengthening fiscal frameworks, further mobilizing non-oil revenues, and increasing spending efficiency. With higher oil prices, procyclical spending should be avoided, and the windfall used to rebuild policy space.

Ensuring financial stability and a dynamic financial sector is key for a smooth recovery and sustained strong economic growth. Overall, financial sectors appear sound and able to support the recovery and structural transformation, but current stress, legacy risks and emerging vulnerabilities need to be managed, including by strengthening the insolvency and resolution frameworks, reinstating some prudential measures eased during the crisis, and stepping up supervisory efforts sustained economic growth and diversification will be as central as ever. Economies are vulnerable to risks of scarring from the COVID-19 crisis and over the longer-term declining oil global demand as the world confronts climate change. Ongoing reforms to drive productivity and diversification should be accelerated, including raising female labor force participation, increasing flexibility for expatriate workers, improving education quality, further leveraging technology, enhancing regulatory frameworks, deepening regional integration, and addressing climate change.

Source: International Monetary Fund (IMF) - Economic Prospects and Policy Challenges for the GCC Countries, October 2021

REVIEW OF OPERATIONS CONTINUED

Bahrain

Global growth projections by the IMF were revised in October from the summer outlook. In its October 2021 World Economic Outlook, the IMF projected global economic growth to reach 5.9% in 2021, 0.1% lower than in the July forecast, and 4.9% in 2022. Correspondingly, the Bahrain Ministry of Finance and National Economy, revised its forecasts based on the preliminary estimates for the first three quarters of the year. The year-end annual GDP growth rate is expected to be 2.6%, with the non-oil sector expected to grow at 3.2%. Looking into 2022, the forecast growth is expected to reach 4.1%, underlining a recovery in the non-oil economic sector by 5%.

The Bahrain economy is continuing its steady recovery from COVID-19-related disruptions, with preliminary national account estimates for Q3 2021 pointing to nominal growth of 10.2 percent Year On Year (YoY) during the quarter; reflecting higher oil prices, while in real terms growth reached 2.1 percent YoY. These positive growth results for the quarter coincide with the ongoing announcements of programs under the Economic Recovery Plan which aims to drive economic growth and fiscal sustainability over the coming years.

Source: Ministry of Finance and National Economy – Bahrain Economic Quarterly Q3 2021, January 2022

Pakistan

Due to low-base effects and recovering domestic demand, real GDP growth (at factor cost) is estimated to have rebounded to 3.5 percent in 2021 from a contraction of 0.5 percent in 2020. Buttressed with record-high official remittance inflows, received through formal banking channels, and an accommodative monetary policy, private consumption and investment are both estimated to have strengthened during the year. Government consumption is also estimated to have risen, but at a slower pace than in 2020 when the COVID-19 fiscal stimulus package was rolled out. In contrast, net exports are estimated to have contracted in 2021, as imports growth almost doubled that of exports due to strong domestic demand. On the production side, supported by strong large-scale manufacturing, industrial activity is projected to have rebounded after contracting for two consecutive years. Similarly, the services sector that accounts for 60 percent of the GDP, is estimated to have expanded, as generalized lockdown measures were increasingly lifted. In contrast, agriculture sector growth is expected to have slowed, partly due to a near 30 percent decline in cotton production on account of adverse weather conditions.

Source: World Bank – Pakistan Overview, October 2021

REVIEW OF OPERATIONS CONTINUED

Strategy and Focus

Ithmaar Bank remains committed to becoming one of the region's premier Islamic retail banks and realising its shared vision of becoming the Islamic bank of choice.

In line with that commitment, the Bank continued in 2021 to focus on further developing its customers' Islamic banking experience.

In 2021, this included investing in further developing the Bank's digital infrastructure, enhancing existing products and services while also introducing new ones, and improving its retail banking network.

Continuous improvements

During the year, Ithmaar Bank added two new, full-service, digitally-focused branches. The new branches, one in Seef Mall and the other in Arad, feature sophisticated, cutting-edge technology, including next-generation Automated Teller Machines (ATMs) and other exciting new branch automation and customer service solutions such as the self service machines.

In January, Ithmaar Bank re-launched its Thimaar savings account to offer account holders 2,271 prizes - the highest number of winners by any bank in Bahrain – and a total prize purse of US$4,165,000, making the Thimaar account one of the most rewarding saving schemes in the Kingdom. Thimaar, Arabic for fruits or harvest, is a prize-based saving account that Ithmaar Bank introduced to help encourage its customers to adopt a more responsible saving pattern by offering cash prizes, along with an expected profit rate.

In April, Ithmaar Bank signed an agreement with the Bahrain Bourse allowing the Bank to utilise the Ijara Sukuks issued by the Central Bank of Bahrain as underlying assets to complete Murabaha Finances using an innovative, Sharia-compliant brokerage service introduced by the Bourse through its electronic platform.

Leading the digital transformation

Throughout 2021, Ithmaar Bank continue to lead the industry's transformation, implementing a far-reaching digital transformation strategy that builds on the Bank's long-standing history of innovation.

In April, Ithmaar Bank announced that its customers could get part of their salary fifteen days in advance, instantly and directly from their mobile phones, by using the Bank's dedicated mobile application. The service, launched as part of the Bank's digital transformation strategy, is a first of its kind in Bahrain and uses sophisticated technology to automate the entire process; from the initial application through to the review, evaluation, approval and even disbursement of funds. In doing so, it provides a uniquely fast and efficient solution to customers and demonstrates the dramatic potential of using technology to enhance banking services. The seamless, fully-automated service was developed entirely in-house with a particular focus on the user experience.

As part of the Bank's digital transformation, customers can quickly and securely open new accounts, including Thimaar accounts, directly from their mobile phones without having to physically visit a branch simply by downloading Ithmaar Bank's mobile app from anywhere and at any time. Ithmaar Bank customers can also transfer to the Zakat and Sadaqat Fund digitally directly through their mobile phones, tablets, laptops or other internet-connected devices at any time, without having to visit a branch.

Empowering customers

Ithmaar Bank installed self-service banking machines at its new Seef Mall and Arad branches, offering customers a whole new digital banking experience. The new technology automates a range of transactions, such as printing account and cards' statements, printing certificates, updating of customer information, reissuing Debit Card PINs and instantly printing Debit Cards and eCards. The two branches also have advanced Cash Deposit Machines (CDMs) where customers can deposit up to 200 notes at once. The new self-service machines, which empower customers to take control of their banking needs, feature a range of authentication methods to ensure all transactions are safe and secure.

Award winning performance

In July, Ithmaar Bank received the Best Bank Loyalty Programme Award from Mastercard. The prestigious annual award was presented to Ithmaar Bank in recognition of its successful, customer-focused credit card rewards programme, Ithmaar Rewards. The Award celebrates the fact that Ithmaar Rewards has achieved the highest in points accumulation and points redemption by its credit card and eCard holders. This demonstrates the popularity of the Bank's loyalty progamme among customers, and reconfirms that the continuous efforts to meet and exceed customer expectations are paying off. Ithmaar Rewards, one of Bahrain's most rewarding loyalty programme, offers Ithmaar Bank Mastercard credit card and eCard holders loyalty points for when using their cards.

Banking for High Net Worth Individuals

In 2021, Ithmaar Bank continued to recognise the importance of high net worth customers and, as part of efforts to further enhance the level of services provided, introduced the Ithmaar Premier and Ithmaar Private programmes to cater for High Net Worth and Ultra High Net Worth clientele. During 2021, the Private Banking department continued to focus and expand their respective client base through dedicated Relationship Managers who provide comprehensive personalised services founded on discretion and professionalism.

REVIEW OF OPERATIONS CONTINUED

Business Banking

Ithmaar Bank's Business Banking Group (BBG) continued to cater to the banking needs of Corporate and Small and Medium Enterprises (SMEs) clients, as well as to Financial Institutions. It also provided treasury services. In 2021, the BBG continued to diversify its asset base and achieved good recovery of non-performing assets. In line with Central Bank of Bahrain directives, and among several other precautionary measures to reduce the economic impact of the COVID-19 pandemic, the BBG deferred instalments for SME and corporate clients to help ease stress on their cash flow. Nevertheless, the focus in 2021 continued to be on growing the Bank's SME portfolio and strengthening relationships with corporate and financial institution clients. Diversification of assets was through the financing of the manufacturing, education, healthcare, retail trade, food, infrastructure, and social housing development sectors.

Asset Management

Ithmaar Bank's Asset Management Department continued to focus its efforts in 2021 on managing the Bank's real estate investment portfolio and providing investment management services in relation to the corporate book investments and clients' investments. In light of the challenging environment with the economic impact of the COVID-19 pandemic, the Asset Management Department directed its resources on protecting the value of investments and strengthening their performance while looking for exit opportunities. The investments are located in Bahrain, the United States of America and Europe. The Bank's Asset Management Department also provides outsourcing services to manage investments held by Ithmaar Holding and its subsidiary, IB Capital.

Training and development

In 2021 the Bank invested in its staff with continuous training and development.

In January, the Bank set plans for an ambitious Branch Managers Development Programme that aims to elevate and standardise management capabilities across all branches to allow for a more effective and more responsive customer-focused working environment. The programmes, which were specifically developed for Ithmaar Bank, began in August 2021 and are expected to conclude in 2022. A total of 21 employees were enrolled, and feedback has been very positive.

In parallel, the Bank also worked to develop its Collections unit team with a custom programme to address modern collection practices. Sixteen employees were enrolled in the programme that had both technical collection concepts and modern collection managerial practices. The programme concluded successfully with positive feedback.

In 2021, the Bank also collaborated with BIBF to develop the first virtual BIBF Anti Money Laundering (AML) training programme to be hosted off BIBF facilities and servers. The custom training programme went beyond basic AML training to include Islamic and Bank-specific material. The programme was hosted and deployed in Ithmaar Bank's own Learning Management System (LMS) after being developed internally by the Bank. This new approach made it easier for staff to attend the training and for management to get necessary reports.

Ithmaar Bank continued to leverage its internally developed training programmes that are designed by its internal centres of excellence and deployed to the Banks' Learning Management System (LMS). A total of 29 internal virtual programmes are currently available on the LMS, ranging from mandatory compliance training and Islamic banking concepts to the latest technological collaboration tools training. The LMS also allows new joiners to be auto-enrolled in mandatory and important training sessions.

In August, Ithmaar Bank launched its first on-demand training library, bringing more control to the employees to choose what they want to learn and when they want to learn it. This online virtual library joins alongside the MS Stream HRD video channel that offers a video training library, providing a wealth of training options for the employees that is immediately accessible from any internet connected device.

Ithmaar Bank conducted all necessary mandatory training as required by the CBB, which included training on physical security, and annual Anti Money Laundering (AML) refresher courses for all relevant employees.

Celebrating success

In November, twenty-six Ithmaar Bank staff completed the Advanced Diploma in Islamic Finance (ADIF) certification as part of the Bank's management development programme. In addition, three other employees from various departments have also completed other professional certificates including CIA, CIPD, and CAML Specialist. Ithmaar Bank awarded the employees and congratulated them on their pursuit of knowledge and on their dedication. Ithmaar Bank also presented token gifts to employees to mark their individual employment anniversaries and celebrate their commitment.

REVIEW OF OPERATIONS CONTINUED

Training (Bahrain)

BIBF Levy Training	Total: 2,408 hours Managers and Above: 441 hours Below Managers: 1,967 hours
External Training - Bahrain	Total: 4,864 hours Managers and Above: 2,072 hours Below Managers: 2,792 hours
In-House Training	Total: 6,738 hours Managers and Above: 3,208 hours Below Managers: 3,530 hours
Financial Advice Programme Level 1	Two employees successfully completed the Programme
Anti-Money Laundering – CBB Requirement	New Joiners: 25 employees Annual Refresher Course: 300 employees

Staff Overview (Bahrain)

	Bahrainis			Non-Bahrainis			
	Manager and Above	Associate and Assistant Manager	Senior Officer and Below	Manager and Above	Associate and Assistant Manager	Senior Officer and Below	Total
Male	52	49	70	5	0	0	176
Female	11	33	61	1	0	0	106
Total	63	82	131	6	0	0	282

REVIEW OF OPERATIONS CONTINUED

Supporting the community

As a pioneering Islamic retail bank, Ithmaar Bank has long-recognised the important role it must play in supporting the community in which it operates. It is a responsibility the Bank has always taken very seriously, and one that has helped shape the Bank's progress and growth over the years.

As a result, the Bank continued throughout 2021 to support various local charities and, whenever possible, participate in key national events.

In 2021, this included supporting the Bahrain Football Association which, in cooperation with the Nasser Bin Hamad Al-Khalifa Media Office and Information Center, organised the King Hamad and Nasser Bin Hamad Premier League 2021, as well as the Bahrain Golf Association which organised the 13th King Hamad Trophy Golf Championship.

Ithmaar Bank also supported the Bahrain Association of Bank's participation in the "Forever Green" campaign of HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King and President of the National Initiative for Agricultural Development (NIAD) Consultative Council, and sponsored a Beit Al Qur'an 2022 Calendar that was published to commemorate the late Prime Minister, HRH Shaikh Khalifa bin Salman Al Khalifa.

Ithmaar Bank also sponsored "Yala Nitbukh Ma Afnan – Series 6", the sixth season of a popular television cooking show with celebrated local TV chef, Afnan Al Zayani, as well as an Arabic book about bullying that was published by the Flame of Love and Peace Society.

In 2021, Ithmaar Bank was a Gold Sponsor of the Accounting and Auditing Organization for Islamic Financial Institutions-Islamic Development Bank (AAOIFI-IsDB) 16th Annual Conference that was held in Bahrain.

Beyond philanthropy

In addition to supporting deserving charities, Ithmaar Bank fulfils its responsibility towards the community by focusing on economic growth and social development.

In March, Ithmaar Bank announced the launch of special financing offers for villas at the Deerat Al Oyoun Phase Two development in Diyar Al Muharraq. The special financing offers are designed exclusively for beneficiaries of the Mazaya programme, the Kingdom of Bahrain's social housing scheme that aims to help eligible nationals buy their first homes. The Deerat Al Oyoun development covers a total land area of 1.2 million square meters and includes more than 3,000 housing units in total, including 515 villas, that were specifically developed for the Mazaya programme. The development connects beautifully designed properties with a state-of-the-art infrastructure, offering residents fast and easy access to a wide range of amenities and attractions, from community facilities to world-class retailers, top schools and lots of beautiful outdoor spaces.

In April, Ithmaar Bank announced their collaboration with the Zakat and Sadaqat Fund of Bahrain's Ministry of Justice, Islamic Affairs and Waqf to streamline Zakat and Sadaqat monthly payments in the Kingdom. The collaboration allows the Bank's customers to easily pay Zakat and Sadaqat directly into the Ministry's Zakat and Sadaqat Fund through standing orders, direct debit or online transfers as part of the monthly payment project. The Zakat and Sadaqat Fund is an approved authority in the Kingdom of Bahrain to disburse and collect Zakat and Sadaqat and aims to increase the level of awareness of the obligation of Zakat. In addition to developing the sources of Zakat and Sadaqat, it also maintains mechanisms for collecting and disbursing Zakat, in addition to meeting the needs of the needy. The public can view all the projects launched by the Fund through the website www.zakafund.bh, and participate in making suggestions and provide opinion's that contributes in developing the Fund's goals. The announcement made Ithmaar Bank the first Bank in Bahrain that facilitates and streamlines the Zakat and Sadaqat transfer payments for customers through the monthly payment project.

In May, Ithmaar Bank announced a strategic partnership with the Bahrain Institute for Banking and Financial Studies (BIBF) and sponsored a classroom in the Institute's new building. The partnership underscores Ithmaar Bank's commitment to supporting training and development in the Bahrain banking and financial services industry. The Institute's new building is one of the most prominent development projects in the Kingdom, and constitutes a milestone in the training and development of the workforce, especially for the financial services sector, in support of the national economy.

Later in May, Ithmaar Bank announced the launch of special financing offers for villas at the Danaat Al Baraka development in Jannusan, Budaiya. The special financing offers are designed exclusively for beneficiaries of the Mazaya programme to help eligible nationals buy their first homes. The Danaat Al Baraka development includes 211 new villas, with four different contemporary designs, consisting of two floors with four rooms, a spacious hall, a kitchen, a room for a domestic worker, and a garage consisting of two parking spaces. The project, which covers a total area of 73,514 square meters, was developed in collaboration with Eskan Bank and Danaat Al Baraka Company specifically for beneficiaries of the Mazaya programme.

Ithmaar Bank's exceptionally high Bahrainisation level, which stood at approximately 98 percent in 2021, also contributes directly to supporting the local community. Ithmaar Bank is also a strong advocate of gender equality, with two women on its board of directors, several on the executive management team and just over 100 women employed at various levels, from customer-facing personnel to senior executives.

FINANCIAL REVIEW

Financial Performance

The Bank reported a net loss attributable to equity holders for the year ended 31 December 2021 of BD0.51 million compared to the net loss of BD15.29 million reported for 2020.

Total net profit for the year ended 31 December 2021 was BD5.16 million compared to the net loss of BD10.97 million reported for 2020. Operating income was stable at BD87.81 million for the year ended 31 December 2021, compared to the BD87.02 million reported for 2020.

Income from unrestricted investment accounts also increased by 24 percent, growing to BD113.50 million for the year ended 31 December 2021, compared to BD91.60 million for 2020.

Financial Position

Total assets stood at BD3.33 billion as at 31 December 2021, a 7.5 percent increase compared to BD3.09 billion as at 31 December 2020.

The Bank also reported growth in equity of unrestricted investment accountholders by 11 percent to reach to BD1.42 billion at 31 December 2021 from BD1.28 billion in year 2020, as well as the increase in customers' current accounts by 10 percent to reach to BD726.98 million at 31 December 2021, compared to BD661.74 million in year 2020.

Total owners' equity stood at BD43.73 million as at 31 December 2021, a 12 percent decrease compared to BD49.83 million as 31 December 2020, mainly due to the modification losses resulting from deferment of financing instalments recognised directly in equity.

KEY OPERATING SUBSIDIARIES
BOARD OF DIRECTORS
SHARIA SUPERVISORY BOARD
EXECUTIVE MANAGEMENT

KEY OPERATING SUBSIDIARIES

Faysal Bank Limited (FBL)

FBL is one of the most prominent and fastest growing retail banks in Pakistan.

FBL, including its predecessors, has been in operations for more than 30 years. FBL shares are listed on the Pakistan Stock Exchange. FBL is mainly engaged in Commercial, Retail and Corporate banking activities and strives to provide quality service to its customers to meet their financial needs. FBL's branches have been transformed into multi-product selling hubs through which customers can access a wide variety of products and services. There is also a great deal of focus on realising synergies between FBL's various operating units to ensure maximum value creation and holistic customer solutions. Ithmaar Bank owns 66.57 percent of FBL.

FBL has more than 606 branches, spread over 130 cities across Pakistan. The Bank has also sizable clients in the Corporate, Commercial, SME and Consumer segments. FBL is increasing its branch network to strengthen its customer reach and ability to provide banking services to customers at their doorsteps. The Bank is enhancing its technology platform to facilitate customers' transactions and reduce the cost of doing business. FBL introduced a Virtual Card allowing customers to make secure worldwide online purchases.

With a noticeable increase in its Islamic financing, deposits and investment accounts portfolios, the Bank is expected to maintain its growth trajectory.

FBL's total assets and total shareholders' equity as of 31 December 2021 amounted to PKR 855 billion (equivalent BD1.8 billion) and PKR 60 billion (equivalent BD129 million) respectively.

Dilmunia Development Fund I L.P.

Dilmunia Development Fund I L.P. (the "Fund") is an exempted limited partnership formed and registered under the laws of the Cayman Islands. The General Partner in the Partnership is Ithmaar-Dilmunia General Partner Company Limited. The Fund was formed to acquire 650,000 square meters of land within the Health Island - Dilmunia Project in Bahrain to develop the infrastructure and to sell the Land in parcels.

The total assets and total shareholders' equity as of 31 December 2021 amounted to BD74 million and BD63 million respectively.

Ithmaar Bank owns 92 percent of the Fund.

BOARD OF DIRECTORS

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 18 April 2019

HRH Prince Amr has more than 30 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), and Chairman of Ithmaar Holding, Faisal Islamic Bank (Sudan), Faisal Islamic Bank (Egypt), and Gulf Investors Asset Management Co J.S.C. (Closed). HRH Prince Amr is also Founder and Director of Red Sea Design Consultants (Jeddah), and Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan).

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers.

HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Tunku Yaacob Khyra

Independent, Non-Executive Board Member

Elected 18 April 2019

Tunku Dato' Yaacob Khyra is a member of the Ithmaar Holding Board of Directors. He holds a Bachelor of Science (Hons) Degree in Economics and Accounting from City University, London. An accountant by training, he is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA). Tunku is also a Certified Financial Planner (CFP) and is a member of the Financial Planning Association of Malaysia (FPAM).

Tunku started his career as an auditor with Price Waterhouse in London and Kuala Lumpur (from 1982 to 1987). He later joined Malaysian Assurance Alliance Berhad which, under his leadership, became the leading locally owned life and non-life insurance company in Malaysia. Tunku later established MAA Takaful Berhad, which became the leading Islamic family and general insurance institution in Malaysia.

Currently, Tunku is the executive chairman of Malaysian listed companies, MAA Group Berhad, Melewar Industrial Group Berhad, and Mycron Steel Berhad. He is also a board member of Khyra Legacy Berhad, Yayasan Khyra Berhad, Melewar Equities Sdn Bhd and several other private companies. He also sits on the board of directors of Altech Chemicals Limited (listed in Australia), Turiya Berhad (listed in Malaysia) and KNM Group Berhad (listed in Malaysia).

Tunku is the founder and chairman for The Budimas Charitable Foundation (Budimas) and MAA Medicare Charitable Foundation (MAA Medicare). Budimas is a non-government charity, established in 1998 that provide financial support for orphans and underprivileged children in Malaysia. MAA Medicare is a non-government charity, established in 1994, that provide nationwide dialysis treatment and support for underprivileged kidney patients, and also operates a Cardiac Diagnostic Centre for underprivileged patients, in Malaysia.

Abdelhamid Mohamed Aboumoussa

Executive Board Member

Elected 18 April 2019

Mr. Aboumoussa has more than 50 years of diversified banking and finance experience.

He is a member of the Ithmaar Holding Board of Directors.

He is currently Governor of Faisal Islamic Bank of Egypt, which he joined in 1979. Prior to joining Faisal Islamic Bank of Egypt, Mr. Aboumoussa worked at the Central Bank of Egypt (CBE) for 17 years. He is Head of the Egyptian–Saudi Business Council, and is also a Member of the General Assembly of Misr Insurance Holding Company, Egypt.

Mr. Aboumoussa is a Board Member of Faisal Islamic Bank of Sudan, Momtalakat for Insurance in Egypt, Ayadi for Investment and Development in Egypt, Midor for Electricity - MIDALIC - Egypt, and Awqaf Properties Investment Fund (APIF) - Islamic Development Bank (IDB) - Jeddah. He is also the Deputy Chairman of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Aboumoussa is also a member of the Advisory Committee of ARMILA Fund, Italy, and a member of the Advisory Committee of ANASTASIA Fund, Italy. He is also a Board Member in Ain shams university and Egyptian European Council.

He holds a Bachelor's degree in Accounting from the Faculty of Commerce, Cairo University, Egypt, a diploma in Finance from Cairo University, and a Diploma in Banking Economics, "Lwegi Boconi University", Italy.

BOARD OF DIRECTORS CONTINUED

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 18 April 2019

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in other countries in the GCC region, and has years of experience in managing business activities in various sectors.

He is a member of the Ithmaar Holding Board of Directors. He is also Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he has a BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Mohammed A. Rahman Bucheerei

Executive Board Member

Elected 18 April 2019

Mr. Bucheerei has more than 51 years of experience in Accounting and Commercial and Offshore Banking. He was Chief Executive Officer of Ithmaar Bank from July 2010 to August 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. Mr. Bucheerei is also a member of the Board of Directors of Ithmaar Holding and IB Capital and the Group Chief Executive Officer of Dar Al-Maal Al-Islami Trust (DMIT). Previously, he served as the General Manager of the Private Offices of HRH Prince Mohammed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He is Chairman of MFAI (Jersey) Limited, Faisal Finance Maroc S.A., Faisal Private Bureau, DMI Administrative Services, Ithmaar Development Company, and NASEEJ Rabat.

He is a member of the Board of Directors of the Islamic Investment Company of the Gulf (Bahamas) Limited, Faysal Bahamas Limited, Gulf Investors Asset Management Company J.S.C. Closed, DMI NV, Faisal Finance Luxembourg and Shamil Finance Luxembourg.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Abdulellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 18 April 2019

Mr. Al-Qassimi has more than 34 years of diversified management experience. He is a member of the Ithmaar Holding and the IB Capital Boards of Directors.

His previous positions including being Chief Executive of Tamkeen (the Labour Fund), from which he resigned in May 2010; Deputy Chief Executive Officer of the Labour Fund Project at the Bahrain Economic Development Board; Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs; and Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee, and the Steering Committee of Career Expo, and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a member of the Board of Directors of Solidarity Group Holding, Naseej, Faysal Bank Limited (Pakistan); and Aljazira Takaful Co. (KSA). Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK; a MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

BOARD OF DIRECTORS CONTINUED

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 18 April 2019

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, has almost 32 years of experience in training, consulting and banking. Dr. Bouresli is the Chairperson of the IB Capital Board of Directors, and a member of the Ithmaar Holding and Faisal Islamic Bank of Egypt Board of Directors.

She is currently a Professor of Finance and the head of the Finance Department at Kuwait University's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning. Dr. Bouresli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait. Also, she earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize and the head of the Economic Forum annually held in Kuwait.

Prior to her ministerial appointments, Dr. Bouresli was the Chairman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and the Head of the Capital Market Authority Project from 2006 to 2007. Dr. Bouresli, who has many published works in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

Dr. Bouresli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

Sheikh Mohamed Abdullah Abdulkarim Elkhereiji

Non-Executive Board Member

Elected 18 April 2019

Sheikh Elkhereiji has more than 42 years of diversified banking and management experience.

He is a member of the Ithmaar Holding Board of Directors. Sheikh Elkhereiji is the Chairman of many companies in Saudi Arabia, including Elkhereiji Group Holding Co., Hal International Company and S.A. Elkhereiji Real Estate Limited Company. Sheikh Elkhereiji is the Vice Chairman of the Board of Directors of Yanbu Cement Company (Saudi Arabia) as well as the WorldCare International Company (United States of America). Sheikh Elkhereiji is also a member of the Board of Directors of Faisal Islamic Bank of Egypt.

Previously, Sheikh Elkhereiji was the Ex-Chairman of Faisal Investment Bank (Bahrain).

He holds a Bachelor's degree in Law from Cairo University, Egypt, a Diploma in Change Management from Harvard, USA, and a Diploma in Marketing Management from the International Marketing Institute, Cambridge in USA.

BOARD OF DIRECTORS CONTINUED

Elham Ebrahim Abdulla Hasan

Independent, Non-Executive Board Member

Elected 18 April 2019

Ms Hasan, who has more than thirty years of diversified experience in the financial services industry, is a member of the Ithmaar Holding and the IB Capital Boards of Directors.

She is currently Chairwoman of Taaheal Healthcare and an Advisor on Business and Corporate Strategy, as a well as a Board Member of Mumtalakat, Solidarity Group Holding – Bahrain and BNP Paribas Investment Company – Saudi Arabia. A leading businesswoman in the Kingdom of Bahrain, Ms Hasan was the first female partner at PricewaterhouseCoopers in the Middle East region. She was voted one of the Most Influential Women in the Middle East by Forbes Magazine, and earned the Euro Money Award for Islamic Assurance Advisory Services.

Ms Hasan was previously a Board Member of the Bahrain Economic Development Board (EDB), Tamkeen, BBK, the Bahrain Real Estate Investment Company (EDAMAH), and the University of Bahrain, as well as a member of both the Women Empowerment Economic Committee of the Supreme Council for Women and the Planning and Follow-up Committee of the Bahrain Business Women's Society. She was the Country Senior Partner at PricewaterhouseCoopers in Bahrain until June 2010, and was the financial services leader for PricewaterhouseCoopers Middle East until June 2007. While at PricewaterhouseCoopers, Ms Hasan worked extensively with Islamic institutions since the early eighties.

Ms Hasan qualified as Certified Public Accountant in 1986 and is a member of the American Institute of Certified Public Accountants.

Omar Abdi Ali

Non-Executive Board Member

Elected 20 June 2019

Mr. Ali has more than 50 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is a member of the Ithmaar Holding Board of Directors, the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT) and the Chairman of the Islamic Investment Company of the Gulf (Bahamas) Limited.

Mr. Ali is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania). Previously, Mr. Ali served at DMIT where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President, Finance and Vice-President in charge of Internal Audit from 1983 to 1986.

Prior to his DMIT appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan). He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served with the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

SHARIA SUPERVISORY BOARD

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 25 March 2019

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is the Chairman of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia, a consultant at the Royal Court, and a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment in Saudi Arabia, and has authored several books including 'Paper Money: Truth, History and Reality', 'Economic Research', 'A window on the community' and others.

Sheikh Nedham Mohammed Saleh Yaqouby

Member

Appointed 25 March 2019

Sheikh Yaqouby is a prominent, highly-respected Islamic Sharia scholar and a successful businessman from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Sharia Board of AAOIFI, a member of the Sharia Advisory Board of the Central Bank of Bahrain (CBB) and Chairman or a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order of Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking Award among other awards.

Sheikh Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Appointed 25 March 2019

Sheikh Al-Asfoor is a well-known and highly respected Sharia scholar in the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is also a member in the Sharia Advisory Board of the CBB and several Sharia Supervisory Boards in the Kingdom of Bahrain and abroad.

Sheikh Al-Asfoor is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran, and has authored more than 60 books on the Islamic Sharia.

Sheikh Osama Mohammed Saad Bahar

Member

Appointed 25 March 2019

Sheikh Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

Sheikh Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is currently a member of the Sharia Board of First Energy Bank, as well as of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad.

Sheikh Bahar holds a Master's degree from Allmam Ouzai University in Lebanon and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Bahar has authored several books on Islamic banking as well as on society affairs. He has participated in and conducted several radio interviews and written newspaper columns.

EXECUTIVE MANAGEMENT

Ahmed Abdul Rahim

Chief Executive Officer

- Master of Business Administration, University of Glamorgan, Wales (UK) (1999)
- Fellow of the Institute of Financial Accountants, UK; and the Institute of Public Accountants, Australia (2014)
- Executive Management Diploma, University of Bahrain (1993)
- Advanced Banking Diploma, Bahrain Institute of Banking and Finance (1988)
- 44 years of banking experience
- Joined the group in 2006

Abdulhakeem Khalil Al Mutawa

Deputy Chief Executive Officer

- Master of Business Administration, University of Bahrain (1991)
- Post-Graduate Diploma in Management, University of Bahrain (1990)
- Bachelor of Science in Mechanical Engineering, The University of Texas at Austin, USA (1981)
- 40 years of experience, of which 19 years in banking
- Joined the group in 2003

Abdulla Abdulaziz Taleb

General Manager, Business Banking Group

- Bachelor of Science in Banking and Finance, Kingdom University (2009)
- Advanced Diploma in Islamic Banking, Bahrain Institute of Banking and Finance (BIBF) (2005)
- 22 years of banking experience
- Joined the group in 2014

Mohammed Hasan Janahi

General Manager, Retail Banking Group

- Advanced Diploma in Banking and Finance, BIBF (1998)
- 37 years of Banking experience
- Joined the group in 2002

Yusuf Abdulla Alkhan

General Manager, Information Technology and Banking Operations

- Master of Business Administration, AMA International University (2005)
- Bachelor of Science in Computer Science, University of Bahrain (1989)
- 33 years of experience
- Joined the group in 1989

Maysan Faisal Almaskati

Assistant General Manager, Head of Asset Management

- B.Sc. in Industrial Engineering, Kansas State University, USA (1997)
- Investment Representative Program (Series 7), Bahrain (2000)
- 22 years of banking experience
- Joined the group in 2019

Saqib Mahmood Mustafa

Assistant General Manager, Chief Financial Officer, Head of Financial Control

- Certified Sharia Advisor and Auditor (CSAA) (Awarded by AAOIFI) (2019)
- International Certificate in Banking Risk & Regulation (ICBRR) (2011)
- Fellow Member of the Institute of Chartered Accountants of England & Wales (ICAEW) (2010)
- Fellow Member of the Association of Chartered Certified Accountants (ACCA) (2003)
- Certified Islamic Professional Accountant (CIPA) (awarded by AAOIFI) (2009)
- Islamic Professional Accountant (CIPA) (awarded by AAOIFI) (2009)
- Bachelor of Commerce Karachi University (Pakistan) (1999)
- 22 years of banking and finance experience
- Joined the group in 2007

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Overview of Policies and Controls

Ithmaar Bank follows the "High Level Controls" and "Public Disclosure" Modules of the Rulebook issued by the Central Bank of Bahrain (CBB) and the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable.

Ithmaar Bank's Corporate Governance Policy provides guidance on engaging with its stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is Ithmaar Bank's policy to treat shareholders in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value for shareholders over the long-term. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Bank adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics, Business Conduct, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Bank, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interests of stakeholders.

The written Code of Ethics and Business Conduct that binds all employees and members of the Board of Directors lends further weight to the practical implementation of the Bank's stated policies.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Bank must comply with the Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with the CBB regulations, the Bank wishes to explain the following:

The Chairman is a non-executive director but not an independent director, as defined by the CBB, due to his position as the Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), the Bank's controller.

FBL, a subsidiary of Ithmaar Bank, follows the local regulations of the State Bank of Pakistan, which may differ from CBB regulations in some aspects, including the Sharia governance requirements applicable to Bahrain-incorporated banks.

Developments in Regulations

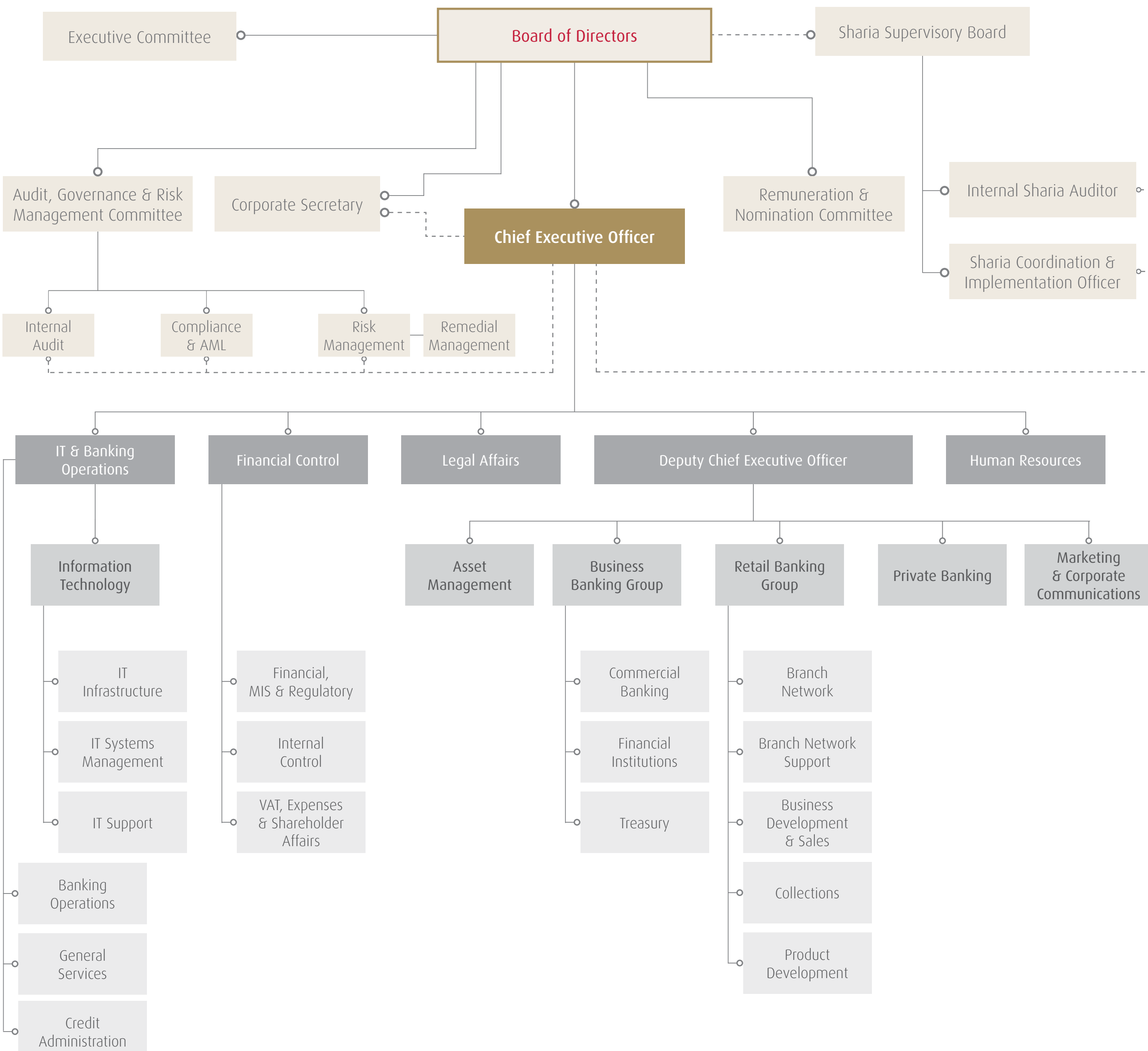
On an ongoing basis, the Bank monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. There were no material changes introduced to the HC Module by the CBB during the year 2021.

Administration

Ithmaar Bank is administered by the Board of Directors and the Sharia Supervisory Board and, for day-to-day matters, by the Executive Management.

CORPORATE GOVERNANCE CONTINUED

Organisation Chart



CORPORATE GOVERNANCE CONTINUED

Board of Directors

The Board of Directors of Ithmaar Bank is comprised of ten members, of whom five are independent. Independence is determined based on the Central Bank of Bahrain (CBB) definition of "Independent Director" which is stipulated in the Glossary section of the CBB Rulebook.

The Board is committed to the roles and responsibilities prescribed by the Commercial Companies Law of 2001 (as amended), which are reflected in the Bank's Board of Directors Charter and constitutive documents.

The Board's roles and responsibilities include, but are not limited to, the overall business performance and strategy for the Bank; causing financial statements to be prepared which accurately disclose the Bank's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders. In particular, the Board, among other things, ensures that the Bank's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following:

- Setting the Bank's strategic direction;
- Maintaining overall responsibility for the performance of the Bank;
- Selecting, appointing and evaluating the performance of the management;
- Reviewing the performance and compensation of the management;
- Reviewing the structure and succession planning of the management;
- Advising and counselling the management;
- Monitoring and managing potential conflicts of interest;
- Ensuring the integrity of the financial information statements are true and fair, and otherwise conform with applicable law;
- Monitoring the effectiveness of the governance and compliance practices;
- Ensuring timely and adequate legal and regulatory disclosures;
- Ensuring effective internal controls; and
- Arranging the shareholders' annual, ordinary and extraordinary general meetings.

Some of the responsibilities of the Board of Directors are delegated to the committees of the Board.

The Board has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investments, financings exceeding certain limits, and business relationships with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per the applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Bank's Articles of Association and the Board of Directors Charter, both of which comply with applicable statutory and regulatory rules. Board members serve three-year terms, extendable by up to six months subject to the CBB's approval. At the end of each term, a new Board is to be elected (or appointed, as applicable) at the Bank's annual general meeting.

The next election of the Board of Directors shall take place during 2022.

Structure and Composition of the Board

The Bank is managed at the high level by the Board. The size of the Board is subject to the Bank's Articles of Association, the Board of Directors Charter and the rules and regulations decreed by the Ministry of Industry, Commerce and Tourism and the Central Bank of Bahrain.

Duties of Board Members

The Board members, individually and collectively, are bound by distinct fiduciary duties to the Bank. The Board members owe their fiduciary duty to the Bank as a corporate entity in its own right and not just to individual shareholders and/or groups of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by the Board members to the Bank are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

The Board members are required to act in accordance with the Bank's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of the Bank's internal authorities and policies.

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of the Bank.

CORPORATE GOVERNANCE CONTINUED

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of the Bank. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using the Bank's properties and assets for their personal needs or seeking business opportunities for personal benefit. This duty also requires the Board members to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter.

The Bank provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The above duties are detailed in the Board of Directors Charter and Code of Ethics and Business Conduct, which is approved by the Board.

Board Members' Election and Evaluation System

All appointments to the Board are governed by and subject to the Bank's Memorandum of Association, Articles of Association, the Board of Directors Charter and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews the composition and performance of the Board annually. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives, as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

The arrangements for the termination of membership in the Board of Directors are stipulated in the Bank's Articles of Association. In the event of a vacancy, termination or resignation on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board for the appointment of a new director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All the Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

The Board members also receive a copy of the Code of Ethics and Business Conduct.

The Board, its committees and individual members are regularly assessed with respect to their effectiveness and contributions.

Board Induction and Development Programme

The Bank prepares an all-day induction programme for newly appointed and elected Board members, which starts with a welcome note from the Chief Executive Officer and Deputy Chief Executive Officer. Thereafter, members of the Executive Management introduce the Bank in detail, covering its history, structure, subsidiaries, products, strategy, financial performance and organisational chart. This is followed with presentations from the heads of various departments in respect of their role and function within the Bank. The newly appointed/elected Board members are introduced to the Board's roles and duties, covering the legal and regulatory requirements.

The Bank also arranges training sessions throughout the year for Board members and Executive Management, to keep them abreast of recent developments (legal, regulatory, market, technology and others) in the banking and investment sectors.

Board Members' Conflict

When the Board deliberates an agenda item wherein a conflict of interest arises, the conflicted Board member declares his or her conflict and abstains from voting on the agenda item. Article 189 of the Commercial Companies Law of 2001 (as amended) requires that members of the Board and Management should not have a direct or indirect personal interest in transactions and contracts concluded by the Bank, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

Interested members have a duty to inform the Board of any matter which presents a conflict and are then restricted from voting on the matter. Such declaration is to be recorded in the meeting minutes.

The Chairman shall inform the General Assembly of the results of such contracts in the annual general meeting following execution of the transactions and such notification is to be accompanied by a special report of an external auditor in respect of the nature and details of the matter, and the extent of interest of the respective member. Violating this Article 189 shall render the Board member and the Board jointly liable for compensation of any damage caused by the breach.

This provision is reflected in the Bank's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to the Bank without the approval of the General Assembly. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by the majority vote of disinterested directors, subject to CBB approval. The Bank's Articles of Association specify that violations of such restriction shall permit the shareholders to claim compensation from the conflicted Board member, for damage caused to the Bank or profit realised by the conflicted Board member.

CORPORATE GOVERNANCE CONTINUED

Board Members' Sitting Fees

The Board members' sitting fees for Board and Board committee meetings in 2021 amounted to BHD 127,803 (2020: BHD 116,493). The Sharia Supervisory Board retention fee for 2021 amounted to BHD 22,620 (2020: BHD 22,620) and their sitting fees for 2021 was BHD 6,032 (2020: BHD 7,917).

Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total remuneration to attract and retain qualified and competent employees. The Bank's Variable Remuneration Policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders. These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share the Bank's success, and to align employees' incentives with its risk framework and risk outcomes.

The Bank's reward package comprises the following key elements:

- Fixed pay;
- Benefits; and
- Discretionary performance bonus.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy.

All remuneration matters, and related overall compliance with regulatory requirements, are overseen by the Remuneration and Nomination Committee (RNC).

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

In order to ensure alignment between what we pay our employees and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives in line with our performance management system.

This assessment also takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity.

Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also, importantly, on how it is achieved, as the RNC believes the latter contributes to the long-term sustainability of the business.

Remuneration Policy

The Remuneration Policy is reviewed on a periodic basis to reflect changes in market practices and Ithmaar Bank's business plan and risk profile.

The Bank's remuneration policies will apply only to its subsidiaries which are licensed by the CBB under Volume 1 or Volume 2 of the CBB Rulebook. In the case of other subsidiaries and branches of the Bank, the RNC should ensure that, where applicable, such entities comply with local rules that apply to their remuneration policies.

No external consultants' advice was sought in 2021 regarding the remuneration process.

Ithmaar Share Incentive Scheme

As Ithmaar Bank is not listed, the Award Price of the Phantom Shares will be defined to be the adjusted Net Asset Value (NAV) as per the latest audited financial statements of the Bank.

CORPORATE GOVERNANCE CONTINUED

Variable Remuneration for Employees

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

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

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

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

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

At the individual level, poor performance by the Bank would mean individual Key Performance Indicators are not met and hence employee performance ratings would be lower.

Remuneration of Control Functions

The remuneration structure of control function personnel should not compromise their independence or create conflicts of interest in their advisory role to the RNC. The RNC will ensure that the increased conflicts of interest arising from variable remuneration of the control functions based on institution-wide performance criteria is properly addressed.

The Bank will take all reasonable steps to ensure that control function personnel are not placed in a position where, for example, approving a transaction, making decisions or giving advice on risk and financial control matters could be directly linked to an increase in their performance-based remuneration.

The variable remuneration of those staff members in control functions will be designed in a way that avoids conflict of interests related to the business unit they are overseeing and will be appraised and determined independently.

Risk Assessment Framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes, and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

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

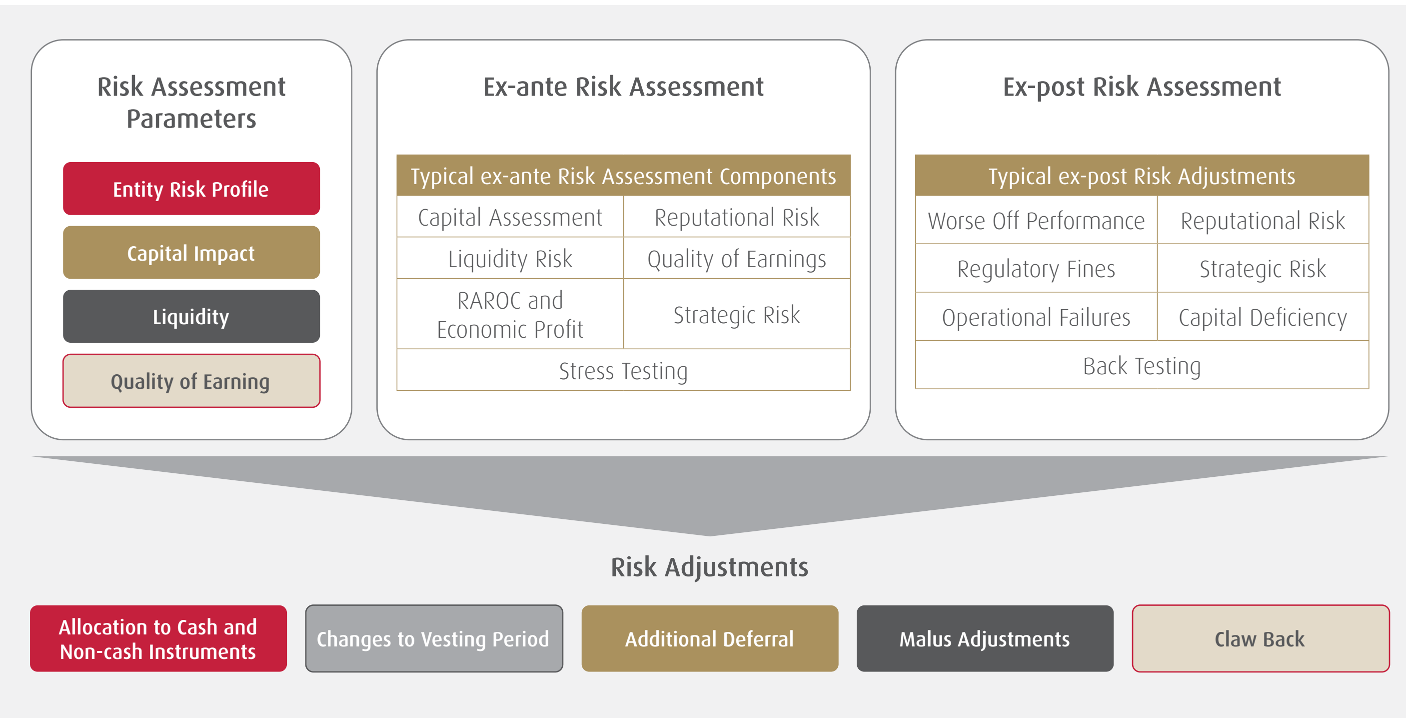
- The cost and quantity of capital required to support the risks taken;
- The cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

CORPORATE GOVERNANCE CONTINUED

Risk Adjustment Methodologies

The Bank's risk alignment framework will use a mix of quantitative and qualitative approaches.

The Bank's risk adjustment framework is set out below:



Long-term Performance Measures

The malus and clawback provisions allow the Board of Directors to determine that, if appropriate, elements under the deferred bonus plan can be forfeited or adjusted, or that the delivered variable compensation could be recovered in certain situations. The intention is to allow appropriate response if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

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

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

These events include the following:

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

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

CORPORATE GOVERNANCE CONTINUED

Components of Variable Remuneration

Variable remuneration has the following main components:

Upfront Cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years.
Deferred Non-cash	The Bank has two forms of non-cash awards to align long-term performance and risk and to encourage employee retention: • Deferred short-term incentives – incentives that are rewarded for current performance and considered as earned but are deferred in terms of payment to employees. These include deferred annual bonuses in the form of Phantom Shares Awards (PSA) or deferred annual bonus Performance Linked Units (PLU). The minimum term of deferral is three years. • Future performance awards (FPA) – incentives that are awarded with future performance and service conditions i.e. not yet earned by the employee. FPAs include Long Term Incentive Plan (LTIP) shares in the form of Phantom Shares and performance linked units and provide better risk alignment to the business and individual performance of the employee.

Deferred Compensation (Bahrain)

All employees with job titles of Executive Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of Variable Remuneration	Assistant General Managers and Above	Executive Senior Managers	Deferral Period	Retention	Malus	Clawback
Upfront cash	40%	70%	Immediate	-	-	Yes
Deferred cash	-	30%	Over 2 years	-	Yes	Yes
	10%	-	Over 3 years	-	Yes	Yes
Deferred non-cash	50%	-	Over 3 years	6 months	Yes	Yes

Minimum Vesting Period

The minimum vesting period for deferred annual bonus share awards is pro-rata over a minimum three-year period, i.e. at most, a third of the deferred awards vest each year. For Future Performance Awards (FPA), the Bank may provide for a longer period to align with the underlying performance conditions, but a minimum period of three years would apply.

CORPORATE GOVERNANCE CONTINUED

Employee Remuneration (Bahrain)

2021

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	6	934,411	-	-	-	-	-	-	-	-	-	934,411
Approved Persons Control & Support	9	1,074,347	-	-	-	-	-	-	-	-	-	1,074,347
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff	3	260,086	-	-	-	-	-	-	-	-	-	260,086
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Total	**18**	**2,268,844**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,268,844**

2020

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	7	1,212,422	-	245,392	-	104,424	-	28,717	112,250	-	-	245,392
Approved Persons Control & Support	9	1,016,532	-	111,186	-	54,237	-	17,627	39,323	-	-	111,186
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff	2	158,854	-	12,587	-	8,811	-	3,776	-	-	-	12,587
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Total	**18**	**2,387,808**	**-**	**369,165**	**-**	**167,472**	**-**	**50,120**	**-**	**-**	**-**	**369,165**

CORPORATE GOVERNANCE CONTINUED

Deferred Awards for Current Year (2021)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	627,672	3,441,422	172,071	799,743
Awarded During the Period	46,213	4,995,673	226,911	273,124
Paid Out / Released During the Period	(59,327)	(2,751,063)	(148,797)	(208,124)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	614,558	5,686,032	250,185	864,743

Deferred Awards for Previous Year (2020)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	653,773	1,269,986	100,329	754,102
Awarded During the Period	37,968	4,035,292	292,070	330,038
Paid Out / Released During the Period	(64,069)	(1,863,857)	(220,328)	(284,397)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	627,672	3,441,422	172,071	799,743

Notes:

1. The payment of vested shares for the deferred component was completed after the reorganisation.
2. The number of shares has been adjusted to reflect the Phantom Shares in Ithmaar Bank B.S.C. (c) post reorganisation.

Additional remuneration data will be made available on the website for the year ended 31 December 2021.

CORPORATE GOVERNANCE CONTINUED

Employment of Relatives of Approved Persons

The Human Resources Policy of Ithmaar Bank indicates that any employee who is a first degree relative of an existing Approved Person in the Bank is required to declare the relationship in writing to the Human Resources Department.

Board Committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit, Governance and Risk Management Committee (AGRMC)

The AGRMC is appointed by the Board to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors, and coordinating the implementation of the Corporate Governance Policy framework. The aggregate sitting fees paid to its members in 2021 was BD23,625 (2020: BD13,500).

The AGRMC reviews and, as appropriate, approves and/or recommends for the approval of the Board, among other things: the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation of various regulatory reports; internal and external audit reports and the status of their implementation (as appropriate); and new accounting and regulatory pronouncements and their implications.

This AGRMC also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board with reports and recommendations based on its findings in the exercise of its function.

The objectives of the AGRMC also include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk, liquidity risk and profit rate, in addition to any other risk categories the Bank faces in carrying out its activities.

The AGRMC also recommends and monitors the overall risk management framework in line with the regulatory guidelines which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board. The AGRMC also ensures that the information security and the business continuity management framework of the Bank are in line with regulatory guidelines and commensurate to the scale of business operations of the Bank.

The AGRMC is chaired by an Independent Director and comprised of:

- Elham Ebrahim Abdulla Hasan – Chairperson
- Dr. Amani Khaled Bouresli – Member
- Abdulellah Ebrahim Al-Qassimi – Member
- Sheikh Osama Bahar – Member*

* Sheikh Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Corporate Governance.

The AGRMC meets a minimum of four times in a year.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending them to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight of the Corporate Governance, Compliance and Regulatory requirements;
- Updating and aligning all risk and information security policies in line with changes in the regulatory requirements;
- Reviewing of existing risk limits and establishing new risk limits for better control of credit, market, operational, liquidity, profit rate risk and concentration risks;
- The Internal Capital Adequacy Assessment Process (ICAAP) report for review; and
- Reviewing the Expected Credit Losses as per the FAS 30 standards.

CORPORATE GOVERNANCE CONTINUED

Executive Committee

The ExCom is appointed by the Board to assist with the oversight of the general management of the Bank and its business by management, as well as considering and recommending to the Board the strategy, business plans and budget, and evaluating the financial and business performance. The aggregate sitting fees paid to its members in 2021 was BD6,750 (2020: BD5,625).

The ExCom reviews and, as appropriate, approves and/ or recommends for the approval of the Board: credit proposals over certain threshold; asset quality and exit strategies; status updates and reports from the management in respect of major issues and group reorganisation; consolidated financial performance; strategic business plans; and key management initiatives.

The ExCom comprises:

- Omar Abdi Ali - Chairman
- Abdelhamid Mohamed Aboumoussa - Member
- Mohammed A. Rahman Bucheerei - Member

The ExCom meets at least twice a year.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators;
- Approving business proposals falling within its authority in accordance with the Business Discretionary Powers Policy;
- Reviewing the Company's funding requirements and strategies;
- Reviewing the strategic business plan and annual budget and recommending them to the Board for approval;
- Reviewing the financial position, including the capital adequacy and liquidity positions, and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

Remuneration and Nomination Committee (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resources issues. The aggregate sitting fees paid to its members in 2021 was BD6,786 (2020: BD6,786).

The RNC reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election;
- The appointment of new senior management executives; and
- The remuneration policies as well as guidelines for increments; and promotions.

The RNC comprises:

- Abdulellah Ebrahim Al-Qassimi - Chairman
- Tunku Yaacob Khyra - Member
- Sheikh Zamil Abdullah Al-Zamil - Member

The RNC meets at least twice a year.

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board changes in the structure and job descriptions of Approved Persons;
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board;
- Recommending the organisation chart and succession plan; and
- Recommending the Variable Remuneration Policy implemented in compliance with the regulations of the Central Bank of Bahrain on Sound Remuneration Practices of Approved Persons and Material Risk Takers.

CORPORATE GOVERNANCE CONTINUED

Attendance

2021 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit, Governance & Risk Management Committee		Executive Committee		Remuneration & Nomination Committee	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	4	4	-	-	-	-	-	-
2	Tunku Yaacob Khyra	4	4	-	-	-	-	2	2
3	Abdelhamid Mohamed Aboumoussa	4	4	-	-	2	2	-	-
4	Sheikh Zamil Abdullah Al-Zamil	4	4	-	-	-	-	2	2
5	Mohammed A. Rahman Bucheerei	4	4	-	-	2	2	-	-
6	Abdulellah Ebrahim Al-Qassimi	4	4	7	7	-	-	2	2
7	Dr. Amani Khaled Bouresli	4	4	7	7	-	-	-	-
8	Sheikh Mohamed Abdullah Abdulkarim Elkhereiji	4	4	-	-	-	-	-	-
9	Elham Ebrahim Abdulla Hasan	4	4	7	7	-	-	-	-
10	Omar Abdi Ali	4	4	-	-	2	2	-	-

Dates of Meetings During 2021	Board of Directors	Audit, Governance & Risk Management Committee	Executive Committee	Remuneration & Nomination Committee
	8 March	3 February	20 June	7 March
	21 June	5 May	5 December	26 September
	27 September	24 May	-	-
	6 December	4 August	-	-
	-	12 August	-	-
	-	3 November	-	-
	-	10 November	-	-

Notes:

- Sheikh Osama Bahar, member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee. He attended three meetings. Three of the meetings Sheikh Osama Bahar did not attend including two extraordinary meetings with no Sharia governance items.
- In accordance with the Central Bank of Bahrain's requirement and the Bank's Articles of Association, the Board of Directors shall meet at least four times a year, and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

CORPORATE GOVERNANCE CONTINUED

Sharia Supervisory Board

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. The SSB contributes in the guidance and development of Ithmaar Bank's activities and it monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed in compliance with the licensing requirements of the Central Bank of Bahrain (CBB) and Ithmaar Bank's Memorandum and Articles of Association by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Remuneration and Nomination Committee (RNC). The SSB serves a three-year term.

The SSB has full authority to achieve its goals and responsibilities.

It is also allowed to view all records and transactions from any sources without restrictions, including access to the Board and to management personnel, professional and legal consultants, employees, as well as access to the Sharia Coordination and Implementation Department at Ithmaar Bank, which is represented by the Sharia officer who is proactively involved in reviewing and advising on the Sharia compliance of all products and anything related to the products, as well as investment projects, conducting training for employees to ensure they understand the products and their implementations, handling the secretary tasks for the SSB and replying to customers' enquiries according to SSB's fatwas. The SSB also communicates directly with the Internal Sharia Audit Department and reviews its periodic reports and implemented operations according to SSB fatwas and AAOIFI standards and produces periodic reports to the SSB in order to ensure that activities are under a strict and direct oversight of SSB guidelines and decisions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities, in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended. These remunerations are recommended by the RNC, the structure of which is approved by the shareholders. Currently, Ithmaar Bank does not pay any performance-related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section. All SSB members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described. SSB members also receive a copy of the Code of Ethics and Business Conduct.

Management

The day-to-day operations of Ithmaar Bank are handled by the Executive Management team.

Departments are grouped into Business, Control and Support Units with clear definition between them to avoid conflicts of interests. These safeguard measures are reinforced by independent Internal Audit, Risk Management, Compliance and Anti-Money Laundering departments, as well as an Internal Sharia Auditor and a Sharia Coordinator and Implementation Officer.

The Risk Management Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Compliance and Anti-Money Laundering Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Internal Audit Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Internal Sharia Auditor and Sharia Coordinator & Implementation Officer reports functionally to the Sharia Supervisory Board, and, administratively, to the Chief Executive Officer.

The total remuneration of the Chief Executive Officer and senior management in 2021 was US$6.0 million (2020: US$6.3 million).

Management Committees

Ithmaar Bank has the following key Management Committees:

Investment and Credit Committee (ICC)

The main objective of the ICC is to review and approve transactions within their discretionary powers. It is also responsible for assessing and mitigating the credit risk of the Bank as well as recommending changes in the Bank's credit and investment banking portfolio strategy and related policies. The Committee is chaired by the Chief Executive Officer.

Asset and Liability Management Committee (ALCO)

The ALCO is responsible for the management of liquidity risk, profit rate risk, market risk, balance sheet structure and capital management. The main objective of this Committee is to review financial performance and manage liquidity to achieve sustainable and stable profits within a framework of acceptable financial risks and controls. The Committee is chaired by the Chief Executive Officer.

CORPORATE GOVERNANCE CONTINUED

Business Continuity Plan (BCP): Crisis Management Team (CMT)

The Team defines the roles and responsibilities for executives in the management of a crisis, including an assessment of the impact an event will have on time-sensitive business processes, and guidance on formally declaring a disaster. Since such plans are developed to address the worst-case scenario, they are likely to require alteration at the time of the event to effectively address the specific situation.

The CMT is responsible for working with each of the teams to refine strategies, tasks, and assignments at the time of the incident; therefore, CMT meets at least twice a year. The CMT plays a leadership role in managing disasters as well as maintaining the Bank Business Continuity plan. The Team is chaired by the Chief Executive Officer or by the Deputy Chief Executive Officer.

Information Security Steering Committee (ISSC)

The Committee's focus is to ensure the confidentiality, integrity, and availability of the Bank's information technology resources and data by safeguarding them from compromise, misuse, loss or damage caused intentionally or unintentionally. The Committee is chaired by the Deputy Chief Executive Officer.

Information Technology Steering Committee (ITSC)

The ITSC is a recommendation-making authority with regards to Information Technology (IT), its strategy, management and governance. The ITSC is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding to achieve the goals and the needs of the Bank. The ITSC aims to obtain the greatest value and returns for its use within a well-controlled risk containment framework. The Committee is chaired by the Chief Executive Officer.

Recoveries – RMU and Collection Working Group

The Group is primarily responsible for monitoring and enhancing recoveries from retail and corporate customers as performed by the Remedial Management Unit (RMU) and the Collections Unit. The Group is chaired by the General Manager, Business Banking Group.

Provisioning Committee (ProvCom)

The ProvCom is primarily responsible for the level of provisioning of retail, corporate customers and all the investments of the Bank which are being proposed by Risk Management Department in line with the Bank's policies and CBB regulations. The Committee is chaired by the Chief Executive Officer.

Compliance Working Group

The Group has the general responsibility to oversee the Bank's compliance, policies and procedures as well as to discuss and decide compliance-related issues including compliance with regulatory requirements, AML/CFT, sanctions, KYC, FATCA, CRS and other matters relating to managing the compliance risk facing the Bank and arising from time to time. The Group is chaired by the General Manager, Retail Banking Group.

Changes in the organisational structure and reporting lines

January 2021: Credit Administration's reporting line was shifted to General Manager, Information Technology and Banking Operations.

August 2021: Private Banking's reporting line was shifted to Deputy Chief Executive Officer.

September 2021: The Product Development's reporting line was shifted to the General Manager, Retail Banking Group.

Changes in Management and Management Committees

Changes in Management Personnel

Senior appointments:

November 2021: Senior Manager, Ahmed Mohamed Janahi, was appointed as the Chief Risk Officer, Head of Risk Management.

Other appointments, promotions and resignations:

April 2021: Fatema Abdulla Mufeez, was promoted to Senior Manager, Head of Legal Affairs.

April 2021: Murtadha Abbas Ali, was promoted to Manager, Head of General Services.

CORPORATE GOVERNANCE CONTINUED

Changes in Management and Management Committees (Continued)

Changes in Management Committees:

IT Steering Committee (ITSC):

- April 2021: Added CFO and Head of Branches as members, and Head of Retail Support and Head of Information Security as invitees. Removed the following invitees: Banking Operations, Risk Management, Financial Control and Internal Audit.
- June 2021: change in timeframe for minutes circulation.

Assets & Liability Committee (ALCO)

- April 2021: Added the following:
  - GM, Information Technology and Banking Operations, as a Member;
  - CFO as a Member;
  - Head of Commercial Banking as a Member;
  - Head of Private Banking as a Member;
  - Head of Branch Network as a Member;
  - Head of Operations as a Non-Voting Member (Advisor);
  - Head of Product Development & Business Alliances role was amended from Member to Non-Voting Member (Advisor); and
  - Invitees sections was deleted from the Charter.
- June 2021: change in timeframe for minutes circulation.

Investment and Credit Committee (ICC)

- April 2021: Added GM, Information Technology and Banking Operations, as a Non-Voting Member (Advisor).
- June 2021: change in timeframe for minutes circulation.
- December 2021: Added “circulation proposals”.

Information Security Steering Committee (ISSC)

- April 2021:
  - Existing charter changed as per the composition of the management level committees/working groups.
  - Quantity of ISSC members changed from 12 to 11.
  - Head of CAML assigned as ISSC Chairman, replacing DCEO.
  - Heads of IT, Branches and Internal Audit assigned as members, replacing respective GMs.
  - Managers from HR and FCD assigned as members, replacing respective Department Heads.
  - Abbreviations for SWIFT CSP and PDPL were added.
  - The Personal Data Privacy tracker added in the MIS report as Quarterly.
  - Number of working days for the circulation of the ISSC minutes changed from 10 to 7 working days.
- December 2021:
  - Head of Branches and assigned as a member, replacing Head of Retail Support.

Business Continuity Plan (BCP) and Crisis Management Team (CMT)

- April 2021:
  - Removed CEO as a member and Chairman.
  - Removed DCEO as a member.
  - Changed GM, Information Technology and Banking Operations from a member to Chairman.
  - Changed GM Retail Banking Group from a member to Vice Chairman.
  - Added Head of Branches as a member.
  - Removed GM Business Banking Group as a member.
  - Added Head of Commercial Banking as a member.
  - Removed Head of FCD as a member.
  - Added Manager of FCD as a member.
  - Removed Head of Risk as a member.
  - Added Head of Market Risk as a member.
  - Changed Head of IT from Secretary to a member.

CORPORATE GOVERNANCE CONTINUED

Complaints Management Working Group

- April 2021:
  - Committee name changed from "Complaints Management Committee" to "Customer Complaints Working Group" with no material changes.
  - Added the following members:
    - Manager - Marketing and Corporate Communications
    - Manager - IT
    - Senior Manager - Business Development

Provisioning Committee (ProvCom)

- April 2021:
  - Added the following as permanent invitees:
    - Head of Collection
    - Head of BBG
  - Updated job designation as per current structure of the Bank
  - Chairman: Addition to the list of duties

Recovery Working Group

- June 2021:
  - Changed name from "Recoveries Committee (RECO)" to "Recovery Working Group". Charter rewritten.
  - New Secretary appointed
  - Added the following members:
    - Head - Retail Credit
    - Head - Legal
    - Head - Credit Review
    - Head - Financial Control
  - The following roles changed:
    - GM Business Banking Group appointed Chairman
    - GM Retail Banking Group appointed Vice Chairman
    - Chief Risk Officer appointed a member
    - Head - RMU appointed a member
    - Head - Collections appointed a member
  - Removed the following members and invitees:
    - CEO
    - DCEO
    - CFO
    - Manager - Financial Control

Environmental, Social and Governance Committee (ESG)

- October 2021:
  - Committee was formed and charter approved

Compliance Working Group

- June 2021:
  - Secretary changed
  - Removed the following members:
    - CEO
    - DCEO
    - GM, Information Technology and Banking Operations
    - GM, Retail Banking Group
  - Changes in scope, responsibility and quorum

Operational Risk Management Committee (ORMC)

- July 2021:
  - Added Head of Credit Administration
  - Head – Banking Operations became the Vice-Chairman
  - Removed the following members:
    - Head - General Services
    - Senior Manager - Risk Management

CORPORATE GOVERNANCE CONTINUED

Communication with Stakeholders

Ithmaar Bank maintains a website which customers and other stakeholders may access for information about products and services, as well as the corporate profile, corporate information, press releases and financial performance, amongst others. The Bank also continues to provide public announcements and press releases on major developments and news.

Code of Ethics and Business Conduct

Ithmaar Bank's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar Bank.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Bank's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

The employment of relatives of approved persons is covered under the Human Resource Policy which requires the employee to declare to the Human Resources Department the relationship (father, mother, brother, sister, husband or wife) with any approved persons at the time of recruitment and/or subsequently, as appropriate. The employees will be given a grace period of one year so one or more of the relatives leave the Bank and exceptions, if any, require the approval of the Chief Executive Officer.

Risk Management

Ithmaar Bank has in place a comprehensive Enterprise Wide Risk Management Framework in place addressing all activities and commensurate to the business operations and risk appetite of the Bank. The Risk Management Framework plays a pivotal role in protecting the shareholders' and customers' interests and is accorded paramount importance by the Board and the management.

The Risk Management culture emanates at the level of Board of Directors who establish the risk appetite and tolerance levels in line with the business strategy. The risk management framework is detailed in the Risk Charter and the various risk management policies which include the approach and methodology for the management of various risks. The risk appetite and risk policies are periodically reviewed to maintain their relevance and alignment with the business strategy and prevailing market conditions, and to ensure compliance with the guidelines of the CBB.

Risk Management in Ithmaar Bank is considered a collective responsibility and hence the risk management culture is effectively communicated across the organisation. Ithmaar Bank has an effective risk governance structure enabling the effective monitoring and management of risks across all business and support activities. The Board is assisted by the Audit, Governance and Risk Management Committee, which meet periodically to oversee the implementation of the risk framework and management of the same. However, the Board retains ultimate responsibility for the effective implementation and functioning of the risk management framework and thereby approves all risk management policies. The Audit, Governance and Risk Management Committee is supported by an independent Risk Management Department headed by the Chief Risk Officer who is responsible for implementing the Board-approved risk management framework in close coordination with the senior management and all other relevant departments.

The Risk management framework also encapsulates a robust monitoring and reporting process wherein the Risk Management Department monitors risk parameters on an ongoing basis against the Board-approved limits and tolerance levels, and presents the same to the management and the Board.

Additional information on the risk framework and the approach and methodology of managing each dimension of risk is detailed in the Public Disclosures section.

CORPORATE GOVERNANCE CONTINUED

Compliance, Anti-Money Laundering and Internal Controls

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, directives, reporting requirements and codes of conduct, including the internal code of conduct.

The Compliance Management Policy sets the compliance framework for managing compliance risks within the Bank, through setting the roles and responsibilities of the Board of Directors, the Senior Management and the Compliance Function staff, as well as formalising the independence and effectiveness of the compliance function and the reporting line of the Compliance Officer. The compliance function follows a risk-based approach to compliance risk management, in accordance with the compliance plan approved by the Audit, Governance and Risk Management Committee of the Board.

Ithmaar Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations.

The Bank has established the Compliance Working Group to effectively oversee and manage the compliance risk and other matters relating to regulatory requirement, AML/CFT and KYC standards. The Compliance Officer has the duty of promoting a sound compliance culture across the organisation through effective training, supported by periodic compliance testing to identify areas of improvement. Furthermore, the Compliance Function communicates matters of interest from a compliance perspective across the Bank by way of regular communications, training & awareness programs and the electronic compliance Newsletter in order to ensure that Senior Management and other personnel are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance across the Bank's operations. The Bank has also implemented the concept of "compliance champions" in support of the Bank's continuing efforts in strengthening the compliance culture and sustaining the highest standards in regulatory compliance.

Customer Complaint Procedures

A formal complaints management policy is in place, in line with the requirements of the Central Bank of Bahrain (CBB). A dedicated customer complaints unit and officer is responsible for handling the management of complaints. Contact details of the complaints unit are published at all branches and on Ithmaar Bank's website. All customer complaints are promptly resolved to the best satisfaction of the customers.

Anti-Money Laundering

The Kingdom of Bahrain defines Money Laundering and Terrorist Financing (ML/TF) as criminal offences. The CBB mandates Islamic Financial Institutions in Bahrain to comply with all applicable legislations, laws and regulations on Anti-Money Laundering and Combating Terrorist Financing.

Ithmaar Bank complies with Bahrain relevant legislations on AML/CFT, CBB rules and the guidance of the Financial Crime Module which is based on the principles of the Financial Action Task Force's (FATF) 40 recommendations and the Basel Committee on Banking Supervision Paper.

The Bank continues to follow a Risk Based Approach (RBA) in terms of transaction monitoring, sanctions screening, Know Your Customer (KYC) requirements, as well as other matters relating to financial crime. The Bank has adopted policies and procedures to combat ML/TF that are approved by the Board of Directors, and implements programmes against ML/TF by establishing and maintaining appropriate systems and controls to limit the vulnerability to financial crime. The Bank maintains adequate policies and procedures related to Customer Due Diligence (CDD), customer screening and transaction monitoring to prohibit and actively prevent the Bank from conducting business relationships with entities engaged in money laundering practices or any illegal activities that facilitate funding of terrorism. These policies and procedures apply to all employees, branches and offices of the Bank.

All relevant staff of the Bank who deal with customers and/or are managerially responsible for handling customer relationships, must undergo annual training on Anti-Money Laundering and Know Your Customer (KYC) rules and procedures.

Ithmaar Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a dedicated Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently monitors implementation of the AML policies of the Bank and reports suspicious transactions to the relevant regulatory authorities in the accordance with the regulatory requirements. The AML and KYC framework incorporates the following four key elements: customer acceptance, customer identification procedures, verification of source of funds, ongoing transaction monitoring and risk assessment.

CORPORATE GOVERNANCE CONTINUED

Internal Controls

The Internal Control Framework of the Bank is overseen by the Board Audit, Governance and Risk Management Committee (AGRMC).

The Bank has a multi-faceted internal control framework in terms of the following:

- Policies and procedures detailing the controls to be adopted for the various processes in place.
- Clear segregation of duties to ensure there are no lapses in controls with adequate monitoring of processes.
- Robust Operational Risk Management Framework defining the methodologies for identification, measurement and monitoring of operational risks.
- Independent Internal Audit of all functions to measure the adequacy of internal controls across various processes and systems.
- Independent compliance oversight to ensure that the applicable regulatory requirements are adequately adhered to.

All processes and systems are evaluated on an ongoing basis by the concerned process owners and by the Risk Management through the Risk Control Self-Assessment as well as Internal Audit departments for any possible enhancements of controls from an audit perspective.

Any instances of control failures are immediately investigated by business and control functions to evaluate the need for further strengthening on controls across processes and functions. The AGRMC actively monitors the Internal Control Framework of the Bank based on reports submitted by the Internal Control, Risk Management, Compliance and Internal Audit departments on a periodic basis.

FUNDS UNDER MANAGEMENT

FUNDS UNDER MANAGEMENT

As a commercial financial institution, a fundamental objective of the Bank is to act as a financial intermediary, channelling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Account Holders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined ratios and conditions set out in the agreements. This is activity known as Funds Under Management (FUM).

Structure of the Funds

The Bank provides three types of FUMs, namely Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as the Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner in which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's Know Your Customer (KYC) requirements.

As of 31 December 2021, the Bank's operated URIA funds are as follows:

- General Modaraba
- Special Modaraba

II. Restricted Funds (RIA)

In the case of RIA accounts, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Modaraba and/or Agency agreements) so as to formalise the relationship. RIA funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in the case of RIA funds. As per the CBB's instructions, all future RIA funds shall be structured as CIUs.

The funds managed by the Bank are mainly in real estate and private equity.

These are subject to various risks including:

- Foreign exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being not marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operational costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus.

FUNDS UNDER MANAGEMENT CONTINUED

Structure of the Funds

III. Collective Investment Undertakings (CIU)

CIU have the following features:

- The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.
- These funds are structured in accordance with relevant CIU rules issued by the CBB.

All investors are required to meet the KYC requirements as per CBB rules.

Risk and Reward

In accordance with the principles of the Islamic Sharia, all FUMs are managed on a profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of an FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the Fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH may invest for an unspecified term (such as Savings Accounts), and profits are accounted for on a periodical basis during the Modaraba period. URIA funds are not subject to administration fees.

In the case of RIA and CIU, specific expenses that may arise in relation to the launching of a Modaraba fund and in the employment of funds may be charged against the gross revenue of that Modaraba, provided this is set out in the related Modaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Modaraba. Distributable profit is calculated after all permitted expenses have been deducted.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

Redemptions

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices, provided such exposure does not cause any violations of regulatory or internal limits.

Fiduciary Obligations

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly.
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management.
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills to manage FUMs in accordance with this policy and other regulatory rules.
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects.
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports.
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to IAHs as well as shareholders.
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner.

Investment Objectives

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Modaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

FUNDS UNDER MANAGEMENT CONTINUED

Governance of Funds Under Management

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit, Governance and Risk Management Committee, amongst its other responsibilities, to look after the interests of the IAHs. The Asset and Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including the Retail Banking and the Business Banking groups.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetites of investors.

A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management department and the Compliance department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

The Profit Distribution Sheet (Modaraba Account) provides details the on investment periods and the Bank's share of investments in 2021 as per the terms and conditions:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2021:

BD or US$	1 day	7 days	1 month	3 months	6 months	1 year	2 years	3 Years
Savings	0.10	-	-	-	-	-	-	-
General Modaraba	0.10	0.10	1.25	1.50	1.68	2.33	2.53	2.63
Special Modaraba	-	-	1.70	2.20	2.53	3.05	3.15	3.29

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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REPORT OF THE SHARIA SUPERVISORY BOARD

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 2021 until 31 December 2021, corresponding to the Year from 17 Jumada Al-Ula 1442 H until 17 Jumada Al-Ula 1443 H

1. 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 Judgement.

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 2021:

2. 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.
3. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.
4. Examined the books, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.
5. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, consolidated income statement and the Bank's overall banking activities.
6. 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 2021. 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.

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

First: With regard to the Bank business in general:

a. The Bank's overall operations, investment and financing activities and banking services 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.

e. Income and expenses and gains made from sources prohibited by Sharia is disclosed in Ithmaar Holding's financial statements, as the Bank's accounts are consolidated under Ithmaar Holding.

REPORT OF THE SHARIA SUPERVISORY BOARD CONTINUED

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

The Sharia Supervisory Board has reviewed the structure of the Bank 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.

Since the bank's accounts are part of the accounts of Ithmaar Holding, the Shariah Supervisory Board directs the shareholders to refer to those accounts.

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.

This report has been issued on 27 Jumada Al-Akhirah 1443, 30 January 2022.

His Eminence Shaikh Osama Bahar
Member

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Nizam Yacooby
Deputy Chairman

DIRECTORS' REPORT

For the year ended 31 December 2021

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the year ended 31 December 2021, 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 2021, 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 BD0.51 million for the year ended 31 December 2021 attributable to the equity shareholders of the Group, as compared to a net loss of BD15.3 million for 2020. Total assets at 31 December 2021 amounted to BD3,327.5 million (31 December 2020: BD3,094.8 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2021 was 12.90% (31 December 2020: 12.65%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 36 of the accompanying consolidated financial statements.

During January 2022, the Group's immediate parent company, Ithmaar Holding, agreed in-principle with Al Salam Bank B.S.C. (Al Salam) on the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding. This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction remains subject to the approval of Ithmaar Holding's shareholders and the signing of definitive agreements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2021:

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 Hassan

Mr. Omar Abdi Ali

DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2021

Directors' & Executive Management Remuneration

In accordance with the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, the table below shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2021.

Board of Directors' Remuneration Details:

	Fixed remunerations					Variable remunerations							
Name	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
Independent Directors													
1. Dr. Amani Khaled Bouresli	-	16,965	-	-	16,965	-	-	-	-	-	-	16,965	-
2. Ms. Elham Ebrahim Hassan	-	16,965	-	-	16,965	-	-	-	-	-	-	16,965	-
3. Mr. Abdulellah Ebrahim Al-Qassimi	-	19,227	-	18,850	38,077	-	-	-	-	-	-	38,077	-
4. Tunku Yaacob Khyra	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
5. Sheikh Zamil Abdullah Al-Zamil	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
Non-Executive Directors:													
1. HRH Prince Amr Mohammed Al-Faisal	-	9,048	-	-	9,048	-	-	-	-	-	-	9,048	-
2. Mr. Omar Abdi Ali	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
3. Sheikh Mohamed Abdullah El Khereiji	-	9,048	-	-	9,048	-	-	-	-	-	-	9,048	-
Executive Directors:													
1. Governor Abdelhamid Mohamed Abou Moussa	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
2. Mr. Mohammed A. Rahman Bucheerei	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
Total	**-**	**127,803**	**-**	**18,850**	**146,653**	**-**	**-**	**-**	**-**	**-**	**-**	**146,653**	**-**

Note: All amounts Expressed in Bahraini Dinars

Other remunerations:

* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).

** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Note:

1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. Further there is no remuneration proposed for the year.
2. Board remuneration represents payments made during the year 2021 based on approval of the Annual General Meeting dated 28 March 2021.
3. "Others" represents consultancy contract for acting as nominee on the board of the Group's subsidiary.

DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2021

Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	935,034	153,917	-	1,088,951

Note: All amounts Expressed in Bahraini Dinars

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

** The company's highest financial officer (CFO, Finance Director, ...etc)

Note:

1. The total bonus included BD35,199 as cash based remuneration and BD118,718 as shares based remuneration.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.

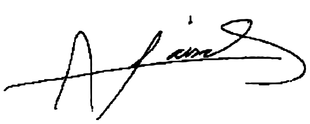
Dividend

No dividend has been proposed for 2021 (2020: 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 2022.

By order of the Board of Directors



HRH Prince Amr Mohammed Al-Faisal
Chairman

14 February 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ithmaar Bank B.S.C.(C)

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 material respects, the consolidated financial position of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 31 December 2021, 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 2021;
- 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 CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

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 is 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 Rulebook (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 CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

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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 (continued)

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

Report on other legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rulebook (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, CBB Rulebook (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 2021 or its financial position as at that date.

- The total consolidated owners' equity of the Bank as at 31 December 2021 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

PricewaterhouseCoopers M.E Limited
Partner's registration number: 196
Manama, Kingdom of Bahrain
14 February 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2021 (Audited)	At 31 December 2020 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	196,839	239,332
Commodity and other placements with banks, financial and other institutions	4	70,290	85,612
Murabaha and other financings	5	1,270,306	1,347,337
Musharaka financing	6	537,505	350,420
Sukuk and investment securities	7	893,129	755,225
Investment in associates	8	2,456	-
Assets acquired for leasing	9	147,716	145,346
Other assets	10	63,834	47,953
Investment in real estate		2,467	2,316
Development properties	11	64,632	73,359
Fixed assets	12	55,682	22,274
Intangible assets	13	22,643	25,603
Total assets		**3,327,499**	**3,094,777**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	14	726,981	661,739
Due to banks, financial and other institutions	15	526,603	435,764
Due to investors	16	420,047	514,234
Other liabilities	17	135,544	102,998
Total liabilities		**1,809,175**	**1,714,735**
Equity of unrestricted investment accountholders	16	1,421,392	1,275,162
Minority interest	17	53,202	55,049
Total liabilities, equity of unrestricted investment accountholders and minority interest		**3,283,769**	**3,044,946**
Share capital	18	100,000	100,000
Reserves		(40,120)	(34,033)
Accumulated losses		(16,150)	(16,136)
Total owners' equity		**43,730**	**49,831**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**3,327,499**	**3,094,777**

These consolidated financial statements were approved by the Board of Directors on 14 February 2022 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 41 on pages 65 to 120 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Year ended	
	Notes	31 December 2021 (Audited)	31 December 2020 (Audited)
INCOME			
Income from assets financed by unrestricted investment account holders		113,495	91,603
Less: return to unrestricted investment accounts and impairment provisions		(60,011)	(55,655)
Group's share of income from unrestricted investment accounts as a Mudarib		**53,484**	**35,948**
Income from murabaha and other financings	22	31,484	52,139
Income from other investments	23	41,960	53,410
Other income	24	19,836	20,700
Total income		**146,764**	**162,197**
Less: profit paid to banks, financial and other institutions – net		(58,953)	(75,173)
Operating income		**87,811**	**87,024**
EXPENSES			
Administrative and general expenses	25	(64,456)	(63,507)
Depreciation and amortization	12,13	(9,935)	(9,032)
Total expenses		**(74,391)**	**(72,539)**
Net income before provision for impairment and overseas taxation		**13,420**	**14,485**
Reversal of/(provision for) impairment - net	26	2,883	(15,587)
Net income/(loss) before overseas taxation		16,303	(1,102)
Overseas taxation	27	(11,142)	(9,867)
NET PROFIT/(LOSS) FOR THE YEAR		**5,161**	**(10,969)**
Attributable to:			
Equity holders of the Bank		(512)	(15,294)
Minority interests	19	5,673	4,325
		5,161	**(10,969)**
Basic and diluted losses per share	23	**Fils (0.51)**	**Fils (15.29)**

These consolidated financial statements were approved by the Board of Directors on 14 February 2022 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 41 on pages 65 to 120 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021 and 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	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2021 (Audited)	**100,000**	**299**	**7,309**	**(2,760)**	**721**	**(39,602)**	**(34,033)**	**(16,136)**	**49,831**
Net loss for the year	-	-	-	-	-	-	**-**	(512)	**(512)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	**-**	498	**498**
Movement in fair value of sukuk and investment securities	-	-	(618)	-	-	-	**(618)**	-	**(618)**
Movement in hedging reserve (note 34)	-	-	-	1,410	-	-	**1,410**	-	**1,410**
Foreign currency translation adjustments	-	-	(82)	-	25	(6,822)	**(6,879)**	-	**(6,879)**
At 31 December 2021 (Audited)	**100,000**	**299**	**6,609**	**(1,350)**	**746**	**(46,424)**	**(40,120)**	**(16,150)**	**43,730**

		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	-	-	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 34)	-	-	-	(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 41 on pages 65 to 120 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2021 (Audited)	Year ended 31 December 2020 (Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		16,303	(1,102)
Adjustments for:			
Depreciation and amortization	10,11	9,935	9,032
(Reversal of)/provision for impairment - net		(2,883)	15,587
Income from other investments		(41,960)	(53,410)
Finance cost on net ijarah liability		2,846	-
(Gain)/loss on sale of fixed assets		(595)	50
Operating loss before changes in operating assets and liabilities		(16,354)	(29,843)
Increase/(decrease) in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		15,448	(9,070)
Changes in operating assets and liabilities:			
Murabaha and other financings		41,857	121,776
Musharaka financing		(236,640)	(118,395)
Other assets		(9,366)	6,508
Customers' current accounts		115,325	101,647
Due to banks, financial and other institutions		112,558	(60,020)
Due to investors		(51,249)	(54,691)
Other liabilities		10,544	(1,963)
Increase in equity of unrestricted investment accountholders		187,061	216,010
Taxes paid		(14,905)	(7,009)
Net cash provided by operating activities		**154,279**	**164,950**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		(2,370)	2,748
Sukuk and investment securities		(171,796)	(193,949)
Fixed assets		(11,461)	(3,760)
Net cash used in investing activities		**(185,627)**	**(194,961)**
FINANCING ACTIVITIES			
Repayment of net Iajrah liability		(5,959)	-
Net cash used in financing activities		**(5,959)**	**-**
Foreign currency translation adjustments		(15,443)	(4,269)
Net decrease in cash and cash equivalents		**(52,750)**	**(34,280)**
Cash and cash equivalents at the beginning of the year		**278,280**	**312,560**
Cash and cash equivalents at the end of the year	4	**225,530**	**278,280**

Non-cash items:

1. Additions to the fixed assets in relation to the recognition of right of use of assets amounted to BD33.3 million (note 2).
2. Recognition of lease liabilities amounted to BD31.2 million recorded in other liabilities(note 2).
3. Classification of investment securities to investment in associates amounted to BD2.2 millions

The notes 1 to 41 on pages 65 to 120 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2021 and 2020
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2021	Fair value movements	At 31 December 2021
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	4,806	(13)	4,793
US Real Estate Placements*	9,514	-	9,514
TOTAL	**16,676**	**(13)**	**16,663**

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

	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 41 on pages 65 to 120 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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, 13 commercial branches in Bahrain and its following principal subsidiary companies:

	% Owned			
	2021	**2020**	**Country of Incorporation**	**Principal business activity**
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	92	90	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 200 units of Dilmunia Development Fund I L.P. as part of settlement of certain financings. The acquisition resulted in increase of shareholding from 90% to 92% without change in control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

1. INCORPORATION AND ACTIVITIES (continued)

1.1 As of 31 December 2021, the consolidated equity of the Group stood at BD43.7 million, which is below the minimum regulatory capital required by the CBB of BD100 million as per LR module of Volume 2 rulebook. The regulatory minimum requirement will be taken into account as part of the remaining entity subsequent to the transaction with Al Salam (refer note 41).

The Group's management assessed its liquidity and equity projections of the entity subsequent to the transaction with Al Salam (refer to note 41) for the coming twelve months from the date of the consolidated financial statements. The management assessment includes 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 interbank liquidity support facility

The Board of Directors has 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 these consolidated financial statements. Accordingly, this consolidated financial statements is prepared on a going concern basis.

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 34 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 34 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 2021 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 38.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(i) Basis of preparation (continued)

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

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

1. FAS 32 Ijarah

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

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

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

a) Change in accounting policy

Identifying an Ijarah

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

Measurement

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

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

i) Right-of-use (usufruct) asset

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

- The prime cost of the right-of-use asset;

- Initial direct costs incurred by the lessee; and

- Dismantling or decommissioning costs.

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

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

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

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

• Extension periods if it is reasonably certain that the Group will exercise that option; and/ or

• Termination options if it is reasonably certain that the Group will not exercise that option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

ii) Net ijarah liability

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

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

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

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

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

- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Group recognises the following in the interim condensed consolidated income statement:

- Amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and net Ijarah liability for the following:

• Short-term Ijarah; and

• Ijarah for which the underlying asset is of low value.

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

b) Impact of on adoption of FAS 32

The management of the Group has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by BD33.3 million. The lease contracts comprise of Head office, ATM sites and branches.

	Total assets	Total liabilities
As at 31 December 2020	3,094,777	1,714,735
Impact on adoption:		
Right-of-use assets	33,280	-
Net Ijarah liability	-	31,193
Opening balance under FAS 32 on date of initial application - 1 January 2021	**3,128,057**	**1,745,928**

	Right-of-use assets	Net Ijarah liability
As at 1 January 2021	33,280	31,193
Depreciation during the period	(5,347)	-
Finance cost	-	2,846
Net ijarah rentals	-	(5,959)
Exchange differences and other movements	3,054	3,030
As at 31 December 2021	**30,987**	**31,110**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

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

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

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

a. "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

b. "product Wa'ad and Khiyar'' which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

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

(ii) FAS 39 Financial Reporting for Zakah

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

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

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

The Group is currently evaluating and assessing the impact of adopting this standard.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

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.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' 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).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

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 is 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.

The management used the uses the higher of VIU or FVLCTD method in assessing the recoverable amount of the goodwill and other intangible assets. As a result, the management uses 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.

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 2021. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

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 2020 and 2021, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring up to six months instalments at a time. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

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 as per note 2.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 as per note 2.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

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).

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 as per note 2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(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 improvement	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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(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 Group is subject to VAT at 5% on certain financial services as applicable from 1 January 2019 (increased to 10% from 1 January 2021). 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(z) Impairment (continued)

1. Financings & receivables (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021
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3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	34,836	6,790	41,626	38,265	3,720	41,985
Cash and balances with banks and central banks	84,921	70,292	155,213	146,304	51,043	197,347
	119,757	**77,082**	**196,839**	**184,569**	**54,763**	**239,332**

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

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	70,316	-	70,316	80,933	4,743	85,676
Less: Provision for impairment	(26)	-	(26)	(64)	-	(64)
	70,290	**-**	**70,290**	**80,869**	**4,743**	**85,612**

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

	31 December 2021			31 December 2020		
	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	119,757	77,082	196,839	184,569	54,763	239,332
Commodity and other placements with banks, financial and other institutions	70,290	-	70,290	80,869	4,743	85,612
Less: Placement maturing after ninety days	27	-	27	64	(4,743)	(4,679)
Less: Balances with central bank relating to minimum reserve requirement	(34,836)	(6,790)	(41,626)	(38,265)	(3,720)	(41,985)
	155,238	**70,292**	**225,530**	**227,237**	**51,043**	**278,280**

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5. MURABAHA AND OTHER FINANCINGS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	731,095	674,140	1,405,235	955,985	530,847	1,486,832
Less: Provision for impairment	(109,202)	(25,727)	(134,929)	(121,648)	(17,847)	(139,495)
	621,893	**648,413**	**1,270,306**	**834,337**	**513,000**	**1,347,337**

Other financings represents conventional loans and advances totalling BD95.4 million (31 December 2020: BD301.5 million) made by a subsidiary of the Bank.

The movement in provision for impairment is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	121,648	17,847	139,495	121,026	10,037	131,063
Charge for the year	8,691	8,700	17,391	15,513	7,747	23,260
Write back during the year	(11,303)	(199)	(11,502)	(3,469)	(22)	(3,491)
Utilised during the year	(5,610)	(251)	(5,861)	(11,619)	-	(11,619)
Reclassification	(120)	-	(120)	2,194	79	2,273
Exchange differences and other movements	(4,104)	(370)	(4,474)	(1,997)	6	(1,991)
At 31 December	**109,202**	**25,727**	**134,929**	**121,648**	**17,847**	**139,495**

6. MUSHARAKA FINANCING

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Musharaka financing	43	542,684	542,727	101	354,318	354,419
Less: expected credit loss	-	(5,222)	(5,222)	-	(3,999)	(3,999)
	43	**537,462**	**537,505**	**101**	**350,319**	**350,420**

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7. SUKUK AND INVESTMENT SECURITIES

	31 December 2021			31 December 2020		
	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						
Debt-type instruments – listed	66	-	66	-	-	-
Debt-type instruments – unlisted	24,890	-	24,890	15,441	-	15,441
Equity-type securities – listed	1,853	-	1,853	1,451	-	1,451
	26,809	**-**	**26,809**	**16,892**	**-**	**16,892**
Investment securities at fair value through equity						
Debt-type instruments – listed	70,701	33,988	104,689	77,034	38,302	115,336
Debt-type instruments – unlisted	286,843	319,124	605,967	380,573	94,543	475,116
Equity-type securities – listed	22,154	214	22,368	22,572	-	22,572
Equity-type securities – unlisted	3,185	-	3,185	3,353	-	3,353
	382,883	353,326	736,209	483,532	132,845	616,377
Provision for impairment	(4,622)	-	(4,622)	(5,645)	-	(5,645)
	378,261	**353,326**	**731,587**	**477,887**	**132,845**	**610,732**
Investment securities carried at amortised cost						
Debt-type instruments – listed	-	118,125	118,125	-	102,141	102,141
Debt-type instruments – unlisted	3,929	15,932	19,861	4,524	24,546	29,070
	3,929	134,057	137,986	4,524	126,687	131,211
Provision for impairment	(3,253)	-	(3,253)	(3,610)	-	(3,610)
	676	**134,057**	**134,733**	**914**	**126,687**	**127,601**
	405,746	**487,383**	**893,129**	**495,693**	**259,532**	**755,225**

Sukuk and investment securities include conventional investments totalling BD402.3 million (31 December 2020: BD494.4 million) made by a subsidiary of the Bank.

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	9,255	-	9,255	9,223	-	9,223
Charge for the year	2,236	-	2,236	1,568	-	1,568
Write back during the year	(2,938)	-	(2,938)	(1,205)	-	(1,205)
Reclassification	120	-	120	-	-	-
Exchange differences and other movements	(798)	-	(798)	(331)	-	(331)
At 31 December	**7,875**	**-**	**7,875**	**9,255**	**-**	**9,255**

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7. 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 2021				
Investment securities at fair value through income statement				
Debt-type instruments	66	24,890	-	24,956
Equity-type securities – listed	1,853	-	-	1,853
Investment securities at fair value through equity				
Debt-type instruments – listed	104,484	-	-	104,484
Debt-type instruments – unlisted	-	605,681	-	605,681
Equity securities	17,500	3,922	-	21,422
	123,903	**634,493**	**-**	**758,396**

	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**

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

8. INVESTMENT IN ASSOCIATES

Investment in associated entities, as adjusted for the Group's share of their results comprise:

Name of entity	31 December 2021	31 December 2020	% of Shareholding	Country	Activity
Unlisted:					
Faysal Saving Growth Fund	2,301	-	35	Pakistan	Mutual funds
Faysal Asset Allocation Fund	155		23	Pakistan	Mutual funds
	2,456	-			

During the period, the Group's subsidiary increased its shareholding in these funds, thereby classiying them as associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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9. ASSETS ACQUIRED FOR LEASING

	31 December 2021			31 December 2020		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	**172,524**	**(24,808)**	**147,716**	**165,773**	**(20,427)**	**145,346**

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

	31 December 2021	31 December 2020
Relating to owners	348	1,181
Relating to unrestricted investment accounts	147,368	144,165
	147,716	**145,346**

10. OTHER ASSETS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	34,507	31,640	66,147	25,841	29,348	55,189
Due from related parties	7,319	-	7,319	5,121	-	5,121
Taxes – deferred	3,516	439	3,955	521	-	521
Taxes – current	34	-	34	66	-	66
Assets acquired against claims	2,137	-	2,137	2,912	-	2,912
	47,513	32,079	79,592	34,461	29,348	63,809
Provision for impairment	(11,195)	(4,563)	(15,758)	(11,355)	(4,501)	(15,856)
	36,318	**27,516**	**63,834**	**23,106**	**24,847**	**47,953**

The movement in provision for impairment is as follows:

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	11,355	4,501	15,856	14,340	4,580	18,920
Charge for the year	534	69	603	744	-	744
Write back during the year	(104)	-	(104)	(1,548)	-	(1,548)
Utilised during the year	(359)	-	(359)	-	-	-
Reclassification	-	-	-	(2,165)	(79)	(2,244)
Exchange differences and other movements	(231)	(7)	(238)	(16)	-	(16)
At 31 December	**11,195**	**4,563**	**15,758**	**11,355**	**4,501**	**15,856**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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11. DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2021	31 December 2020
Land	47,118	52,236
Development costs	17,514	21,123
	64,632	**73,359**

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.

12. FIXED ASSETS

	Relating to owners					
	31 December 2021			31 December 2020		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	15,678	(3,475)	12,203	14,253	(3,697)	10,556
Leasehold improvements	13,444	(8,794)	4,650	13,185	(8,522)	4,663
Furniture and equipment	28,338	(20,973)	7,365	27,189	(20,627)	6,562
Motor vehicles	1,160	(683)	477	1,116	(623)	493
Right-of-use assets	36,334	(5,347)	30,987	-	-	-
	94,954	**(39,272)**	**55,682**	**55,743**	**(33,469)**	**22,274**

Depreciation charge for the year ended 31 December 2021 amounted to BD4 million (31 December 2020: BD3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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13. INTANGIBLE ASSETS

	Relating to owners				
					31 December 2021
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(26,794)	(4,757)	2,672
Customer relations	42,814	(31,481)	-	(4,490)	6,843
Core deposits	58,641	(45,084)	-	(5,169)	8,388
Others	18,933	(14,193)	-	-	4,740
	154,611	**(90,758)**	**(26,794)**	**(14,416)**	**22,643**

	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**

Amortisation charge for the year ended 31 December 2021 amounted to BD5.9 million (31 December 2020: BD6 million).

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

	31 December 2021	31 December 2020
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	-	-
Faysal Bank Limited	2,672	2,838
	2,672	**2,838**

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.

14. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to BD76.9 million which is subject to sanctions under US measures (31 December 2020: BD84.1 million).

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15. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	321,087	161,238	482,325	363,595	54,912	418,507
Due to financial and other institutions	24,091	20,187	44,278	17,257	-	17,257
	345,178	**181,425**	**526,603**	**380,852**	**54,912**	**435,764**

Due to banks, financial and other institutions include balances totalling BD161.2 million from two counterparties which are subject to sanctions under US measures (31 December 2020: BD165.2 million).

Due to banks, financial and other institutions include conventional deposits totalling BD76.7 million (31 December 2020: BD106.5 million), accepted by a subsidiary of the Bank.

At 31 December 2021, there were collateralized borrowings in aggregate BD55.3 million (31 December 2020: BD72.5 million).

16. DUE TO INVESTORS

	Relating to owners	
	31 December 2021	31 December 2020
Due to corporate institutions	265,866	268,850
Due to individuals	74,481	218,191
Due to financial institutions	79,700	27,193
	420,047	**514,234**

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

17. OTHER LIABILITIES

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	65,132	70,407	135,539	70,334	32,615	102,949
Due to related parties	5	-	5	49	-	49
	65,137	**70,407**	**135,544**	**70,383**	**32,615**	**102,998**

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18. 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:

	Notes	31 December 2021	31 December 2020
Cash and balances with banks and central banks	3	77,082	54,763
Commodity and other placements with banks, financial and other institutions	4	-	4,743
Murabaha and other financings	5	648,413	513,000
Musharaka financing	6	537,462	350,319
Sukuk and investment securities	7	487,383	259,532
Assets acquired for leasing	7	147,368	144,165
Other assets	10	27,516	24,847
Fixed assets		21,450	-
Due from the Group (net)		208,665	272,483
		2,155,339	1,623,852
Customers' current accounts		(482,115)	(261,163)
Due to banks, financial and other institutions	15	(181,425)	(54,912)
Other liabilities	17	(70,407)	(32,615)
Equity of unrestricted investment accountholders		**1,421,392**	**1,275,162**

Due from the Group represents amount invested by URIA with owners. This amount is eliminated on consolidated and reflected as URIA's share of jointly financed assets on the the consolidated balance sheet.

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provision amounting to BD35.5 million (31 December 2020: BD26.3 million). The movement of impairment provision relating to unrestricted investment accountholders has been disclosed in note 26.

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

	31 December 2021	31 December 2020
At 1 January	4,335	7,351
Net utilisation during the year	(2,767)	(3,016)
At 31 December	**1,568**	**4,335**

The average gross rate of return in respect of unrestricted investment accounts was 3.9% per annum for 2021 (2020: 4.9%) of which 2.4% per annum (2020: 3.2%) was distributed to the investors and the balance was either set aside as provision for impairment, management fee of BD0.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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19. 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 2021		31 December 2020	
	Minority %		Minority %	
Faysal Bank Limited	33	44,485	33	43,770
Dilmunia Development Fund I L.P.	8	8,123	10	10,282
Sakana Holistic Housing Solutions B.S.C. (C)	50	594	50	997
		53,202		**55,049**

Minority interests in the consolidated income statement of BD5.7 million (31 December 2020: BD4.3 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

20. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
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**
Issued and fully paid		
Total outstanding as at 1 January 2021	1,000,000	100,000
At 31 December 2021 (Audited)	**1,000,000**	**100,000**

The Bank's total issued and fully paid share capital at 31 December 2021 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 2021 was 15.5 million shares (31 December 2020: 10.5 million shares) of which the unvested shadow shares amount to 5.7 million shares (31 December 2020: BD3.4 million shares).

21. LOSSES 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 2021	Year ended 31 December 2020
Net loss attributable to shareholders (BD '000)	(512)	(15,294)
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	**(0.51)**	**(15.29)**

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

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22. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners Year ended 31 December 2021	Relating to owners Year ended 31 December 2020
Income from Islamic financings	9,710	9,629
Income from other financings	21,774	42,510
	31,484	**52,139**

23. INCOME FROM OTHER INVESTMENTS

	Relating to owners Year ended 31 December 2021	Relating to owners Year ended 31 December 2020
Income from investment securities at amortised cost	77	272
Income from investment securities at fair value through equity	37,244	43,774
Income from investment securities at fair value through income statement	7,886	9,024
(Loss)/Income from investment in real estate	(3,247)	340
	41,960	**53,410**

24. OTHER INCOME

	Relating to owners Year ended 31 December 2021	Relating to owners Year ended 31 December 2020
Income from banking services	15,434	17,164
Income from commodity placements	2,464	3,726
Foreign exchange income/(loss)	1,343	(239)
Other income	595	49
	19,836	**20,700**

25. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners Year ended 31 December 2021	Relating to owners Year ended 31 December 2020
Salaries and other benefits	27,781	28,582
Office expenses	25,232	22,262
Professional fees	2,294	4,308
Other administrative expenses	9,149	8,355
	64,456	**63,507**

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26. PROVISION FOR IMPAIRMENT

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	174,267	26,347	200,614	171,798	16,914	188,712
Charge for the year	11,462	12,424	23,886	21,809	9,850	31,659
Write back during the year	(14,345)	(2,141)	(16,486)	(6,222)	(320)	(6,542)
Utilised during the year	(5,968)	(251)	(6,219)	(11,619)	-	(11,619)
Exchange differences	(6,734)	(867)	(7,601)	(1,499)	(97)	(1,596)
At 31 December	**158,682**	**35,512**	**194,194**	**174,267**	**26,347**	**200,614**

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 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	109,202	25,727	134,929	121,648	17,847	139,495
Commodity and other placements with banks, financial and other institutions	26	-	26	64	-	64
Musharaka financing	-	5,222	5,222	-	3,999	3,999
Sukuk and investment securities	7,875	-	7,875	9,255	-	9,255
Other assets	10,492	4,563	15,055	10,698	4,501	15,199
Off-balance sheet related	703	-	703	657	-	657
Investment in real estate	3,590	-	3,590	5,151	-	5,151
Intangible assets	26,794	-	26,794	26,794	-	26,794
	158,682	**35,512**	**194,194**	**174,267**	**26,347**	**200,614**

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26. 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 2021	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**267,193**	**-**	**-**	**267,193**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	350,687	71,711	-	422,398
Acceptable risks (4-6)	1,195,229	32,575	-	1,227,804
Watch list (7)	-	39,488	-	39,488
Non performing (8-10)	-	-	118,219	118,219
Carrying amount - Corporate	**1,545,916**	**143,774**	**118,219**	**1,807,909**
Retail (un-rated)	563,167	9,173	23,982	596,322
Carrying amount including unfunded	**2,109,083**	**152,947**	**142,201**	**2,404,231**
Sukuk and investment securities	**126,358**	**8,377**	**3,251**	**137,986**
Other receivables	**44,143**	**3,091**	**13,869**	**61,103**
Loss allowance	**(38,879)**	**(6,870)**	**(114,192)**	**(159,941)**
Total Financial assets carrying amount	**2,507,898**	**157,545**	**45,129**	**2,710,572**

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**

Gross financings (funded) as of 31 December 2021 amounted to BD1.2 billion, BD0.3 billion and BD0.1 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2020: BD1.1 billion, BD0.3 billion and BD0.2 billion). Collateral coverage for gross financing as of 31 December 2021 was 82%, 55% and 34% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2020: 80%, 40% and 48%).

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26. 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 BD578 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 were mainly due to the COVID-19 pandemic. All principal and profit payments are current. Further, the facility will be partially repaid in the form of assets underlying the transaction with Al Salam (refer note 41)
- 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 2021.

27. OVERSEAS TAXATION

	Relating to owners Year ended	
	31 December 2021	**31 December 2020**
Current taxes	12,457	9,139
Deferred taxes	(1,315)	728
	11,142	**9,867**

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 2021	**31 December 2020**
At 1 January	66	4,589
Charge for the year	(12,457)	(9,139)
Payments made	14,905	7,009
Exchange differences and other movements	(2,480)	(2,393)
At 31 December	**34**	**66**

Deferred tax asset/(liability)

	31 December 2021	**31 December 2020**
At 1 January	521	3,519
Charge for the year	1,315	(728)
Charges due to fair value reserve	-	(1,406)
Exchange differences and other movements	2,119	(864)
At 31 December	**3,955**	**521**

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28. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail & Corporate 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 2021				31 December 2020			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income/(loss)	90,768	(3,170)	213	**87,811**	86,250	682	92	**87,024**
Total expenses	(71,303)	(3,083)	(5)	**(74,391)**	(69,840)	(2,699)	-	**(72,539)**
Net income/(loss) before provision and overseas taxation	**19,465**	**(6,253)**	**208**	**13,420**	**16,410**	**(2,017)**	**92**	**14,485**
Provision and overseas taxation	(7,654)	(523)	(82)	**(8,259)**	(25,317)	(137)	-	**(25,454)**
Net income/(loss) for the year	**11,811**	**(6,776)**	**126**	**5,161**	**(8,907)**	**(2,154)**	**92**	**(10,969)**
Attributable to:								
Equity holders of the Bank	5,133	(5,730)	85	**(512)**	(13,877)	(1,477)	60	**(15,294)**
Minority interests	6,678	(1,046)	41	**5,673**	4,970	(677)	32	**4,325**
	11,811	**(6,776)**	**126**	**5,161**	**(8,907)**	**(2,154)**	**92**	**(10,969)**
Total assets	**3,252,653**	**73,866**	**980**	**3,327,499**	**3,015,551**	**77,720**	**1,506**	**3,094,777**
Total liabilities and equity of unrestricted investment account holders	**3,219,016**	**11,493**	**58**	**3,230,567**	**2,980,370**	**9,527**	**-**	**2,989,897**

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

	31 December 2021			31 December 2020		
	Middle East & Africa	Rest of Asia	Total	Middle East & Africa	Rest of Asia	Total
Operating income/(loss)	11,178	76,633	**87,811**	10,826	76,198	**87,024**
Total expenses	(25,435)	(48,956)	**(74,391)**	(26,458)	(46,081)	**(72,539)**
Net (loss)/income before provision and overseas taxation	**(14,257)**	**27,677**	**13,420**	**(15,632)**	**30,117**	**14,485**
Provision and overseas taxation	(1,087)	(7,172)	**(8,259)**	(10,518)	(14,936)	**(25,454)**
Net (loss)/income for the year	(15,344)	20,505	**5,161**	(26,150)	15,181	**(10,969)**
Attributable to:						
Equity holders of the Bank	(14,163)	13,651	**(512)**	(25,401)	10,107	**(15,294)**
Minority interests	(1,181)	6,854	**5,673**	(749)	5,074	**4,325**
	(15,344)	**20,505**	**5,161**	**(26,150)**	**15,181**	**(10,969)**
Total assets	**1,454,645**	**1,872,854**	**3,327,499**	**1,475,139**	**1,619,638**	**3,094,777**
Total liabilities and equity of unrestricted investment account holders	**1,433,462**	**1,797,105**	**3,230,567**	**1,516,762**	**1,473,135**	**2,989,897**

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29. 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.

30. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2021	31 December 2020
Acceptances and endorsements	17,830	25,215
Guarantees and irrevocable letters of credit	261,352	222,311
Customer and other claims	71,696	79,653
	350,878	**327,179**

Commitments

	31 December 2021	31 December 2020
Undrawn facilities, financing lines and other commitments to finance	**582,907**	**601,813**

31. 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 2021			
Total currency exposure	222,605	8,950	175,969
Reasonable shift	8.38%	1.57%	0.61%
Total effect on income/equity	**18,654**	**141**	**1,073**

	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**

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.

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For the year ended 31 December 2021

31. 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 2021	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	25,965	114,761	44,473	7,519	715	3,406	196,839
Commodity and other placements with banks, financial and other institutions	2,200	-	42,329	25,761	-	-	70,290
Murabaha and other financings	465,885	301,032	397,807	81,374	-	24,208	1,270,306
Musharaka financing	-	537,505	-	-	-	-	537,505
Sukuk and investment securities	43,435	771,068	78,308	318	-	-	893,129
Investment in associates	-	2,456	-	-	-	-	2,456
Assets acquired for leasing	-	-	147,716	-	-	-	147,716
Other assets	23,418	24,097	15,327	-	218	774	63,834
Investment in real estate	-	2,467	-	-	-	-	2,467
Development properties	-	-	64,632	-	-	-	64,632
Fixed assets	-	45,815	9,867	-	-	-	55,682
Intangible assets	18,117	4,526	-	-	-	-	22,643
Total assets	**579,020**	**1,803,727**	**800,459**	**114,972**	**933**	**28,388**	**3,327,499**
Customer current accounts	61,554	471,075	101,127	83,615	152	9,458	726,981
Due to banks, financial and other institutions	129,876	215,608	19,503	38,284	123,332	-	526,603
Due to investors	11,404	407,581	-	365	-	697	420,047
Other liabilities	-	85,392	17,826	1,658	1,379	29,289	135,544
Total liabilities	**202,834**	**1,179,656**	**138,456**	**123,922**	**124,863**	**39,444**	**1,809,175**
Equity of unrestricted investment accountholders	156,487	401,466	859,449	-	-	3,990	1,421,392
Total liabilities and equity of unrestricted investment accountholders	**359,321**	**1,581,122**	**997,905**	**123,922**	**124,863**	**43,434**	**3,230,567**
Contingent liabilities and commitments	303,825	534,053	25,613	20,695	1,216	48,383	**933,785**
31 December 2020							
Total assets	602,808	1,554,175	786,303	116,975	1,028	33,488	3,094,777
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

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32. 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 2021	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	196,839	-	-	-	-	196,839
Commodity and other placements with banks, financial and other institutions	60,020	10,270	-	-	-	70,290
Murabaha and other financings	72,720	104,615	689,100	187,631	216,240	1,270,306
Musharaka financing	159,212	17,608	54,556	218,518	87,611	537,505
Sukuk and investment securities	30,545	176,729	38,380	487,783	159,692	893,129
Investment in associates	-	-	-	-	2,456	2,456
Assets acquired for leasing	212	3	337	1,600	145,564	147,716
Other assets	37,688	131	18,200	2,895	4,920	63,834
Investment in real estate	-	-	2,467	-	-	2,467
Development Properties	-	-	-	64,632	-	64,632
Fixed assets	-	48	3,411	12,759	39,464	55,682
Intangible assets	-	-	-	-	22,643	22,643
Total assets	**557,236**	**309,404**	**806,451**	**975,818**	**678,590**	**3,327,499**
Customer current accounts	726,981	-	-	-	-	726,981
Due to banks, financial and other institutions	248,078	116,190	81,981	6,662	73,692	526,603
Due to investors	237,008	112,113	69,473	1,453		420,047
Other liabilities	91,916	7	14,670	10,346	18,605	135,544
Total liabilities	**1,303,983**	**228,310**	**166,124**	**18,461**	**92,297**	**1,809,175**
Equity of unrestricted investment accountholders	778,804	149,019	346,505	147,064	-	1,421,392
Total liabilities and equity of unrestricted investment accountholders	**2,082,787**	**377,329**	**512,629**	**165,525**	**92,297**	**3,230,567**
Net position	(1,525,551)	(67,925)	293,822	810,293	586,293	**96,932**
Contingent liabilities and commitments	420,258	107,648	288,407	37,852	79,620	**933,785**
31 December 2020						
Total assets	**538,490**	**409,063**	**853,590**	**493,214**	**800,420**	**3,094,777**
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**

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33. 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 2021	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	196,839	-	-	-	-	-	-	196,839
Commodity and other placements with banks, financial and other institutions	70,290	-	-	-	-	-	-	70,290
Murabaha and other financings	529,156	324,162	43,173	24,123	279,634	36,310	33,748	1,270,306
Musharaka financing	36	356,797	15,996	47,922	65,373	36,011	15,370	537,505
Sukuk and investment securities	874,720	17,840	-	349	220	-	-	893,129
Investment in associates	2,456	-	-	-	-	-	-	2,456
Assets acquired for leasing	-	1,606	348	77	145,685	-	-	147,716
Other assets	41,438	3,714	8,290	-	10,209	-	183	63,834
Investment in real estate	2,467	-	-	-	-	-	-	2,467
Development Properties	-	-	64,632	-	-	-	-	64,632
Fixed assets	46,931	-	8,751	-	-	-	-	55,682
Intangible assets	17,189	5,454	-	-	-	-	-	22,643
Total assets	**1,781,522**	**709,573**	**141,190**	**72,471**	**501,121**	**72,321**	**49,301**	**3,327,499**
Customer current accounts	41,117	256,808	24,548	89,894	165,587	3,930	145,097	726,981
Due to banks, financial and other institutions	472,774	-	-	37,310	-	-	16,519	526,603
Due to investors	69,908	169,520	4,503	38,969	37,196	579	99,372	420,047
Other liabilities	112,476	5,513	11,252	664	3,902	-	1,737	135,544
Total liabilities	**696,275**	**431,841**	**40,303**	**166,837**	**206,685**	**4,509**	**262,725**	**1,809,175**
Equity of unrestricted investment accountholders	8,690	379,959	26,885	193,437	767,996	2,984	41,441	1,421,392
Total liabilities and equity of unrestricted investment accountholders	**704,965**	**811,800**	**67,188**	**360,274**	**974,681**	**7,493**	**304,166**	**3,230,567**
Contingent liabilities and commitments	**258,323**	**363,580**	**22,167**	**9,916**	**2,458**	**58,934**	**218,407**	**933,785**
31 December 2020								
Total assets	**1,500,769**	**571,232**	**262,327**	**169,235**	**492,097**	**40,124**	**58,993**	**3,094,777**
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**

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

31 December 2021	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	132,650	46,848	7,379	9,962	196,839
Commodity and other placements with banks, financial and other institutions	339	69,951	-	-	70,290
Murabaha and other financings	325,413	938,716	5,958	219	1,270,306
Musharaka financing	537,505	-	-	-	537,505
Sukuk and investment securities	771,572	119,471	-	2,086	893,129
Investment in associates	2,456	-	-	-	2,456
Assets acquired for leasing	-	147,716	-	-	147,716
Other assets	24,262	39,327	245	-	63,834
Investment in real estate	2,467	-	-	-	2,467
Development Properties	-	64,632	-	-	64,632
Fixed assets	45,815	9,867	-	-	55,682
Intangible assets	4,526	18,117	-	-	22,643
Total assets	**1,847,005**	**1,454,645**	**13,582**	**12,267**	**3,327,499**
Customer current accounts	524,474	117,691	77,399	7,417	726,981
Due to banks, financial and other institutions	238,938	274,373	13,292	-	526,603
Due to investors	420,047	-	-	-	420,047
Other liabilities	78,979	55,151	1,414	-	135,544
Total liabilities	**1,262,438**	**447,215**	**92,105**	**7,417**	**1,809,175**
Equity of unrestricted investment accountholders	435,145	986,247	-	-	1,421,392
Total liabilities and equity of unrestricted investment accountholders	**1,697,583**	**1,433,462**	**92,105**	**7,417**	**3,230,567**
Contingent liabilities and commitments	**908,172**	**25,613**	**-**	**-**	**933,785**
31 December 2020					
Total assets	**1,619,638**	**1,420,563**	**23,921**	**30,655**	**3,094,777**
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**

34. 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.

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34. RISK MANAGEMENT (continued)

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

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

As of 31 December 2021, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2021, the Group had NSFR ratio of 125%.

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.

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34. RISK MANAGEMENT (continued)

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.

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 135% (31 December 2020: 147%) and NSFR of 125% (31 December 2020: 123%) which are above regulatory minimum of 100%.The 90 day average LCR as of 31 December 2020 is 150% (31 December 2020: 165%).

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34. RISK MANAGEMENT (continued)

Liquidity risk (continued)

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.

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:

		2021		2020
	Notional Amount	**Fair value**	**Notional Amount**	**Fair value**
Profit rate swaps - Liability	65,598	1,350	65,598	2,760
	65,598	**1,350**	**65,598**	**2,760**

Profit rate swaps:

		2021		2020
	Less than one year	**More than one year**	**Less than one year**	**More than one year**
Net exposure	974	376	1,362	1,398
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.

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34. RISK MANAGEMENT (continued)

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.

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 2021			31 December 2020		
	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	2,715	132,718	135,433	89,895	87,155	177,050
Non performing financing exposures	57,199	83,210	140,409	76,758	74,848	151,606
	59,914	**215,928**	**275,842**	**166,653**	**162,003**	**328,656**
Fair value of collateral						
Past due but performing financing exposures	9,236	152,933	162,169	96,727	55,323	152,050
Non performing financing exposures	7,571	67,199	74,770	15,621	57,745	73,366
	16,807	**220,132**	**236,939**	**112,348**	**113,068**	**225,416**

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

	31 December 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	353	59,945	**60,298**	1,675	1,008	**2,683**

Financings restructured from non-performing portfolio and being classified as watchlist for a 12-month period from date of restructuring (cooling period) as of 31 December 2021 amounted to Nil (31 December 2020: BD4.1 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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34. 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 2021	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	-	-	-	-	-	196,839	196,839
Commodity and other placements with banks, financial and other institutions	-	-	-	70,290	-	-	70,290
Murabaha and other financings	143,911	80,001	633,555	192,417	170,622	49,800	1,270,306
Musharaka financing	157,066	17,608	54,556	306,129	2,146	-	537,505
Sukuk and investment securities	103,859	256,446	31,035	80,602	395,321	25,866	893,129
Assets acquired for leasing	-	-	144	787	146,438	347	147,716
Other assets	-	-	-	-	-	63,834	63,834
Total financial assets	**404,836**	**354,055**	**719,290**	**650,225**	**714,527**	**336,686**	**3,179,619**
Customer current accounts	-	-	-	-	-	726,981	726,981
Due to banks, financial and other institutions	284,011	40,257	64,735	137,600	-	-	526,603
Due to investors	261,356	70,835	85,989	1,867	-	-	420,047
Other liabilities	-	-	-	-	-	135,544	135,544
Total financial liabilities	**545,367**	**111,092**	**150,724**	**139,467**	**-**	**862,525**	**1,809,175**
Equity of unrestricted investment accountholders	692,673	133,000	422,825	172,894	-	-	1,421,392
Total financial liabilities and equity of unrestricted investment accountholders	**1,238,040**	**244,092**	**573,549**	**312,361**	**-**	**862,525**	**3,230,567**
Total repricing gap	**(833,204)**	**109,963**	**145,741**	**337,864**	**714,527**	**(525,839)**	**(50,948)**
31 December 2020							
Total financial assets	**370,794**	**412,314**	**835,160**	**710,724**	**353,562**	**288,671**	**2,971,225**
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)**

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34. RISK MANAGEMENT (continued)

Profit rate risk (continued)

	USD	PKR	AED
As at 31 December 2021			
Total profit rate exposure	201,582	169,797	123,930
Reasonable shift	0.13%	3.95%	0.11%
Total effect on income	**262**	**6,707**	**136**

	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**

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.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

As of 31 December 2021, the Group did not have any significant exposure to contracts linked to benchmark rates, except a long term borrowing, and it continues to enhance its systems and processes to cope with the change in benchmark rates.

35. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

35. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant balances with related parties comprise:

	31 December 2021				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	585,901	-	-	-	585,901
Sukuk and investment securities	331	-	-	-	331
Other assets	7,076	-	-	243	7,319
Liabilities					
Customers' current accounts	10,773	2,657	-	369	13,799
Due to banks, financial and other institutions	5,556	1,960	-	8,485	16,001
Other liabilities	5	-	-		5
Equity of unrestricted investment accounts	14,189	-	-	1,892	16,081
Commitments	1,281	-	-	-	1,281

	31 December 2021				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(269)	-	-	(57)	(326)
Income from murabaha and other financings	9,722	-	-	43	9,765
Sukuk and investment securities	-	101	-	-	101
Profit paid to banks, financial and other institutions	(300)	(109)	-	-	(409)
Other income - Management fees expenses	(340)	-	-	-	(340)
Expenses					
Administrative and general expenses	(353)	-	(19)	-	(372)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

35. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2020				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	591,709	-	-	812	592,521
Sukuk and investment securities	331	-	-	-	331
Other assets	4,926	-	-	195	5,121
Liabilities					
Customers' current accounts	8,564	203	-	927	9,694
Due to banks, financial and other institutions	8,508	3,771	-	-	12,279
Other liabilities	49	-	-	-	49
Equity of unrestricted investment accounts	25,810	-	-	2,405	28,215
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 expenses	(510)	-	-	-	(510)
Expenses					
Administrative and general expenses	(323)	-	(19)	-	(342)

Certain collaterals amounting to BD32.8 million (31 December 2020: BD27.8 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

36. 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 2021	31 December 2020
Tier 1	127,696	109,946
Tier 2	-	22,473
Total Capital Base	**127,696**	**132,419**
Total Risk-Weighted Exposures	989,590	1,046,552
Capital Adequacy Ratio	**12.90%**	**12.65%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

37. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2021 (31 December 2020: Nil).

38. 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 2021	**31 December 2020**
INCOME		
Income from other financings	21,774	42,510
Income from investments	45,511	53,240
Other income	8,920	6,568
Gross income	**76,205**	**102,318**
Less: profit paid to banks, financial and other institutions - note (ii)	(39,075)	(51,779)
Total income	**37,130**	**50,539**
EXPENSES		
Administrative and general expenses - note (ii)	(22,270)	(28,110)
Depreciation and amortisation	(5,493)	(4,001)
Total expenses	**(27,763)**	**(32,111)**
Net income before provision for impairment and overseas taxation	**9,367**	**18,428**
Reversal of/(provision for) impairment - net	3,597	(5,562)
Net income before overseas taxation	**12,964**	**12,866**
Overseas taxation	(4,502)	(5,689)
NET INCOME FOR THE YEAR	**8,462**	**7,177**
Attributable to:		
Equity holders of the Bank	5,634	4,778
Minority interests	2,828	2,399
	8,462	**7,177**
Basic and diluted earnings per share	**Fils 5.63**	**Fils 4.78**

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 595 branches (2020: 576 branches) out of total 606 branches (2020: 500 branches).

39. SOCIAL RESPONSIBILITY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

40. NET STABLE FUNDING RATIO (NSFR)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80%. The NSFR as at 31 December 2021 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	**Capital:**	**118,144**	**-**	**-**	**9,552**	**127,696**
2	Regulatory Capital	118,144	-	-	-	118,144
3	Other Capital Instruments	-	-	-	9,552	9,552
4	**Retail deposits and deposits from small business customers:**	**-**	**1,364,699**	**276,297**	**75,295**	**1,567,119**
5	Stable deposits	-	276,970	21,591	8,107	291,740
6	Less stable deposits	-	1,087,729	254,706	67,188	1,275,379
7	**Wholesale funding:**	**-**	**542,257**	**334,400**	**358,537**	**698,295**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	542,257	334,400	358,537	698,295
10	**Other liabilities:**	**-**	**299,731**	**-**	**5,129**	**5,129**
11	NSFR Shari'a-compliant hedging contract liabilities	-	16,768	-	-	-
12	All other liabilities not included in the above categories	-	282,963	-	5,129	5,129
13	**Total ASF**					**2,398,239**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	16,028
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**490,446**	**107,947**	**1,441,652**	**1,545,980**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	81,213	13,895	581,956	601,085
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	409,233	94,052	669,448	820,673
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	167,745	109,034
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	20,900	13,585
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,603	1,603
24	**Other assets:**	**-**	**327,293**	**-**	**1,603**	**327,293**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	270	-	-	270
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	3,084	-	-	3,084
29	All other assets not included in the above categories	-	323,939	-	1,603	323,939
30	OBS items	-	688,054	-	-	34,403
31	**Total RSF**	**-**	**-**	**-**	**-**	**1,923,704**
32	NSFR (%)	-	-	-	-	125%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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40. NET STABLE FUNDING RATIO (NSFR) (continued)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80%. The NSFR as at 31 December 2020 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**109,946**	**-**	**-**	**22,473**	**132,419**
2	Regulatory Capital	109,946	-	-	-	109,946
3	Other Capital Instruments	-	-	-	22,473	22,473
4	**Retail deposits and deposits from small business customers:**	**-**	**1,290,180**	**252,994**	**136,144**	**1,539,199**
5	Stable deposits	-	263,952	20,037	9,758	279,547
6	Less stable deposits	-	1,026,228	232,957	126,386	1,259,652
7	**Wholesale funding:**	**-**	**428,385**	**314,705**	**379,194**	**655,427**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	428,385	314,705	379,194	655,427
10	**Other liabilities:**	**-**	**249,846**	**-**	**7,293**	**7,293**
11	NSFR Shari'a-compliant hedging contract liabilities	-	24,098	-	-	-
12	All other liabilities not included in the above categories	-	225,748	-	7,293	7,293
13	**Total ASF**					**2,334,338**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)					14,270
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**441,285**	**89,939**	**1,403,025**	**1,472,963**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	94,184	13,422	586,190	607,028
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	347,101	76,517	613,646	733,408
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	184,993	120,245
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	16,995	11,047
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,201	1,235
24	**Other assets:**	**-**	**372,329**	**-**	**1,201**	**372,329**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	4,820	-	-	4,820
29	All other assets not included in the above categories	-	367,509	-	1,201	367,509
30	OBS items	-	684,017	-	-	34,201
31	**Total RSF**					**1,893,763**
32	NSFR (%)					123%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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41. SUBSEQUENT EVENT

There have been no events subsequent to 31 December 2021 that would significantly impact the amounts reported in the consolidated financial statements as at 31 December 2021.

During January 2022, Ithmaar Holding agreed in-principle with Al Salam Bank B.S.C. (Al Salam) of the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding. This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction remains subject to the approval of Ithmaar Holding's shareholders and the signing of definitive agreements.

The assets subject to the transaction were agreed in-principle based on 30 September 2021 carrying values as per below:

	30 September 2021
Cash and balances with banks and central banks	21,800
Consumer business Assets	550,640
Bank of Bahrain and Kuwait B.S.C.	196,323
Solidarity Group Holding B.S.C. (C)	39,931
	808,694

The consideration will be settled by transferring consumer business liabilities of BD837.7 million (as of 30 September 2021).

Final values and premium will be determined on the carrying values of assets and liabilities subject to the transaction as of the date of business transfer to be mutually agreed after completion of regulatory and legal formalities and shareholders' approval.

The assets subject to the transaction with Al Salam were not classified as held for sale in the consolidated financial statements as at 31 December 2021, based on the Group's assessment of the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". The Group's assessment was mainly based on the fact that assets subject to transaction were not available for immediate sale in present condition and the transaction is subject to certain conditions such as identification of assets at business transfer date, the finalization of tentative and definitive agreements, indication of premium and price as of 31 December 2021. Further, the transaction remains subject to shareholders' and regulatory approvals.

Public Disclosures

At 31 December 2021

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PUBLIC DISCLOSURES

At 31 December 2021

1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (C)'s (Ithmaar Bank/Bank/Group) consolidated financial statements for the year ended 31 December 2021, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Bank's Internal Capital Adequacy Assessment Process (ICAAP) policy provides the required guidelines and methodologies to assess the Bank's capital requirements for Pillar 1 and Pillar 2 risks and thereby ensures that the Bank meets the capital requirements as mandated by the CBB in line with the Capital Adequacy (CA) module for Pillar 1 risks and the ICAAP Module for all pillar 2 risks. Capital management also ensures that shareholders' value is protected and enhanced.

The Bank adopts a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines. Under this approach, the Bank calculates the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's capital adequacy guidelines as prescribed in the CA module of the CBB rulebook. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements as per CBB guidelines. To ensure that the business model is thoroughly examined and subject to sufficient analysis, ICAAP is supported with comprehensive Stress Testing in line with the Stress Testing Module of CBB rulebook.

A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar Bank supporting both current and future activities. Ithmaar Bank's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit, Governance and Risk Management Committee (AGRMC) and the Board of Directors.

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows: Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted at 800%.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Regulatory Capital components

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,827,626	128,685	67%	Pakistan	Banking	Aggregation
Dilmunia Development Fund I L.P.	74,151	62,892	92%	Cayman Islands	Real estate	Risk weight

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	3,327,499
FAS 30 Transitional impact	21,630
Modification loss & ECL transitional impact	18,403
Aggregation	43,933
Balance sheet as in Regulatory Return	**3,411,465**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2021

Assets	As per published financial statements	As per Consolidated PIRI
Cash and balances with banks and central banks	196,839	196,839
Commodity and other placements with banks, financial and other institutions	70,290	70,290
Murabaha and other financings	1,270,306	1,270,306
Musharaka financing	537,505	537,505
Sukuk and investment securities	893,129	893,129
Investment in associates	2,456	2,456
Assets acquired for leasing	147,716	147,716
Other assets	63,834	63,834
Investment in real estate	2,467	2,467
Development Properties	64,632	64,632
Fixed assets	55,682	55,682
Intangible assets	22,643	22,643
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	43,933
Total Assets	**3,327,499**	**3,411,465**
Liabilities & Unrestricted Investment Accounts (URIA)		
Unrestricted Investment Accounts	1,421,392	1,421,392
Other liabilities	1,809,175	1,809,175
Total Liabilities & URIA	**3,230,567**	**3,230,567**
Minority Interest	53,202	53,202
Owners' Equity		
Share capital	100,000	100,000
Reserves	(40,120)	(40,120)
of which eligible for CET1	-	(27,879)
Accumulated losses	(16,150)	(16,150)
of which eligible for CET1	-	(43,810)
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	43,933
Total Owners' Equity	**43,730**	**127,696**
Total Liabilities + Owners' Equity	**3,327,499**	**3,411,465**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 3: Common disclosure template as at 31 December 2021

Common Equity Tier 1 capital: instruments and reserves:	**Amount**
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	100,000
Retained earnings	(43,810)
of which Modification loss including ECL provisions relating to stage 1 & 2	18,403
Expected Credit Losses (ECL) Stages 1 & 2	(52,762)
of which FAS 30 Transitional impact	21,630
Reserves	(27,879)
Aggregation & deductions	102,562
Common Equity Tier 1 capital before regulatory adjustments	**118,144**
Total regulatory adjustments to Common equity Tier 1	**118,144**
Tier 1 capital (T1 = CET1 + AT1)	**118,144**
Tier 2 capital: instruments and provisions:	
FAS 30 Transitional impact	9552
Tier 2 capital (T2)	**9,552**
Total capital (TC = T1 + T2)	**127,696**
Total Risk Weighted Assets (RWA)	**989,590**
Capital ratios and buffers:	
Common Equity Tier 1 (as a percentage of risk weighted assets)	**11.94%**
Tier 1 (as a percentage of risk weighted assets)	**11.94%**
Capital Adequacy Ratio (CaR)	**12.90%**
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
of which: capital conservation buffer requirement	2.5
of which: bank specific countercyclical buffer requirement	N/A
of which: D-SIB buffer requirement	N/A
National minimum including CCB (where different from Basel III)	
CBB Common Equity Tier 1 minimum ratio	9.0
CBB Tier 1 minimum ratio	10.5
CBB total capital minimum ratio	12.5

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. Tier one capital ratios and Total capital ratios

	Tier One Capital Ratio (including conservation buffer)	Total Capital Ratio (including conservation buffer)
Bank's consolidated	11.94%	12.90%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	15.69%	17.53%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Ithmaar Bank's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar Bank and seek to minimize the potential adverse effects on its financial performance. Ithmaar Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the CBB, sound principles of risk management issued by Bank of International Settlements, international best practices and AAOIFI wherever applicable.

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

Ithmaar Bank's Risk Management Charter lays the foundations for a risk governance structure. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the ICAAP report of Ithmaar Bank. The risk strategy is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the AGRMC. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for all transactions. Furthermore, the culture of risk is embedded in the business through a rigorous set of controls, checks and balances. As part of Ithmaar Bank's continuous improvement initiatives, Ithmaar Bank reviews existing risk policies and procedures and develops new policies and procedures by benchmarking the same to changes or new requirements in the regulatory and external environment. The Board reviews and approves the Business Discretionary Powers policy which establishes the approval authorities and limits for specific transactions.

7.2.2 Equity Risk in Banking Book

Ithmaar Bank's exposure to equity risk in the Banking book relates to its investment exposures. Ithmaar Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management committee or Board level committees depending on the asset value.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021

7. Risk Management (Continued)

7.2.3 Material Transactions- Board Approval

All financing and investment exposures above a defined value requires the approval of the Board. Additionally, all related party transactions and irrespective of their value require the approval of the Board.

7.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank and to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies are in place. The risk policies set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

7.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. Ithmaar Bank has established a General Financing Policy which details the core business principles, which are central to the Bank's Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

Ithmaar Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a internal credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The internal credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers. The Bank has in place policy guidelines to map the external ratings to internal ratings.

A centralized credit risk management system is in place where all corporate credit and financial institutions proposals are independently reviewed by the Risk Management Department (RMD) before the same are approved by appropriate approval authorities.

All credits exposures are at least reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

In respect of corporate performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application for the computation of ECL based on risk parameters configured in the application.

All provisoning requirements for financing and investment exposures are discussed and approved by the Provisioning Committee of the Bank.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021

7. Risk Management (Continued)

7.4.1.2 Retail credit risk

Retail credit is offered to customers primarily based on approved product programs which defines the risk acceptance criteria. Overdue amounts in the retail credit portfolio are closely monitored to mitigate the possibility of the individual accounts from slipping into non-performing status. The retail credit product programs are regularly reviewed to ensure their compliance with existing regulatory guidelines and enhance marketability.

The retail credit portfolio is reviewed at monthly intervals.

In respect of retail performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application, for the computation of ECL based on risk parameters configured in the application.

Unrestricted FUM assets

The Funds under Management Policy provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. The Risk Appetite Framework is in place, this policy provides guidelines on the threshold limits. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any proposed exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit risk management process that enables Ithmaar Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. The Risk Management Department is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. The Risk Management Department seeks information from different business and support units on a regular basis to perform this function. The Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Risk Appetite Framework provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the AGRMC at quarterly intervals.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021

7. Risk Management (Continued)

7.4.5 Credit Risk Mitigation

Ithmaar Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals 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 collaterals are 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.

Ithmaar Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar 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.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

In case of assets pledged as part of Ijara contracts, the Bank considers the pledged assets as collateral at a value determined post the valuation of the assets. The valuation guidelines and the haircuts applied on the pledged assets are as per the Credit Risk Mitigation Policy of the Bank.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charges over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets;
- Pledge of unlisted securities such as shares, bonds and debentures;
- Registered assignment of life insurance endowment policies - to the extent of cash surrender-value;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks;
- Assignment of contract proceeds, lease, or rent;
- Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021

7. Risk Management (Continued)

7.4.5.1 Collateral valuation

Collaterals 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 quarterly 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 collaterals are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

7.4.5.2 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.

7.4.5.3 Collateral Concentration

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

7.4.5.4 Collateral Management

Documents related to collaterals provided to Ithmaar Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. An adequate MIS supporting the management of the collateral is in place.

The Bank has defined practices for disposal or enforecement of collateral. On the Debtors default, the Bank (i.e. the secured party) can either take possession of the collateral or file a case against the debtor for enforcement of security. The Bank sends a reasonable authenticated notification of disposal through the court. The notice is intended to provide the debtor and other interested parties , an opportunity to monitor the disposition of the collateral. A specific amount of time is normally given to the borrowers during which they can pay off the debt or the property will be sold through the court. The final settlement of the matter will be in line with the decision taken by the court/judge.

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any installment is past due for 90-days or more. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. Ithmaar Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

In respect of General Provisions, the Bank has subscribed to the provisions of FAS30 for the computation of Expected Credit Losses (ECL), as per the directives of Central Bank of Bahrain. In order to enable the computation of the ECL, a detailed policy FAS30 Expected Credit Policy' is in place. The Bank has automated the computation of the ECL by implementing a software application called the Loan Impairment Calculator with effect from 1 January 2018.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021

7. Risk Management (Continued)

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar Bank. Definition also includes Issuer of securities held as collateral by Ithmaar Bank. The Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. The Credit Risk Mitigation Policy provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

Policy guidelines for expected credit losses is enumerated in the 'FAS30 – Expected Credit Losses' policy of the Bank.

7.4.8 ECAI Ratings

Ithmaar Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Moodys and Fitch ratings are considered while assigning the corresponding risk weights for the exposures. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy. ECAI ratings are applied, where applicable, to all credit and investment exposures.

7.4.9 Related party transactions

As per the Bank's policies, connected counterparties' includes companies or persons connected with the Bank, including, in particular; controllers of the Bank (and their appointed board representatives) as defined in Chapter GR-5 of the CBB Rulebook; subsidiaries, associates and related parties of the Bank as defined by IFRS; holders of controlled functions in the Bank as defined by Module LR-1A of the CBB Rulebook and their close family members as defined by IFRS - IAS 24; members of the Shari'a Supervisory Board.

The erstwhile Ithmaar Bank B.S.C. (now Ithmaar Holding B.S.C.) has undergone major reorganization in 2017. As part of this reorganization, Ithmaar Holding B.S.C. and its wholly owned subsidiaries Ithmaar Bank B.S.C. (C) and IB Capital B.S.C.(C) have executed certain contracts between three entities and as most of the Directors are common for all three entities, there is an apparent conflict of interest as these contracts were approved by Directors who represented both entities who were party to the contracts. Given the reorganization requirements, ownership structure and Directors being common, contracts between these entities are considered as related party transactions but the conflict of interest is not considered to be applicable to ensure minimum quorum for voting.

Declarations of Interest:

On taking office, Members of the Board of Directors of the Bank are required to disclose all interests and relationships which could or might be seen to affect their ability to perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit. This declaration of interest is updated on an annual basis.

Approval of Related Party Transactions:

- All related party transactions are approved by the Board of Directors.
- Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.
- Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.
- Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per CBB rulebook and the Limit Management Policy of the Bank.
- In particular, Members of the Board of Directors of the Bank disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors inform the Bank when there are changes in his / her interests, and the Shareholders affairs unit update the Register of Interests at least on an annual basis.

During 2021, Directors having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. Disclosure of the regulatory capital requirements for credit risk under standardized approach

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on banks	34,378	4,297
Claims on corporate portfolio	17,838	2,230
Investments in equity securities	3,601	450
Regulatory retail portfolio	206	26
Other assets	9,903	1,238
Aggregation	589,361	73,670
Total	**655,287**	**81,911**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	22,360	2,795
Regulatory retail portfolio	72,052	9,007
Past due facilities	14,468	1,809
Total	**108,880**	**13,611**

URIA assets are risk weighted as per the counterparty classification in line with CBB regulations using alpha factor of 30% in accordance with CA module CA-1.1.11.

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9. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	196,839	218,086
Commodity and other placements with banks, financial and other institutions	70,290	77,951
Murabaha and other financings	1,270,306	1,308,822
Musharaka financing	537,505	443,963
Assets acquired for leasing	147,716	146,531
Investments	898,052	827,797
Other assets	63,834	55,894
Development Properties	64,632	68,996
Fixed assets	55,682	38,978
Intangible assets	22,643	24,123
Total on balance sheet credit exposure	**3,327,499**	**3,211,141**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	279,182	263,354
Financing commitments, Undrawn facilities and other credit related liabilities	654,603	668,035
Total off balance sheet credit exposure	**933,785**	**931,389**
Total credit exposure	**4,261,284**	**4,142,530**
Total credit exposure financed by URIA	**2,155,339**	**1,889,596**
Total credit exposure financed by URIA (%)	**50.58%**	**45.61%**

The average gross credit exposure represent average balances for 2020 and 2021
Exposures amounting to BD3.6 million are covered by guarantee.

10. Geographical distribution of credit exposures

	Asia	Middle East	Europe	Others	Total
On-balance sheet items					
Cash and balances with banks and central banks	132,650	46,848	7,379	9,962	196,839
Commodity and other placements with banks, financial andother institutions	339	69,951	-	-	70,290
Murabaha and other financings	325,413	938,716	5,958	219	1,270,306
Musharaka financing	537,505	-	-	-	537,505
Assets acquired for leasing	-	147,716	-	-	147,716
Investments	776,495	119,471	-	2,086	898,052
Other assets	24,262	39,327	245	-	63,834
Development Properties	-	64,632	-	-	64,632
Fixed assets	45,815	9,867	-	-	55,682
Intangible assets	4,526	18,117	-	-	22,643
Total on balance sheet items	**1,847,005**	**1,454,645**	**13,582**	**12,267**	**3,327,499**
Off balance sheet items	**908,172**	**25,613**	**-**	**-**	**933,785**
Total credit exposure	**2,755,177**	**1,480,258**	**13,582**	**12,267**	**4,261,284**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

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11. Industrial distribution of credit exposures

	Banks and Financial Institutions	Trading and manufacturing	Property and construction	Services	Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	196,839	-	-	-	-	-	-	196,839
Commodity and other placements with banks, financial and other institutions	70,290	-	-	-	-	-	-	70,290
Murabaha and other financings	529,156	324,162	43,173	24,123	279,634	36,310	33,748	1,270,306
Musharaka financing	36	356,797	15,996	47,922	65,373	36,011	15,370	537,505
Assets acquired for leasing	-	1,606	348	77	145,685	-	-	147,716
Investments	879,643	17,840	-	349	220	-	-	898,052
Other assets	41,438	3,714	8,290	-	10,209	-	183	63,834
Development Properties	-	-	64,632	-	-	-	-	64,632
Fixed assets	46,931	-	8,751	-	-	-	-	55,682
Intangible assets	17,189	5,454	-	-	-	-	-	22,643
Total on balance sheet items	**1,781,522**	**709,573**	**141,190**	**72,471**	**501,121**	**72,321**	**49,301**	**3,327,499**
Off balance sheet items	**258,323**	**363,580**	**22,167**	**9,916**	**2,458**	**58,934**	**218,407**	**933,785**
Total credit exposure	**2,039,845**	**1,073,153**	**163,357**	**82,387**	**503,579**	**131,255**	**267,708**	**4,261,284**

12. Contractual Maturity breakdown of credit exposures & funding liabilities

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	196,839	-	-	-	-	-	-	196,839
Commodity and other placements with banks, financial and other institutions	60,020	10,270	-	-	-	-	-	70,290
Murabaha and other financings	72,720	104,615	689,100	187,631	210,936	5,304	-	1,270,306
Musharaka financing	159,212	17,608	54,556	218,518	52,381	15,379	19,851	537,505
Assets acquired for leasing	212	3	337	1,600	11,093	59,258	75,213	147,716
Investments	30,545	176,729	40,847	487,783	162,148	-	-	898,052
Other assets	37,688	131	18,200	2,895	4,920	-	-	63,834
Development Properties	-	-	-	64,632	-	-	-	64,632
Fixed assets	-	48	3,411	12,759	39,464	-	-	55,682
Intangible assets	-	-	-	-	4,741	15,229	2,673	22,643
Total on balance sheet items	**557,236**	**309,404**	**806,451**	**975,818**	**485,683**	**95,170**	**97,737**	**3,327,499**
Off balance sheet items	**420,258**	**107,648**	**288,407**	**37,852**	**79,620**	**-**	**-**	**933,785**
Total credit exposure	**977,494**	**417,052**	**1,094,858**	**1,013,670**	**565,303**	**95,170**	**97,737**	**4,261,284**
Customers' current accounts	726,981	-	-	-	-	-	-	726,981
Due to banks, financial and other institutions	248,078	116,190	81,981	6,662	73,692	-	-	526,603
Due to investors	237,008	112,113	69,473	1,453	-	-	-	420,047
Equity of unrestricted investment accountholders	778,804	149,019	346,505	147,064	-	-	-	1,421,392
	1,990,871	**377,322**	**497,959**	**155,179**	**73,692**	**-**	**-**	**3,095,023**

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13. Related-party balances under credit exposure

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2021 were as follows:

Affiliated companies	593,308
Directors & key management	243
Total	**593,551**

14. Past due and impaired financings and related provisions for impairment

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	40,271	35,956	4,315
Agriculture	3,387	2,702	685
Construction	2,467	2,439	28
Finance	24,547	24,736	(189)
Trade	27,347	22,714	4,633
Personal	20,283	4,273	16,010
Real estate	1,803	1,225	578
Other sectors	21,664	4,580	17,084
Total	**141,769**	**98,625**	**43,144**
Ageing analysis			
Over 3 months up to 1 year	36,897	33,821	3,076
Over 1 year up to 3 years	28,973	18,599	10,374
Over 3 years	75,899	46,205	29,694
Total	**141,769**	**98,625**	**43,144**

Details of impairment provisions at 31 December 2021	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	75,916	15,624	91,540
Charge for the year	3,087	5,729	8,816
Write back during the year	(1,564)	(6,071)	(7,635)
Exchange differences and other movements	6,454	(550)	5,904
At 31 December	**83,893**	**14,732**	**98,625**

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15. Past due and impaired financings by geographical areas

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	44,288	37,804	6,484
Middle East	97,481	60,821	36,660
Total	**141,769**	**98,625**	**43,144**

16. Details of credit facilities outstanding that have been restructured during the year

Restructured financings during the year ended 31 December 2021 aggregated to BD60.3 million (31 December 2020: BD2.7 million). This restructuring had an impact of BD0.8 million (31 December 2020: BD0.1 million) on present earnings during the year ended 31 December 2020. Further, this restructuring is expected to have positive impact of BD3.6 million (31 December 2020: BD0.2 million).on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

17. Credit exposures which are covered by eligible financial collateral

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	294,695	5,581
Regulatory retail portfolio	350	75
Total	**295,045**	**5,656**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	421,451	28,767
Regulatory retail portfolio	437,453	21
Past due financings	37,440	8
Total	**896,344**	**28,796**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	4	-	-	4	2
Foreign Exchange Contracts	3,636	-	-	3,636	2,595
Total	**3,636**	**-**	**-**	**3,636**	**2,595**

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At 31 December 2021

18. 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 Market Risk Management Policy address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the AGRMC.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below

18.1.1 Foreign exchange risk

Foreign exchange risk is the risk that the foreign currency positions taken may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department. Foreign exchange risk management in Ithmaar Bank is ensured through regular measurement and monitoring of open foreign exchange positions.

18.1.2 Profit rate risk

Profit rate risk is the risk that Ithmaar Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar Bank's results may not allow Ithmaar to distribute profits in line with the market rates.

18.1.3 Price risk

Investment price risk is the risk of reduction in the market value of Ithmaar Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy is approved by the Board and amendments to the policies are approved by the Board. The senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1. The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.
2. A limit structure has been established to monitor and control the market risk in its portfolio.
3. Each new product/process is reviewed to manage the market risk.
4. Appropriate measurement techniques are in place to proactively measure and monitor market risk.
5. Stress testing is conducted regularly to assess the impact of changes in the market variables.
6. Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

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18. Market Risk (Continued)

18.3 Market risk management measurement and monitoring

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight forex open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management Department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar Bank's overall exposure to market risk. Reports of such review is submitted to the ALCO and the AGRMC.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the ALCO and AGRMC. The reports provide Ithmaar Bank's ALCO and AGRMC an update on the market risk exposure in the books.

18.7 Stress Testing

Ithmaar Bank conduct stress testing of its portfolio as part of the ICAAP process in accordance with stress testing module of the CBB

The Bank's stress testing framework is embedded in the overall risk management process. The Bank has established an adequate governance process for effective oversight and implementation of the stress testing framework.

19. Disclosure of regulatory capital requirements for market risk under the standardized approach

	Risk weighted assets			Capital requirement		
	31 December 2021	Maximum Value	Minimum Value	31 December 2021	Maximum Value	Minimum Value
Foreign exchange risk	8,608	8,608	12,411	1,076	1,076	1,551
Aggregation						
Foreign exchange risk	1,600	1,600	893	200	200	112
Profit Rate Risk (Trading Book)	30,220	30,220	27,211	3,778	3,778	3,401
Equity Position Risk	32,318	32,318	15,232	4,040	4,040	1,904
Total	**72,746**	**72,746**	**55,747**	**9,093**	**9,093**	**6,968**

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20. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2021 amounted to BD46.4 million (31 December 2020: BD39.3 million) (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2021 were as follows:

	Long/(Short)
Pakistani Rupee	228,605
United States Dollars	175,969

21. Equity position in Banking book

At 31 December 2021, the Group's sukuk and investment securities aggregated to BD866.3 million (31 December 2020: BD738.3 million). Out of the total investment securities, BD253.5 million (31 December 2020: BD258.5 million) were listed investment securities and the remaining BD612.8 million (31 December 2020: BD479.8 million) represented unlisted investment securities.

Cumulative realized loss from sale of investment securities during the year ended 31 December 2020 amounted to BD36 million (31 December 2020: BD42.8 million). Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD6.6 million (31 December 2020: BD7.3 million).

At 31 December 2021, capital requirements using standardized approach aggregated to BD0.6 million (31 December 2020: BD0.3 million) for listed investment securities and BD0.1 million (31 December 2020: BD0.08 million) for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

22. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk

- Maturity mismatch: The non-alignment of maturities/re-pricing dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar Bank in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar Bank's counterparties, to make prepayments or early withdrawals can leave Ithmaar Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

22.2. Profit rate risk strategy

The Board of Ithmaar Bank approves and reviews the profit rate risk strategy and amendments to the Market risk policies. The ALCO is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch gap between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar Bank wishes to engage in

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22. Profit Rate Risk in the Banking Book (Continued)

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs).
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar Bank will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. Ithmaar Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the AGRMC.

22.5. Disclosure of Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. The impact of every 200 basis point change is as follows:

	USD	PKR	AED
Total profit rate exposure	201,582	169,797	123,930
Rate shock (assumed) (+/-)	2.00%	2.00%	2.00%
Total estimated impact (+/-)	**4,032**	**3,396**	**2,479**

23. 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.

Ithmaar Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar Bank is able to manage the operational risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar Bank.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

23.2 Operational risk monitoring and reporting

Report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar Bank's operations

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process are identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile.

The Bank has an Operational Risk Management Committee (ORMC) which supervises the effective implementation of the Operational Risk across all banking activities. Results of all Operational Risk monitoring and management activites and initiatives are presented to the ORMC

The AGRMC is periodically updated on the operational risk profile which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

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At 31 December 2021

23. Operational Risk (Continued)

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associated activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile.

23.4 Business Continuity Plan

Ithmaar Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

Disaster Recovery Sites has been set up at Galali Branch and West-Riffa Branch. The premises are well equipped with the required infrastructure. A Business Continuity Steering Committee has been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar Bank.

23.5 Information Security

Ithmaar Bank's Information Security and compliance function within RMD role is to prevent disruptions of the Information Security systems as it would impact Bank's business objective, its operations and also impede the main pillars of Information Security (Confidentiality, Integrity, and Availability).

The function continually strengthens and improves the overall capabilities of the information security management system by ensuring that Ithmaar Bank's Information Security process is complete, reliable and adhering to international standards.

It is also ensured that information security related operations continue to be carried out in line with international standards such as (IEC/ISO 27001 and PCI-DSS). It is also ensured that on-going training and awareness on information security is provided to the employees of the Bank. Towards this end on-line training and awareness sessions on information security is provided to the employees of the Bank.

The Bank is IEC/ISO 27001 and PCI-DSS certified, this reflects the importance assigned to information security by the Bank.

The Information Security Function actively preforms various task in terms of:

- Cyber and Information security training
- Security Certification compliance and assurance
- Review and preparation of Information security policies and procedures
- Incident response management
- Active monitoring and auditing of Applications and systems
- Provides reports and assistance to the information security steering committee
- Engagement in Bank's on-going projects
- Bank's compliance with Bahrain Information security laws and Regulatory requirements

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23. Operational Risk (Continued)

23.6 Reputation 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. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organization and exposure to reputational risk is essentially a function of the adequacy of the bank's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on bank-related transactions. Reputational risk also may affect a bank's liabilities, since market confidence and a bank's ability to fund its business are closely related to its reputation.

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. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/ nonfiduciary clients.

The Bank also adopts risk mitigation approaches that refer to shaping products, business transactions and other processes that may result in a reputational risk.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 31 December 2021 aggregated to BD19.1 million (31 December 2020: BD18.3 million).

25. Liquidity Risk

Liquidity risk is the risk that Ithmaar 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 Treasury, with oversight from the ALCO. ALCO is responsible for setting the framework and for effective monitoring of Ithmaar Bank's liquidity risk. Ithmaar Bank'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. The Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The Liquidity Risk Management Policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and various other liquidity ratios as required under the provisions of the LM Module and the funding maturity profile on a regular basis. Risk Management Department submits a quarterly report to the AGRMC which includes an analysis of Ithmaar Bank's adherence to various liquidity risk metrics established in the Risk Appetite Framework of the Bank.

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25. Liquidity Risk (Continued)

25.2. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar Bank based on certain Board approved parameters is also performed and presented to the AGRMC on a quarterly basis.

25.3. Liquidity Contingency Management

Ithmaar Bank has also a Liquidity Contingency Policy which provides guidelines to manage either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

25.4. Liquidity ratios

	31 December 2021
Liquid assets to total assets	15.41%
Short term assets to short term liabilities	56.28%

25.5. Liquidity ratios

The Liquidity Coverage Ratio (LCR) of Ithmaar Bank as of 31 December was 135%. The average 90 day LCR as of 31st December 2021 was 150%. The detailed breakdown of the average 90 day LCR as of 31st December 2021 is detailed below.

	Description	Total Unweighted Value (average)	Total Weighted Value (average)
	HIGH-QUALITY LIQUID ASSETS (HQLA)		
1	Total HQLA	-	544,079
	CASH OUTFLOWS		
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	210,223	6,307
4	Less stable deposits	983,195	96,883
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	67,015	16,754
7	Non-operational deposits (all counterparties)	570,554	299,771
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	3,160	3,160
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	203,165	17,095
14	Other contractual funding obligations	55,730	55,730
15	Other contingent funding obligations	490,768	24,538
16	**TOTAL CASH OUTFLOWS**	**-**	**520,238**
	CASH INFLOWS		
17	Secured lending (eg reverse repos)	8,434	-
18	Inflows from fully performing exposures	222,990	156,693
19	Other cash inflows	1,251	1,251
20	**TOTAL CASH INFLOWS**	**232,675**	**157,944**
21	**TOTAL HQLA**	**-**	**544,079**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**362,294**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**150%**

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At 31 December 2021
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25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio

The Net stable Funding Ratio (NSFR) of the Bank as of 31 December 2021 was 125%. The detailed breakdown of the NSFR as of 31 December 2021 is detailed below.

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**Nov specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**118,144**	**-**	**-**	**9,552**	**127,696**
2	Regulatory Capital	118,144	-	-	-	118,144
3	Other Capital Instruments	-	-	-	9,552	9,552
4	**Retail deposits and deposits from small business customers:**	**-**	**1,364,699**	**276,297**	**75,295**	**1,567,119**
5	Stable deposits	-	276,970	21,591	8,107	291,740
6	Less stable deposits	-	1,087,729	254,706	67,188	1,275,379
7	**Wholesale funding:**	**-**	**542,257**	**334,400**	**358,537**	**698,295**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	542,257	334,400	358,537	698,295
10	**Other liabilities:**	**-**	**299,731**	**-**	**5,129**	**5,129**
11	NSFR Shari'a-compliant hedging contract liabilities	-	16,768	-	-	-
12	All other liabilities not included in the above categories	-	282,963	-	5,129	5,129
13	**Total Available Stable Funding (ASF):**	-	-	-	-	**2,398,239**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	16,028
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**490,446**	**107,947**	**1,441,652**	**1,545,980**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	81,213	13,895	581,956	601,085
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	409,233	94,052	669,448	820,673
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	167,745	109,034

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25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio (Continued)

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	Nov specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
21	Performing residential mortgages, of which:	-	-	-	-	-
22	'- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	20,900	13,585
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,603	1,603
24	**Other assets:**	**-**	**327,293**	**-**	**-**	**327,293**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	270	-	-	270
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	3,084	-	-	3,084
29	All other assets not included in the above categories	-	323,939	-	-	323,939
30	Off Balance Sheet items	-	688,054	-	-	34,403
31	**Total RSF**					**1,923,704**
32	**Net Stable Funding Ratio (%)**					**125%**

25.7. Leverage Ratio

S No.	Description	Amount
1	**Tier 1 Capital**	**118,144**
	On Balance Sheet Assets	
2	Self Finance	1,395,173
3	URIA	1,932,326
4	Off Balance (with conversion CCFs)	394,696
5	**Total Assets (2+3*(0.3)+4)**	**2,369,566**
6	**Leverage Ratio (1/5)**	**4.99%**

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26. Legal contingencies

At 31 December 2021, the Group had contingent liabilities towards customer and other claims aggregating to BD71.7 million (31 December 2020: BD79.7 million). The management is of the view that these claims are not likely to result into potential liabilities.

27. Displaced Commercial Risk

Ithmaar Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. As per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are borne by the IAHs, Ithmaar Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar Bank may forgo its share of profits as modareb to match the IAHs.

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar Bank. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risk.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders

	31 December 2021		31 December 2020		31 December 2019		31 December 2018		31 December 2017	
	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount
Income from unrestricted investment accounts	5.3%	113,495	5.6%	91,603	6.4%	82,551	5.9%	67,949	5.1%	62,190
Less: return to unrestricted investment accounts & provisions	-2.8%	(60,011)	-3.4%	(55,655)	-4.2%	(54,359)	-3.6%	(40,959)	-2.7%	(33,214)
Group's share of income from unrestricted investment accounts as a Mudarib	3.3%	**53,484**	2.2%	**35,948**	2.2%	**28,192**	2.4%	**26,990**	2.4%	**28,976**

For the year ended 31 December 2021 the return generated from unrestricted investment accountholders based on the average balance outstanding during the year stood at 3.9% per annum (2020: 4.9%). The return paid to unrestricted investment accountholders based on the average balance outstanding during the year at 2.4% per annum (31 December 2020: 3.2%).

PUBLIC DISCLOSURES CONTINUED

At 31 December 2021
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29. Average declared rate of return on General Mudaraba deposits

	31 December 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
30 Days	1.25	1.27	1.41	1.20	1.10
90 Days	1.50	1.55	1.81	1.60	1.60
180 Days	1.68	1.80	2.06	1.85	1.85
360 Days	2.33	2.45	2.80	2.50	2.50
3 Years	2.58	2.75	3.04	2.70	2.70

30. Movement in Profit Equalization Reserve and Investment Risk Reserve

	31 December 2021
Profit Equalization Reserve	4,335
Net utilisation during the year	(2,767)
As at 31 December 2021	**1,568**
Investment Risk Reserve	**-**
As at 31 December 2021	Nil

At 31 December 2021, the ratio of profit equalization reserve and provisions against equity of unrestricted investment accountholders stood at 0.11% and 2.5% respectively.

31 December 2021, the ratio of financings to URIA stood at 94%.

31 December 2021, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	48.63%
Musharaka financing	40.31%
Assets acquired for leasing	11.05%

The following table summarizes the breakdown of URIA and impairment provisions

	31 December 2021
Exposure : Banks	564,465
Exposure : Non-Banks	1,590,874
Provisions : Non-Banks	(35,512)

31. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

Deposits and Unrestricted Investment Accounts held with the Bank in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB in accordance with Resolution No.(34) of 2010.

CORPORATE INFORMATION

Name of Company	Ithmaar Bank B.S.C. (Closed)
Legal Form	Ithmaar Bank B.S.C. (Closed) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain and provides retail, commercial, treasury and financial institutions, and other banking services.
Company Registration Number	CR 99336
Registered Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 17585000
Facsimile	+973 17585151
Email	info@ithmaarbank.com
Website	www.ithmaarbank.com
Accounting Year End	31 December
Compliance Officer	Balu Tiruvilandur Ramamurthy – Head, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Board Secretary
Auditors	PricewaterhouseCoopers ME Limited, P.O. Box 60771, Manama, Kingdom of Bahrain