

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29 th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Jassim Al Seddiqi, <i>Chairman</i> H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Vice Chairman</i> Hisham Ahmed Alrayes Rashid Nasser Al Kaabi Mustafa Kheriba (till 24 December 2020) Ghazi Faisal Ebrahim Alhajeri Ali Murad (from 9 April 2020) Ahmed Abdulhamid AlAhmadi (from 9 April 2020) Alia Al Falasi (from 30 September 2020) Fawaz Talal Al Tamimi (from 30 September 2020) Amro Saad Omar Al Menhali (till 30 September 2020) Mazen Bin Mohammed Al Saeed (till 31 March 2020) Mosabah Saif Al Mautairy (till 30 September 2020) Bashar Mohamed Al Mutawa (till 1 April 2020) Edris Mohammed Rafi Alrafi (from 24 December 2020)
Chief Executive Officer	:	Hisham Ahmed Alrayes
Auditors	:	KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

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Chairman's Report-2020

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2020. Unlike any other year, the COVID-19 pandemic has caused significant uncertainty and disruption around the world. For us here at GFH, our top priority was the safety of our people and their loved ones, while ensuring the effective continuity of our operations and delivery of high quality services for our clients and shareholders. Though 2020 had its hardships, we are grateful to have achieved this continuity through the strength of our partnerships - both internally as a team and collaboratively with our partners across the globe. We are also grateful for the market's continued confidence in our Group's financial position despite 2020's economic turmoil.

Throughout the years, the Group continued to undergo an effective transformation that was backed by a strategy of dynamic diversification and the pursuit of value creation. In 2020, we continued to build our global portfolio of income yielding real estate assets capable of delivering solid returns for the Group and our investors. We also maximized our value creation potential by tapping into a widened range of asset classes, sectors and markets – pursuing opportunities to expand our portfolio both in our home markets in the GCC and beyond.

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

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

Furthermore, we were able to report strong results for 2020 - made possible by our dedicated team's successful execution of the Group's strategy. Through a keen-eyed and responsive evaluation of 2020's turbulent market conditions, they identified new income yielding opportunities while building on and extracting value from existing assets. For the year, the Group reported consolidated net profit of US\$49.3 million as compared with US\$53.1 million from the previous year, a decrease of 7.1%, and a net profit attributable to shareholders of US\$45.1 million compared with US\$66.0 million for the previous year, a decrease of 31.7%.

The Group's total assets for the year grew from US\$5.95 billion in 2019 to US\$6.6 billion in 2020. The Group's Total Assets and Funds Under Management (AUM) increased from US\$10 billion in 2019 to over US\$12 billion in 2020, marking a year-on-year increase of 20%. The Group also ended the year with a Capital Adequacy Ratio of 13.3% and Return on Equity (ROE) ratio of 4.9%, confirming our sustained positive financial performance.

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

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

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

We are optimistic we will be able to continue to deliver on our clients' expectations, and we remain encouraged by the resilient nature of our Group's diverse business model. While our

profits were affected by the fallout of the COVID-19 pandemic, our Group's ability to achieve stable income while delivering impactful results exemplifies the strength of our strategy and the notable progress we continue to make across each of our business lines.

The success of our strategy and the Group's continued progress are made possible through the tireless efforts of the people who power GFH. I want to thank our Board of Directors for their constant support and guidance in steering the Group towards further success. I would also like to thank our management team and staff for their continued stellar performance, which allowed us to overcome 2020's challenges while finding new ways to create value for our investors and shareholders. Further, in the face of these most uncertain and challenging times, I would also like to extend our deepest appreciation to our shareholders and investors for their continued trust and confidence in GFH, our strategy and our ability to meet their expectations.

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

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

Sincerely,



Jassim Alseddiqi
Chairman



9 February 2021
27 Jumada II 1442 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2020

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

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

Respective Responsibility of Sharia Supervisory Board

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

Basis of opinion

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

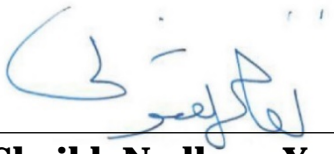
Opinion:

The Sharia Supervisory Board believes that,

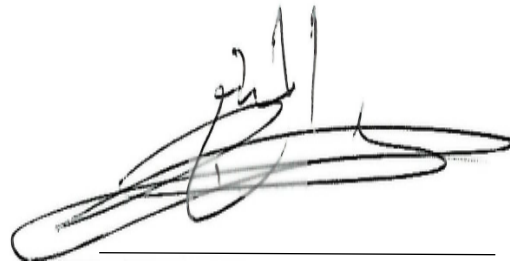
- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the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

Praise be to Allah, Lord of the worlds.

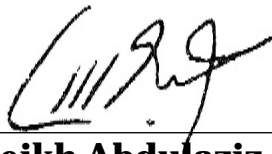
Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.




Sheikh Nedham Yaqoubi



Sheikh Abdulla Al Menai



Sheikh Abdulaziz Al Qassar



Sheikh Fareed Hadi



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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and consolidated results of its operations, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of Zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain (the "CBB").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2020.

Basis for opinion

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

Key audit matters

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

Impairment allowance on financing assets and assets acquired for leasing

(refer to accounting policy in Note 4(0), use of estimates and judgments in Note 5 and management of credit risk in Note 38 (a)).

Description	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> of the significance of financing assets and assets acquired for leasing representing 19 % of total assets. 	<p>Our audit procedures included:</p> <p>Control testing</p> <p>We performed walk throughs to identify the key systems, applications and controls used in the ECL processes.</p> <p>Key aspects of our controls testing involved the following:</p> <ul style="list-style-type: none"> testing the design and operating effectiveness of the key controls over the completion and accuracy of the key inputs and assumptions into the ECL Model;



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

Description	How the matter was addressed in our audit
<ul style="list-style-type: none"> • The estimation of expected credit losses ("ECL") on financing assets and assets acquired for leasing involve significant judgment and estimates. The key areas where we identified greater level of management judgment and estimates are: <ul style="list-style-type: none"> <i>Use of complex models</i> Use of inherently judgmental complex models to estimate ECL which involves determining Probabilities of default ("PD"), Loss Given Default ("LGD") and Exposure At default ("EAD"). The PD models are considered the drivers of the ECLs. <i>Economic scenarios</i> The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them. <i>Management overlays</i> Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks, including the potential impacts of COVID-19. Such adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts especially in the current COVID-19 environment. 	<ul style="list-style-type: none"> • evaluating the design and operating effectiveness of the key controls over the application of staging criteria; • evaluating controls over validation, implementation and model monitoring; • evaluating controls over authorization and calculation of post model adjustments and management overlays; and • testing key controls relating to selection and implementation of material macro-economic variables and the controls over the scenario selection and probabilities. <p>Tests of details</p> <ul style="list-style-type: none"> • Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecast, weights, and PD assumptions applied; and • Selecting a sample of post model adjustments to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to the source data. <p>Use of specialists</p> <ul style="list-style-type: none"> • We involved our information technology specialists in testing the relevant general IT and applications controls over the key systems used in the ECL process; • We involved our credit risk specialists to assist us in: <ul style="list-style-type: none"> ➤ evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); ➤ on a test basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ➤ evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and ➤ evaluating the overall reasonableness of the management economic forecast by comparing it to external market data. <p>Disclosures</p> <ul style="list-style-type: none"> • evaluating the adequacy of the Group's disclosures related to ECL on financing assets and assets acquired for leasing by reference to the relevant accounting standards.



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

Valuation of unquoted equity investments

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

Description	How the matter was addressed in our audit
<p>We considered this as a key audit area we focused on because the valuation of unquoted equity securities held at fair value requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs and assumptions.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • we involved our own valuation specialists to assist us in: • evaluating the appropriateness of the valuation methodologies used by comparing with observed industry practice; • evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms. • comparing the key underlying financial data inputs used in the valuation to external sources, investee company financial and management information, as applicable; • evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.

Carrying value of development properties

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

Description	How the matter was addressed in our audit
<p>Development projects comprise projects under construction and long-term infrastructure projects. Development properties are stated at the lower of cost and net realisable value.</p> <p>We focused on this area due to:</p> <ul style="list-style-type: none"> • the significance of development property representing 19% of total assets (by value); and • complexity associated with the accounting for development properties under construction. The Group engages external valuers to assess the expected net realisable values of these development properties. The assessment of net realisable value involves significant judgment and estimation uncertainty 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • evaluating whether management's classification of real estate under development properties was appropriate; • evaluating the qualifications and competence of the external valuers and reviewing the terms of their engagement to determine whether there were any matters that might have affected their objectivity or limited their scope of work; • for projects under construction, to evaluate appropriateness of carrying value of the work in progress at the balance sheet date, on a sample basis, we performed audit procedures over costs of construction to date, surveyor reports on physical completion and sub-developer contract arrangements;



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

Description	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • we involved our valuation specialists, who used their knowledge of the industry and available historical data to assist in: <ul style="list-style-type: none"> ➢ evaluating the appropriateness of the valuation methodologies used by the external valuers; and ➢ evaluating the reasonableness of key inputs and assumptions such as expected sale prices on completion and estimates of costs to complete. Where any component was out of our expected range, we undertook additional procedures including sensitivity analysis, to understand the effect on the assessed values and carrying amounts in the consolidated financial statements. • on a sample basis, performed audit procedures to assess whether the source data used for the assessment of the net realisable values are reasonable by comparing it to the underlying supporting information to obtain insight into the calculation model used to determine the net realisable value; and • Based on the outcome of our evaluation, we assessed the adequacy of disclosures in the consolidated financial statements by reference to the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report and other sections which forms part of the annual report.

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

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Group's Shariah Supervisory Board.

The board of directors is also responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS as modified by CBB, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFs 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 ASIFs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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



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

Report on other regulatory requirements

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

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

The engagement partner on the audit resulting in this independent auditors' report is Jalil AlAali.

A handwritten signature in blue ink, appearing to read 'KPMG', with a stylized star-like symbol to the left of the letters.

KPMG Fakhro
Partner Registration No. 100
15 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2020

US\$ 000's

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

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



Jassim Al Seddiqi
Chairman



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



Hisham Alrayes
Chief Executive Officer
& Board member

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

CONSOLIDATED INCOMESTATEMENT
for the year ended 31 December 2020

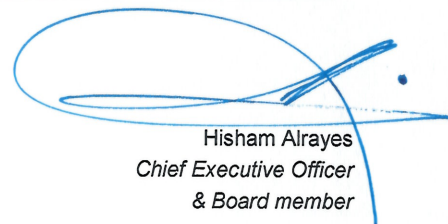
US\$ 000's

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



Jassim Al Seddiqi
Chairman

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



Hisham Alrayes
Chief Executive Officer
& Board member

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

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

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translati on reserve	Retained earnings	Share grant reserve			Total
2020										
Balance at 1 January 2020	975,638	(73,419)	125,312	9,245	(29,425)	(4,005)	1,198	1,004,544	288,327	1,292,871
Profit for the year	-	-	-	-	-	45,095	-	45,095	4,248	49,343
Fair value changes during the year	-	-	-	5,036	-	-	-	5,036	412	5,448
Reclassified to income on impairment of quoted equity securities	-	-	-	12,000	-	-	-	12,000	-	12,000
Reclassified to income on disposal of sukuk	-	-	-	(20,688)	-	-	-	(20,688)	-	(20,688)
Total recognised income and expense	-	-	-	(3,652)	-	45,095	-	41,443	4,660	46,103
Additional capital contribution to subsidiary (note 1)	-	-	-	-	-	(59,893)	-	(59,893)	(14,311)	(74,204)
Modification loss on financing assets (notes 2a, 8)	-	-	-	-	-	(13,893)	-	(13,893)	(11,179)	(25,072)
Government grant (notes 2b, 26)	-	-	-	-	-	3,690	-	3,690	1,267	4,957
Dividends declared for 2019	-	-	-	-	-	(30,000)	-	(30,000)	-	(30,000)
Transfer to zakah and charity fund	-	-	-	-	-	(1,388)	-	(1,388)	(258)	(1,646)
Transfer to statutory reserve	-	-	4,509	-	-	(4,509)	-	-	-	-
Purchase of treasury shares	-	(107,518)	-	-	-	-	-	(107,518)	-	(107,518)
Sale of treasury shares	-	133,483	-	-	-	(22,985)	-	110,498	-	110,498
Treasury shares acquired for share incentive scheme	-	(16,525)	-	-	-	-	(105)	(16,630)	130	(16,500)
Foreign currency translation differences	-	-	-	-	(17,522)	-	-	(17,522)	(3,084)	(20,606)
NCI arising from acquisition of a subsidiary (note 21)	-	-	-	-	-	-	-	-	64,147	64,147
Distribution to NCI	-	-	-	-	-	-	-	-	(56,966)	(56,966)
Adjustment of accumulated losses against statutory reserve (note 19)	-	-	(110,273)	-	-	110,273	-	-	-	-
Balance at 31 December 2020	975,638	(63,979)	19,548	5,593	(46,947)	22,385	1,093	913,331	272,733	1,186,064

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

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

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Non – controlling interests held-for- sale	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve				Total
2019											
Balance at 1 January 2019 (as previously reported)	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
Reclassification of a subsidiary held-for-sale to held-for-use (note 12)	-	-	-	-	-	-	-	-	25,396	(25,396)	-
Balance at 1 January 2019 (restated)	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	348,804	15,160	1,422,778
Profit for the year	-	-	-	-	-	66,033	-	66,033	(12,917)	-	53,116
Fair value changes during the year	-	-	-	13,969	-	-	-	13,969	-	-	13,969
Total recognised income and expense	-	-	-	13,969	-	66,033	-	80,002	(12,917)	-	67,085
Bonus shares issued (note 19)	55,000	-	-	-	-	(55,000)	-	-	-	-	-
Extinguishment of treasury shares (note 19)	(55,000)	50,549	-	-	-	4,451	-	-	-	-	-
Dividends declared (note 19)	-	-	-	-	-	(30,000)	-	(30,000)	-	-	(30,000)
Transfer to zakah and charity fund	-	-	-	-	-	(2,219)	-	(2,219)	(223)	-	(2,442)
Issue of shares under incentive scheme	-	-	-	-	-	-	112	112	-	-	112
Purchase of treasury shares	-	(183,174)	-	-	-	-	-	(183,174)	-	-	(183,174)
Sale of treasury shares	-	176,669	-	-	-	(26,596)	-	150,073	-	-	150,073
Treasury shares acquired for share incentive scheme (note 19)	-	(32,039)	-	-	-	-	-	(32,039)	-	-	(32,039)
Acquisition of NCI without a change in control (note 21)	-	-	-	-	-	(51,412)	-	(51,412)	(40,588)	-	(92,000)
Transfer to statutory reserve	-	-	8,011	-	-	(8,011)	-	-	-	-	-
Foreign currency translation differences	-	-	-	-	13,955	-	-	13,955	(6,748)	-	7,207
Disposal of subsidiary held-for-sale	-	-	-	-	-	431	-	431	-	(15,160)	(14,729)
Balance at 31 December 2019	975,638	(73,419)	125,312	9,244	(29,425)	(4,005)	1,198	1,004,543	288,328	-	1,292,871

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

US\$ 000's

	31 December 2020	31 December 2019 (restated)
OPERATING ACTIVITIES		
Profit for the year	49,343	53,116
Adjustments for:		
Income from commercial banking	(41,402)	(22,133)
Income from proprietary investments	(29,290)	(12,344)
Income from treasury and other income	(88,915)	(34,531)
Foreign exchange (gain) / loss	(1,329)	2,264
Restructuring related income	-	(29,406)
Finance expense	164,940	129,748
Impairment allowances	26,798	54,264
Depreciation and amortisation	6,150	2,173
	86,295	143,151
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	450,752	(280,706)
Financing assets	5,511	(108,524)
Other assets	(161,469)	(306,240)
CBB Reserve and restricted bank balance	39,623	(27,176)
Clients' funds	60,077	24,218
Placements from financial and non-financial institutions	(29,250)	818,860
Customer current accounts	(6,732)	(30,421)
Equity of investment account holders	(61,552)	321,635
Payables and accruals	(30,204)	(68,948)
Net cash generated from operating activities	353,051	485,849
INVESTING ACTIVITIES		
Payments for purchase of equipment	(674)	(860)
Proceeds from sale of proprietary and co-investments, net	(39,230)	2,156
Purchase of treasury portfolio, net	(621,110)	(353,003)
Proceeds from sale of investment in real estate	6,256	38,805
Dividends received from proprietary investments and co-investments	11,936	5,426
Advance paid for development of real estate	(19,751)	(25,792)
Net cash flows from acquisition of subsidiaries	26,803	-
Net cash used in investing activities	(635,770)	(333,268)
FINANCING ACTIVITIES		
Term financing, net	787,666	28,613
Finance expense paid	(165,778)	(106,078)
Dividends paid	(37,433)	(31,037)
Acquisition of NCI	-	(9,026)
Purchase of treasury shares, net	(13,814)	(65,140)
Net cash generated from / (used in) financing activities	570,641	(182,668)
Net increase/(decrease) in cash and cash equivalents during the year	287,922	(30,087)
Cash and cash equivalents at 1 January *	367,533	397,620
Cash and cash equivalents at 31 December	655,455	367,533
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	492,031	278,251
Placements with financial institutions (original maturities of 3 months or less)	163,424	89,282
	655,455	367,533

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2020**

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

31 December 2019	Balance at 1 January 2019			Movements during the year					Balance at 31 December 2019			
	No. of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No. of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	13	-	-	-	-	13	8	104
Safana Investment (RIA 1) #	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,447	-	13	-	-	-	-			28,460

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

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2020

US\$ 000's

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

US\$ 000's

1 REPORTING ENTITY

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

2 STATEMENT OF COMPLIANCE

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

- i) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of profit or loss as required by FAS. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. (refer note 10).
The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification; and
- ii) recognition of financial assistance received from the government and/ or regulators as part of its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note 26 for further details.

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

The modification to accounting policies have been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

3 BASIS OF MEASUREMENT

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

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

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

Activities:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

US\$ 000's

3 *Basis of measurement (continued)*

Segments:

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

US\$ 000's

3 *Basis of measurement (continued)*

Sources of revenue:

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Impact of new accounting standards and changes in accounting policies**(i) Early adoption of new standards issued but not yet effective****1) FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)**

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

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Changes in accounting policies

Categorization and classification

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

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

- iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of:

- amortised cost;
- fair value through equity (FVTE) or
- fair value through income statement (FVTIS), on the basis of both:
 - *the Group's business model for managing the investments; and*
 - *the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.*

Reclassification of assets and liabilities

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

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

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for the year ended 31 December 2020

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

FAS 32 - Ijarah

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

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

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

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for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Basis of consolidation****(i) Business combinations**

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

(ii) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

(iii) Non-controlling interests (NCI)

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(iv) Special purpose entities**

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

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

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

(v) Loss of control

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

(vi) Equity accounted investees

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

Associates and Joint venters are accounted for under equity method. These are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(vii) Transactions eliminated on consolidation and equity accounting**

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

(c) Assets held-for-sale**Classification**

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

Measurement

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

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

(d) Foreign currency transactions**(i) Functional and presentation currency**

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

(ii) Transactions and balances

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) Foreign operations

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

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

(e) Offsetting of financing instruments

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

(f) Investment securities

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

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

(i) Categorization and classification

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

(ii) Recognition and de-recognition

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(iii) Measurement**

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners equity and presented in a separate investment fair value reserve in equity.

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles*Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectibility. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

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

Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(g) Financing assets

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

(h) Assets acquired for leasing

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

(i) Placements with and from financial and other institutions

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

(j) Cash and cash equivalents

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

(k) Investment property

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

A property is transferred to investment property when, there is change in use, evidenced by:

- end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

- commencement of own use, for a transfer from investment property to owner-occupied property;
- commencement of development with a view to sale, for a transfer from investment in real estate to development property.

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

(l) Development properties

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

(m) Property and equipment

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

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(n) Intangible assets***Goodwill*

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

Other Intangible assets

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

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

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

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

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

(o) Impairment of exposures subject to credit risk

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

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

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure is more than 90 days past due.

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

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures that are subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**Stage 3: Lifetime ECL - credit impaired**

Stage 3 includes exposures that are subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

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

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

(q) Impairment of non-financial assets

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(r) Clients' funds

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

(s) Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

(t) Term financing

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

(u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 37).

(v) Dividends

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

(w) Share capital and reserves

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

Treasury shares

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

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)*Statutory reserve*

The Commercial Companies Law requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(x) Equity of investment account holders

Equity of investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(y) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term

Income from sukuk and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

Non-banking business

Revenue from the sale of goods is recognised at a point in time when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

(z) Earnings prohibited by Shari'a

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

(aa) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

(bb) Employees benefits**➤ Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**➤ Post employment benefits**

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a “defined contribution scheme” in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated income statement when they are due.

➤ Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the “Scheme”) whereby employee are granted the Bank’s shares as compensation on achievement of certain non-market based performance conditions and service conditions (the ‘vesting conditions’). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(cc) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(dd) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(ee) Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

(ff) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(gg) Income tax**

The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements.

a) Judgements

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 4(o) and Note 37(a)

Covid 19 impact

Covid 19 was declared a worldwide pandemic by the World Health Organisation in March 2020. Covid 19 and related measures taken by governments worldwide to slow the spread of the virus, have since had a significant impact on the local and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. While the methodologies and assumptions applied in the measurement of various items within the financial statements remain unchanged from those applied in the 2020 consolidated financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19.

Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks re-emerging from local and global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)*a) Judgements (continued)**Financing portfolio*

In accordance with the CBB relief measures, the Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments without profit for retail and small business customers for an initial period of six months without profit which was later extended by another 4 months with profit.

Impairment allowance on financing portfolio at amortised cost

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2019.

The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Covid 19 impact (continued)

The Group's models are calibrated to consider past performance and macrocosmic forward-looking variables as inputs. The global regulators have issued guidance to consider the exceptional circumstances of the Covid 19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historic long-term trends used in determining reasonable and supportable forward-looking information as well as the assessment of underlying credit deterioration and migration of balances to progressive stages.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The utilisation of a payment deferral program was not considered an immediate trigger for a significant increase in credit risk ("SICR") or a staging migration for the purposes of calculating ECL, given the purpose of these programs is to provide temporary cash flow relief to the Group's customers affected by the COVID-19.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4f(i)).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**a) Judgements (continued)****(ii) Special purpose entities**

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

(iii) Impairment of equity investments at fair value through equity – (refer to Note 4 (p))**b) Estimations****(i) Impairment of exposures subject to credit risk carried at amortised cost**

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in note 4(o) and note 38(a).

(ii) Measurement of fair value of unquoted equity investments – refer to 4f(vi) and Note 36**(iii) Impairment of investment property**

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach, the residual value basis, replacement cost or the market value of the property considering its current physical condition. The Group's investment properties are situated in Bahrain, UAE and Morocco. Given the dislocation in the property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (q). For equity-accounted investees with indicators of impairment, the recoverable amount is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

b) Estimates (continued)

(v) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 21.

6 CASH AND BANK BALANCES

	31 December 2020	31 December 2019
Cash	13,339	14,067
Balances with banks	404,580	200,671
Balances with Central Bank of Bahrain:		
- Current account	77,697	82,406
- Reserve account	40,886	67,454
	536,502	364,598

The reserve account with the Central Bank of Bahrain of US\$ 40,886 thousand (2019: US\$ 67,454 thousand) and balances with banks of US\$ 3,585 thousand (2019: US\$ 16,640 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US\$ 15 thousand (2019: US\$ 8 thousand).

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7 TREASURY PORTFOLIO

	31 December 2020	31 December 2019
Placements with financial institutions	169,998	546,575
Equity type investments		
<i>At fair value through income statement</i>		
- Structured notes	328,431	239,807
Debt type investments		
<i>At fair value through equity</i>		
- Quoted sukuk	648,991	284,904
<i>At amortised cost</i>		
- Quoted sukuk *	693,737	517,403
- Unquoted sukuk	3,493	3,493
Less: Impairment allowances	(6,104)	(3,521)
	1,838,546	1,588,661

* Includes quoted sukuk of US\$ 282,740 thousand (31 December 2019: US\$ 51,070 thousand) pledged against term-financing of US\$ 200,204 thousand (31 December 2019: US\$ 215,326 thousand) (note 16).

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

	2020	2019
At 1 January	239,807	-
Additions	687,496	598,725
Disposals during the year, at carrying value	(597,273)	(359,248)
Fair value changes	(1,599)	330
At 31 December	328,431	239,807

8 FINANCING ASSETS

	31 December 2020	31 December 2019
Murabaha	969,152	1,008,580
Musharaka	276	277
Wakala	239	13,280
Mudharaba	2,690	2,776
Istisnaa	3,565	4,597
Assets held-for-leasing	345,342	350,976
	1,321,264	1,380,486
Less: Impairment allowances	(53,998)	(107,709)
	1,267,266	1,272,777

Murabaha financing receivables are net of deferred profits of US\$ 50,032 thousand (2019: US\$ 68,233 thousand).

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8 FINANCING ASSETS (continued)

The movement on impairment allowances is as follows:

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	12,149	7,241	88,319	107,709
Net transfers	228	(4,512)	4,285	1
Net charge for the period (note 25)	9,298	2,401	(2,542)	9,157
Write-offs	-	-	(29,204)	(29,204)
Disposal	(286)	-	(33,379)	(33,665)
At 31 December 2020	21,389	5,130	27,479	53,998

9 INVESTMENT IN REAL ESTATE

	31 December 2020	31 December 2019
Investment Property		
- Land	481,315	490,412
- Building	63,757	40,841
	545,072	531,253
Development Property		
- Land	761,032	797,535
- Building	506,211	477,221
	1,267,243	1,274,756
	1,812,315	1,806,009

(i) Investment property

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US\$ 40.84 million (2019: US\$ 40.84 million) is pledged against Wakala facilities and Ijarah facility (note 16).

The fair value of the Group's investment property at 31 December 2020 was US\$ 686,913 thousand (31 December 2019: US\$ 543,850 thousand) based on a valuation carried out by an independent external property valuers who have recent experience in the location and category of the asset being valued.

The 31 December 2020 valuation contains "material uncertainty" clause due to the market disruption caused by the COVID-19 coronavirus pandemic. This does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions.

	2020	2019
At 1 January	531,253	523,692
Additions during the year	21,035	8,360
Disposals	(7,216)	-
Impairment allowances (note 25)	-	(799)
At 31 December	545,072	531,253

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9 INVESTMENT IN REAL ESTATE (continued)

(ii) Development properties

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

	2020	2019
At 1 January	1,274,756	1,316,318
Additions during the year	10,637	44,554
Disposals	(22,109)	(71,957)
Foreign currency translation difference	3,959	(14,159)
At 31 December	1,267,243	1,274,756

10 PROPRIETARY INVESTMENTS**Equity type investments**

At fair value through income statement

- Structured notes
- Unlisted fund

At fair value through equity

- Listed equity securities *
- Unquoted equity securities

Equity-accounted investees

	31 December 2020	31 December 2019
- Structured notes	40,000	-
- Unlisted fund	10,000	-
	50,000	-
- Listed equity securities *	19,060	27,324
- Unquoted equity securities	108,998	125,234
	128,058	152,558
Equity-accounted investees	78,050	115,617
	256,108	268,175

* Listed equity securities of US\$ 19,060 thousand (2019: US\$ 26,216 thousand) are pledged against Murabaha facility (note 16).

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

	2020	2019
At 1 January	-	-
Additions during the year	50,000	-
Fair value changes during the year	-	-
At 31 December	50,000	-

(ii) Listed equity securities at fair value through equity

	2020	2019
At 1 January	27,324	29,093
Additions during the year	-	26,282
Disposals during the year	(1,095)	(27,945)
Transfer from / (to) fair value reserve	4,831	(106)
Impairment during the year	(12,000)	-
At 31 December	19,060	27,324

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10 PROPRIETARY INVESTMENTS (continued)

(iii) Unquoted equity securities fair value through equity

	2020	2019
At 1 January	125,234	137,955
Distributions during the year	-	(7,486)
Capital repayments during the year	(7,874)	-
Foreign exchange translation	989	-
Impairment during the year	(1,476)	-
Fair value changes	(7,875)	(5,235)
At 31 December	108,998	125,234

(iv) Equity-accounted investees

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

Name	Country of incorporation	% holding		Nature of business
		2020	2019	
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in Bahrain
Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco')	Kingdom of Bahrain	17.92%	17.92%	Extrusion and sale of aluminium products
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.
AlAreen Hotel SPC	Kingdom of Bahrain	60%	60%	Hospitality
NS 12	Kingdom of Bahrain	28.41%	28.41%	Investment in Real Estate
Lagoon Real Estate Development	Kingdom of Bahrain	23.01%	23.01%	Real estate holding and development

	2020	2019
At 1 January	115,617	66,964
De-recognition on acquiring a controlling stake (note 22)	(34,812)	-
Additions during the year (note 21)	33,327	41,225
Disposals during the year	(35,168)	-
Share of (loss) / profit for the year, net	(914)	7,428
At 31 December	78,050	115,617

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee. The Group through shareholder's agreement agreed to exercise joint control with 40% shareholding over AlAreen Hotel SPC with another partner, hence, it is considered as an equity-accounted investee.

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10 *PROPRIETARY INVESTMENTS (continued)*

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

	2020	2019
Total assets	383,946	331,268
Total liabilities	23,553	29,621
Total revenues	10,384	88,292
Total profit / (loss)	(7,799)	35,553

11 CO-INVESTMENTS

	31 December 2020	31 December 2019
<i>At fair value through equity</i>		
- Unquoted equity securities at fair value	126,319	96,507
	126,319	96,507

Movement during the year

	2020	2019
At 1 January	96,507	77,644
Additions during the year	41,858	29,513
Disposals during the year, at carrying value	(12,046)	(1,680)
Impairment charge for the year (note 25)	-	(8,970)
At 31 December	126,319	96,507

12 ASSETS HELD-FOR-SALE AND LIABILITIES RELATED TO IT

	31 December 2020	31 December 2019
Assets	-	101,213
Liabilities	-	39,936
Non-controlling interests	-	25,396

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), a subsidiary acquired in 2018.

Restatement

During the year, the Group had re-classified its investment in a subsidiary, Falcon Cement Company BSC (c), from assets held-for-sale to held-for-use because the investment no longer meet the criteria to be classified as held-for-sale.

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12 ASSETS HELD-FOR-SALE AND LIABILITIES RELATED TO IT (continued)

In accordance with IFRS 5 *Non-current assets held-for-sale and discontinued operations*, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated and reclassifying 'non-controlling interest held-for-sale' to 'non-controlling interests'. The reclassification did not had any impact on the previously reported profits or owners' equity.

The effect of restatement on the previously reported assets and liabilities are given below:

	31 December 2019	
	restated US\$ 000's	previously reported US\$ 000's
ASSETS		
Cash and bank balances	364,598	362,345
Treasury portfolio	1,588,661	1,588,661
Financing assets	1,272,777	1,272,777
Real estate Investments	1,806,009	1,806,009
Proprietary investments	268,175	268,175
Co-investments	96,507	96,507
Assets held-for-sale	-	101,213
Receivables and prepayments	444,689	424,146
Property and equipment	103,857	25,440
Total	5,945,273	5,945,273
LIABILITIES		
Clients' funds	70,858	74,469
Placements from financial, non-financial institutions and individuals	2,447,249	2,675,375
Customer current accounts	147,487	169,432
Term financing	301,411	268,016
Liabilities directly associated with assets held-for-sale	-	39,936
Payables and accruals	466,852	526,902
Total	3,433,857	3,754,130

13 RECEIVABLES AND PREPAYMENTS

	31 December 2020	31 December 2019
Investment banking receivables *	115,740	53,262
Financing to projects, net	40,803	27,202
Receivable on sale of development properties	59,733	32,547
Advances and deposits	69,163	73,625
Employee receivables	15,578	14,616
Profit on sukuk receivable	10,174	8,619
Lease rentals receivable	34,005	45,363
Receivable from sale of investments	46,635	46,000
Re-possessed assets	29,560	35,844
Prepayments and other receivables	184,267	107,611
	605,658	444,689

* USD 100 million has subsequently been received

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14 PROPERTY AND EQUIPMENT

	31 December 2020	31 December 2019
Land	17,811	17,811
Buildings and other leased assets	46,936	2,191
Others including furniture, vehicles and equipment	79,402	83,855
	144,149	103,857

Depreciation on property and equipment during the year was US\$ thousand 6,150 (2019: US\$ 4,786 thousand).

15 PLACEMENTS FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts with financial, non-financial institutions, and individuals part of the Group's treasury activities. This includes US\$ 84.3 million (2019: US\$ 84 million) from a non-financial entity which is currently subject to regulatory sanctions.

16 TERM FINANCING

	31 December 2020	31 December 2019
Murabaha financing	748,265	249,435
Sukuk *	289,818	-
Ijarah financing	22,303	24,653
Other borrowings	28,691	27,323
	1,089,077	301,411

* During the year, the Group raised US\$ 300 million through issuance of sukuk certificates with a profit rate of 7.5% p.a. repayable by 2025.

	31 December 2020	31 December 2019
Current portion	466,812	240,721
Non-current portion	622,265	60,690
	1,089,077	301,411

Murabaha financing comprise:

- a) US\$ 14 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHC B and matures in 2022; and
- b) Short-term and medium-term facilities of US\$ 524,449 thousand (2019: US\$ 228,526 thousand) are secured by quoted sukuk of US\$ 282,740 thousand (2019: US\$ 51,070 thousand), structured notes of US\$ 328,431 thousand (2019: US\$ 239,807 thousand) (note 7) and equity type investments of US\$ 26,216 thousand (2019: US\$ 26,216 thousand) (note 10).

Ijarah financing facility

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US\$ 40.84 million (note 9(i)), repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

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16 *TERM FINANCING (continued)**Other borrowings*

These comprise financing availed by subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of subsidiaries.

17 OTHER LIABILITIES

	31 December 2020	31 December 2019
Employee related accruals	5,364	14,132
Board member allowances and accruals	499	1,799
Unclaimed dividends	5,150	12,608
Mudaraba profit accrual	14,805	23,637
Provision for employees' leaving indemnities	3,302	3,219
Zakah and Charity fund	5,344	5,407
Advance received from customers	71,547	114,704
Accounts payable	150,046	170,886
Other accrued expenses and payables	208,981	120,460
	465,038	466,852

18 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

	31 December 2020	31 December 2019
Placements and borrowings from financial institutions – Wakala	-	27,467
Mudaraba	1,156,993	1,191,078
	1,156,993	1,218,545

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

	31 December 2020	31 December 2019
Balances with banks	88,294	111,792
CBB reserve account	40,886	67,454
Placements with financial institutions	76,950	173,761
Debt type instruments – sukuk	693,576	517,377
Financing assets	257,287	348,161
	1,156,993	1,218,545

As at 31 December 2020, the balance of profit equalisation reserve and investment risk reserve was Nil (2019: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

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18 *EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH) (continued)*

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2020		2019	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	87.96%	12.04%	80.61%	19.39%
3 months Mudharaba	75.35%	24.65%	65.38%	34.62%
6 months Mudharaba	71.57%	28.43%	60.00%	40.00%
12 months Mudharaba	62.50%	37.50%	42.96%	57.04%
18 months Mudharaba	60.09%	39.91%	38.65%	61.35%
24 months Mudharaba	67.35%	32.65%	43.11%	56.89%
36 months Mudharaba	55.72%	44.28%	32.37%	67.63%

* Includes savings, Al Waffer and Call Mudaraba accounts.

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

	2020	2019
Returns from jointly invested assets	(57,401)	(62,451)
Banks share as Mudarib	24,812	22,433
Return to investment account holders	(32,589)	(40,018)

During the year, average mudarib share as a percentage of total income allocated to IAH was 60.72% (2019: 46.56%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 3.17% (2019: 12.83%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes

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19 SHARE CAPITAL**Authorised:**

9,433,962,264 shares of US\$ 0.265 each (2019: 9,433,962,264 shares of US\$ 0.265 each)

Issued and fully paid up:

3,681,650,441 shares of US\$ 0.265 each (2019: 3,681,650,441 shares of US\$ 0.265 each)

31 December 2020	31 December 2019
2,500,000	2,500,000
975,638	975,638

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

	2020	2019
At 1 January	975,638	975,638
Issue of bonus shares	-	55,000
Extinguishment of treasury shares	-	(55,000)
At 31 December	975,638	975,638

As at 31 December 2020, the Bank held 313,358,202 (31 December 2019: 296,537,880) of treasury shares. During the year, the Bank purchased 124,427,651 shares for US\$ 25.1 million in connection with employee long term incentive plan which is included in treasury shares. Furthermore, the bank had vested shares of 38,657,329 for US\$ 8,533,101 (2019:Nil).

Additional information on shareholding pattern

- (i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.
- (ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,248,583,791	7,744	61%
1% up to less than 5%	924,716,288	15	25%
5% to less than 10% #	508,350,362	2	14%
Total	3,681,650,441	7,761	100%

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

Includes treasury shares held by the Bank.

- (iii) As at 31 December 2020, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
GFH Financial Group BSC (Treasury shares)	313,358,202	8.51%
Al Hilal Bank	194,992,160	5.30%

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19 *SHARE CAPITAL (continued)*

Appropriations and changes in capital structure

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

i) In the shareholders meeting held on 6 April 2020, the following were approved and effected during the year:

- Cash dividend of 3.34% of the paid-up share capital amounting to US\$ 30 million;
- Appropriation of US\$ 500 thousands towards charity for the year 2019;
- Appropriation of US\$ 568 thousand towards zakah for the year 2019; and
- Transfer of US\$ 8 million to statutory reserve.

ii) In the shareholder's meeting held on 30 September 2020, the shareholders approved netting off accumulated losses of US\$ 110,273 thousand against the statutory reserve.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2020 subject to shareholders' and regulatory approval:

- Cash dividend of 1.86% of the paid-up share capital amounting to US\$ 17 million;
- Stock dividend of 2.74% of the paid-up share capital amounting to US\$ 25 million;
- Transfer of US\$ 4.51 million to statutory reserve; and
- US\$ 0.5 million towards charity and US\$ 604 thousand towards zakah for the year.

20 SHARE GRANT RESERVE

	2020	2019
At 1 January	1,198	1,086
Issue/disposal of share under incentive scheme	(105)	112
At 31 December	1,093	1,198

21 ACQUISITION OF SUBSIDIARIES

(i) Acquisition of additional interests in an existing equity accounted investee

During the year, the Group acquired additional stake in GBCORP BSC (c) (formerly known as Global Banking Corporation BSC (c)) (GBCORP), an equity-accounted investee resulting in the Group obtaining control as at 30 June 2020.

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

	Current Stake	Additional stake acquired	Total Stake
GBCORP	28.69%	21.72%	50.41%

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of investments held by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

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21 *Acquisition of subsidiaries (continued)***Identifiable assets acquired and liabilities assumed**

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 June 2020, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

	30 June 2020
Cash and bank balances, placements with financial institutions	32,856
Investment securities	50,167
Investment property	42,477
Property and equipment	2,709
Receivables and prepayments	1,440
Total assets	129,649
Accruals and other liabilities	1,101
Total liabilities	1,101
Total net identifiable assets and liabilities (A)	128,548
Fair value of Group's previously held equity interest	34,812
Value of consideration transferred	21,571
Non-controlling interests recognised	63,747
Total consideration (B)	120,130
Negative goodwill (B-A) (provisional)	8,418

The acquisition of additional stake in GBCORP resulted in a bargain purchase and the Group has recognised negative goodwill of US\$ 8,418 thousand which is included in the income statement under 'Income from proprietary and co-investments, Direct investment income'. The bargain purchase was due to pressure on the sellers to exit their holdings due to change in their business plans. The acquisition resulted in net cash inflow of US\$ 32,856 thousand.

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21 *Acquisition of subsidiaries (continued)***(ii) Acquisition of new subsidiaries**

During the year, the Group acquired controlling stake in the following subsidiaries.

	% stake acquired	Place of incorporation	Nature of activities
Roebuck Asset Management (RAM)	60%	United Kingdom	Property asset management company
Athena Private School for Special Education ("Athena")	100%	Kingdom of Bahrain	Educational institution

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of cash and in-kind for the services rendered by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group. Where consideration includes contingent consideration payable in future based on performance and service obligations of continuing employees, these are accounted under IFRS 2 – *Share based payments*

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities at the date of acquisition reported on a provisional basis as permitted by accounting standards.

	RAM	Athena
Property and equipment	22	43,235
Receivables	135	3,351
Cash and bank balances	951	405
Total assets	1,108	46,991
Accruals and other liabilities	109	40,991
Total liabilities	109	40,991
Total net identifiable assets and liabilities (A)	999	6,000

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- 21 *Acquisition of subsidiaries (continued)*
(ii) *Acquisition of new subsidiaries (continued)*

	RAM	Athena
Consideration	7,409	6,000
Non-controlling interests recognised	400	-
Total consideration (B)	7,809	6,000
Goodwill (A-B)	6,810	-

For the purpose of consolidated statement of cash flows, net cash acquired on business combination is given below:

	Total
Cash and bank balances acquired as part of business combination	34,212
Less: Cash consideration	(7,409)
Net cash flows from acquisition of subsidiaries	26,803

(iii) **Acquisition of additional stake in existing subsidiaries**

During 2019, the Group acquired additional stake in the following subsidiaries

	Current Stake	Additional stake acquired	Total stake
Tunis Bay Investment Company (TBIC)	51.41%	31.51%	82.92%
Residential South Real Estate Development Company (RSRED)	51.18%	48.82%	100%

21 *Acquisition of subsidiaries (continued)*

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

	US\$ 000's
Carrying amount of NCI acquired (based on historical cost)	49,469
Consideration to NCI (based on transaction price)	(100,881)
Decrease in equity attributable to shareholders of the Bank	(51,412)

22 OTHER INCOME

Other income includes gain recognised from settlements and write back of liabilities no longer required of US\$ 23.2 million, recoveries of expenses from project companies of US\$ 8.4 million and income of non-financial subsidiaries of US\$ 2 million (2019: US\$ 17 million).

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23 STAFF COST

	2020	2019
Salaries and benefits	43,746	47,054
Social insurance expenses	3,326	3,536
	47,072	50,590

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 – 2019 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus		
2020 Awards	Long term incentive plan (LTIP) share awards	Select Senior Management	During 2020, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a ratable vesting schedule over a period of six years. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include leverage features and are entitled to dividends, if any, released along with the vested shares.

Share incentive scheme

	2020		2019	
	No. of Shares	USD 000's	No. of Shares	USD 000's
Opening balance	37,531,546	11,039	26,547,980	10,408
Awarded during the period				
- Deferred Annual Bonus	5,316,072	1,259	24,531,867	6,259
- LTIP shares	257,715,531	26,860	-	-
Bonus shares	-	-	2,893,887	-
Forfeiture and other adjustments	-	-	(2,638,466)	-
Transfer to employees / settlement	(55,298,795)	(9,395)	(13,803,722)	(5,628)
Closing balance	245,264,354	29,763	37,531,546	11,039

In case of the employee share purchase plans and LTIP, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares

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24 OTHER OPERATING EXPENSES

	2020	2019
Investment advisory expenses	13,091	14,186
Rent	4,002	4,976
Professional and consultancy fees	9,073	5,616
Legal expenses	4,379	3,502
Depreciation	2,268	2,172
Expenses relating to non-banking subsidiaries	17,428	4,562
Other operating expenses	14,945	16,831
	65,186	51,845

25 IMPAIRMENT ALLOWANCES

	2020	2019
Bank balances	5	(126)
Treasury portfolio		
- Placements with financial institutions	(1,077)	161
- Equity and debt type securities	2,556	19
Financing assets (note 8)	9,160	44,804
Investment property (note 9)	-	799
Proprietary investments (note 10 (ii) and (iii))	13,476	-
Co-investments (note 11)	-	8,970
Other receivables	2,761	(146)
Commitments and financial guarantees	(82)	(217)
	26,799	54,264

26 GOVERNMENT ASSISTANCE AND SUBSIDIES

Due to Covid-19, the Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

During the year, the Group received financial assistance of US\$ 4,954 thousands comprising reimbursement of staff costs and waiver of utility and other charges and zero-cost repo funding from the government of the Kingdom of Bahrain that has been recognised directly in equity.

27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

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27 RELATED PARTY TRANSACTIONS (continued)

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

Transactions	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
Sale of investment banking products	-	-	-	137,100	137,100

2020	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
Assets					
Treasury portfolio	-	-	35,000	-	35,000
Financing assets	-	9,485	17,695	29,848	57,028
Proprietary investment	114,250	-	16,058	49,170	179,478
Co investment	-	-	-	70,715	70,715
Receivables and prepayments	4,622	-	-	132,616	137,238
Liabilities					
Customer current account	358	225	17,995	3,212	21,790
Placements from financial, non-financial institutions and individuals	-	5,584	112,568	-	118,152
Payables and accruals	-	500	2,732	74,242	77,474
Equity of investment account holders	1,095	639	99,579	865	102,178

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27 RELATED PARTY TRANSACTIONS (continued)

	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2020					
Income					
Income from investment banking	-	-	-	73,266	73,266
Income from commercial banking	(886)	(5)	(7,342)	(24)	(8,257)
Income from proprietary and co-investments	(1,015)	-	-	8,854	7,839
Treasury and other income	-	-	-	5,159	5,159
Expenses					
Operating expenses	-	11,171 *	385	66	11,622

* The amount presented excluded bonus to key management personnel for 2020 as allocation has not been finalized at the date of approval of these consolidated financial statements.

	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2019					
Assets					
Financing assets	-	5,350	15,146	60,752	81,248
Proprietary investment	115,617	-	6,058	47,881	169,556
Co investment	-	-	-	51,950	51,950
Receivables and prepayments	2,393	-	5,000	60,642	68,035
Liabilities					
Clients' funds	72	-	-	15,409	15,481
Customer current account	-	4,732	-	-	4,732
Placements from financial, non-financial institutions and individuals	515	162	14,193	3,202	18,072
Payables and accruals	1,133	1,800	11,679	11,679	26,291
Equity of investment account holders	1,072	1,586	299,416	1,008	303,082

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27 **RELATED PARTY TRANSACTIONS (continued)**

	Related parties			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2019					
Income					
Income from investment banking	-	-	-	95,771	95,771
Income from commercial banking	(151)	292	(10,027)	(29)	(9,915)
Income from proprietary and co-investments	7,410	-	-	2,358	9,768
Real estate income	-	50	13,392	-	13,442
Treasury and other income	313	-	-	1,301	1,614
Expenses					
Operating expenses	-	16,718	-	-	16,718
Finance expenses	-	-	623	-	623

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

	2020	2019
Board members' remuneration, fees and allowance	1,673	3,213
Salaries, other short-term benefits and expenses	9,222	13,289
Post-employment benefits	276	216

28 ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

- i. The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US\$ 3,012 million (31 December 2019: US\$ 1,975 million). During the year, the Group had charged management fees amounting to US\$ 4,895 thousand (31 December 2020: US\$ 2,880 thousand) to its assets under management.
- ii. Custodial assets comprise discretionary portfolio management ('DPM') of US\$ 453,937 thousand, of which US\$ 129,166 thousand has been invested in the Bank's investment products. Further, the Bank is also holding Sukuk of US\$ 41,611 thousand on behalf of investors.

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29 EARNINGS PER SHARE*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

<i>In thousands of shares</i>	2020	2019
Weighted average number of shares for basic and diluted earnings	3,341,730	3,343,148

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2020. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

30 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2019 is US\$ 0.0001542/share and the current year calculations for zakah are yet to be approved by the Group's Shari'a Supervisory Board and will be provided for in the Bank's website.

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

31 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US\$ 129 thousand (2019: US\$ 336 thousand).

32 SHARI'A SUPERVISORY BOARD

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

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33 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 38.

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	515,867	4,973	10,393	5,269	-	-	536,502
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	-	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	-	1,267,266
Real estate investment	-	-	-	871,993	940,322	-	1,812,315
Proprietary investments	-	2,448	56,273	110,131	87,256	-	256,108
Co-investments	-	2,676	8,987	108,597	6,059	-	126,319
Receivables and prepayments	128,512	23,874	709 43,250	410,022	-	-	605,658
Property and equipment	-	-	-	-	144,149	-	144,149
Total assets	1,654,289	154,029	279,031	2,337,709	2,161,805	-	6,586,863
Liabilities							
Client's funds	103,517	-	-	27,418	-	-	130,935
Placements from financial, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	-	2,418,000
Customer current account	38,477	14,374	15,607	17,836	54,462	-	140,756
Term financing	307,241	53,340	143,357	271,774	313,365	-	1,089,077
Payables and accruals	81,145	25,548	288,748	69,597	-	-	465,038
Total liabilities	1,531,575	727,903	939,309	600,726	444,293	-	4,243,806
Equity of investment account holders	283,905	194,080	285,764	193,745	199,499	-	1,156,993
<i>Off-balance sheet items</i>							
Commitments	21,171	15,601	25,133	65,444	18,363	-	145,712
Restricted investment accounts	-	-	-	28,451	-	-	28,451

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33 MATURITY PROFILE (continued)

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	328,004	12,538	14,553	9,503,503	-	-	364,598
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	-	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	-	1,272,777
Real estate investment	-	-	4,349	899,472	902,188	-	1,806,009
Proprietary investments	2,451	-	18,718	115,505	131,501	-	268,175
Co-investments	-	2,676	-	87,080	6,751	-	96,507
Receivables and prepayments	115,841	113,598	77,342	133,584	4,324	-	444,689
Property and equipment	-	-	-	-	103,857	-	103,857
Total assets	1,504,825	287,618	480,907	1,931,815	1,740,108	-	5,945,273
Liabilities							
Client's funds	55,931	-	-	14,927	-	-	70,858
Placements from financial, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	-	2,447,249
Customer current account	40,746	15,000	16,288	18,615	56,838	-	147,487
Term financing	47,649	30,888	164,059	45,424	13,391	-	301,411
Payables and accruals	37,029	44,519	30,893	343,096	11,315	-	466,852
Total liabilities	1,183,354	563,058	619,856	973,579	94,010	-	3,433,857
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	-	1,218,545
<i>Off-balance sheet items</i>							
Commitments	87,000	46,645	15,801	105,415	270	-	255,131
Restricted investment accounts	154	-	-	-	28,306	-	28,460

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34 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**(a) Industry sector****31 December 2020****Assets**

Cash and bank balances

Treasury portfolio

Financing Assets

Real estate investments

Proprietary investment

Co-investment

Receivables and prepayments

Property and equipment

Total assets**Liabilities**

Client's funds

Placements from financial, non-financial institutions and individuals

Customer accounts

Term financing

Payables and accruals

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

Commitments

Restricted investment accounts

	Banks and financial institutions	Real estate	Others	Total
Cash and bank balances	526,253	5,571	4,678	536,502
Treasury portfolio	1,140,276	56,184	642,086	1,838,546
Financing Assets	112,111	555,192	599,963	1,267,266
Real estate investments	-	1,812,315	-	1,812,315
Proprietary investment	29,733	161,940	64,435	256,108
Co-investment	-	103,837	22,482	126,319
Receivables and prepayments	458,794	36,820	110,044	605,658
Property and equipment	3,137	22,233	118,779	144,149
Total assets	2,270,304	2,754,092	1,562,467	6,586,863
Client's funds	3,152	-	127,783	130,935
Placements from financial, non-financial institutions and individuals	1,533,003	113,523	771,474	2,418,000
Customer accounts	2,471	18,615	119,670	140,756
Term financing	1,045,797	19,919	23,361	1,089,077
Payables and accruals	188,460	174,676	101,902	465,038
Total liabilities	2,772,883	326,733	1,144,190	4,243,806
Equity of Investment account holders	82,707	156,952	917,334	1,156,993
Commitments	-	65,102	80,610	145,712
Restricted investment accounts	-	25,817	2,634	28,451

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

(a) Industry sector (continued)

	Banks and financial institutions	Real estate	Others	Total
31 December 2019				
Assets				
Cash and bank balances	358,145	4,190	2,263	364,598
Treasury portfolio	1,525,963	-	62,698	1,588,661
Financing Assets	20,842	548,799	703,136	1,272,777
Real estate investments	-	1,806,009	-	1,806,009
Proprietary investment	106,938	93,419	67,818	268,175
Co-investment	-	96,507	-	96,507
Receivables and prepayments	148,905	169,645	126,139	444,689
Property and equipment	-	20,155	83,702	103,857
Total assets	2,160,793	2,738,724	1,045,756	5,945,273
Liabilities				
Client's funds	3,197	15,376	52,285	70,858
Placements from financial, non-financial institutions and individuals	1,788,063	-	659,186	2,447,249
Customer accounts	5,725	19,687	122,075	147,487
Term financing	246,429	32,989	21,993	301,411
Payables and accruals	18,060	312,685	136,107	466,852
Total liabilities	2,061,474	380,737	991,646	3,433,857
Equity of Investment account holders	22,379	316,878	879,288	1,218,545
Off-balance sheet items				
Commitments	-	162,886	92,245	255,131
Restricted investment accounts	104	25,746	2,610	28,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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

(b) Geographic region

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2020						
Assets						
Cash and bank balances	451,512	4,105	1,349	32,788	46,748	536,502
Treasury portfolio	1,507,398	12	-	74,600	256,536	1,838,546
Financing assets	1,246,979	-	5,939	14,348	-	1,267,266
Real estate investment	982,767	490,031	339,517	-	-	1,812,315
Proprietary investment	205,089	-	-	-	51,019	256,108
Co-investments	38,975	-	49,199	35,663	2,482	126,319
Receivables and prepayments	513,902	10,116	11,128	14,840	55,672	605,658
Property and equipment	139,794	4,333	-	-	22	144,149
Total assets	5,086,416	508,597	407,132	172,239	412,479	6,586,863
Liabilities						
Client's funds	115,817	-	-	15,118	-	130,935
Placements from financial, non-financial institutions and individuals	2,315,744	87,805	199	-	14,252	2,418,000
Customer accounts	142,812	(788)	(1,958)	-	690	140,756
Financing liabilities	717,236	-	-	-	371,841	1,089,077
Payables and accruals	290,972	90,852	65,104	2,987	15,123	465,038
Total liabilities	3,582,581	177,869	63,345	18,105	401,906	4,243,806
Equity of investment account holders	1,133,272	4,000	19,610	-	111	1,156,993
Off-balance sheet items						
Commitments	113,141	2,879	10,558	19,134	-	145,712
Restricted investment accounts	25,817	-	-	-	2,634	28,451

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

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

(b) Geography sector (continued)

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2019						
Assets						
Cash and bank balances	305,769	606	1,393	51,649	5,181	364,598
Treasury portfolio	1,338,826	10,028	-	29,900	209,907	1,588,661
Financing assets	1,242,257	-	37	14,307	16,176	1,272,777
Real estate investment	983,421	470,551	352,037	-	-	1,806,009
Proprietary investment	267,078	-	-	-	1,097	268,175
Co-investments	18,942	-	49,198	18,452	9,915	96,507
Receivables and prepayments	278,091	30,825	25,730	41,363	68,680	444,689
Property and equipment	101,602	2,255	-	-	-	103,857
Total assets	4,535,986	514,265	428,395	155,671	310,956	5,945,273
Liabilities						
Client's funds	55,409	521	-	14,928	-	70,858
Placements from financial, non-financial institutions and individuals	2,342,735	102,496	-	-	2,018	2,447,249
Customer accounts	145,165	-	1,639	-	683	147,487
Financing liabilities	119,205	-	-	-	182,206	301,411
Payables and accruals	263,952	123,157	65,701	13,408	634	466,852
Total liabilities	2,926,466	226,174	67,340	28,336	185,541	3,433,857
Equity of investment account holders	1,211,821	-	4,883	-	1,841	1,218,545
Off-balance sheet items						
Commitments	255,131	-	-	-	-	255,131
Restricted investment accounts	25,850	-	-	-	2,610	28,460

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

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35 OPERATING SEGMENTS

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

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large-scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.
- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.
- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.
- **Corporate and treasury** - All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the Corporate and treasury activities of the Group.

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

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

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35 OPERATING SEGMENTS (continued)

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

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2020					
Segment revenue	19,457	80,631	65,313	157,993	323,394
Segment expenses (including impairment allowances)	(21,628)	(69,152)	(44,343)	(138,928)	(274,051)
Segment result	(2,071)	11,480	20,970	18,964	49,343
Segment assets	1,746,751	929,392	2,693,884	1,216,836	6,586,863
Segment liabilities	256,879	615,022	1,159,795	2,212,110	4,243,806
<i>Other segment information</i>					
Impairment allowance	246	2,203	11,515	12,835	26,799
Equity accounted investees	5,702	18,335	54,013	-	78,050
Equity of investment account holders	-	-	858,057	298,936	1,156,993
Commitments	35,449	-	110,263	-	145,712

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35 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2019					
Segment revenue*	40,416	95,851	67,790	117,555	321,612
Segment expenses (including impairment allowances)	(21,636)	(52,709)	(107,649)	(86,035)	(268,029)
Segment result	18,780	43,141	(39,859)	31,054	53,116
Segment assets	1,890,067	539,236	2,492,711	1,023,259	5,945,273
Segment liabilities	331,077	590,478	898,412	1,613,890	3,433,857
<i>Other segment information</i>					
Impairment allowance	49	130	54,081	4	54,264
Equity accounted investees	46,300	57,317	12,000	-	115,617
Equity of investment account holders	-	-	1,217,950	595	1,218,545
Commitments	25,541	-	214,090	15,500	255,131

* Includes segment result of discontinued operations, net.

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36 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2020 and 31 December 2019, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models.

As at 31 December 2020, the fair value of term financing was estimated at US\$ 1,089,077 thousand (carrying value US\$ 1,089,077 thousand) (31 December 2019: fair value US\$ 301,411 thousand (carrying value US\$ 301,411 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of term financing as these are largely floating rate instruments.

Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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36 FINANCIAL INSTRUMENTS (continued)

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

	2020	2019
At 1 January	221,741	208,113
Total gains / (losses) in income statement	(1,326)	(14,205)
Transfer from Level 2	155,250	-
Disposals at carrying value	(41,685)	(1,680)
Purchases	63,623	29,513
Fair value changes during the year	(7,036)	-
At 31 December	390,567	221,741

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37 COMMITMENTS AND CONTINGENCIES

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

	31 December 2020	31 December 2019
Undrawn commitments to extend finance	83,260	182,695
Financial guarantees	27,003	31,395
Capital commitments for infrastructure development projects	22,449	17,541
Commitment to lend	13,000	23,500
	145,712	255,131

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2020 due to the performance of any of its projects.

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

38 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4. The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Risk management framework

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

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38 FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

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

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also, the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in of other revenue.

In September 2020, the CBB issued another regulatory directive to extend the concessionary measures, i.e. payment holiday to customers till end of December 2020. However, customers will be charged profits during this payment holiday extension period, and hence the Group does not expect significant modification loss as a result of the extension. This payment holiday is expected to further delay expected contractual cash inflows of the Group for four months. However, the management will take appropriate steps to mitigate its impact on the liquidity position.

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

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38 *FINANCIAL RISK MANAGEMENT (continued)*a) *Credit risk (continued)****Management of investment and credit risk***

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

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38 *FINANCIAL RISK MANAGEMENT (continued)*a) *Credit risk (continued)***Exposures subject to credit risk**

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Balances with banks and placements with financial institutions				
Grade 1 -6 Low-Fair Risk	693,121	-	-	693,121
Gross carrying amount	693,121	-	-	693,121
Less expected credit losses				
Net carrying amount	693,121	-	-	693,121
Financing facilities				
Grade 8 -10 Impaired	-	-	106,040	106,040
Past due but not impaired				
Grade 1-6 Low-Fair Risk	24,531	2,639	-	27,170
Grade 7 Watch list	69	43,875	-	43,944
<u>Past due comprises:</u>				
Up to 30 days	22,804	41,981	-	64,785
30-60 days	218	3,334	-	3,552
60-90 days	1,578	1,199	-	2,777
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	641,851	27,748	-	669,599
Grade 7 Watch list	554	14,162	-	14,716
Gross carrying amount	667,005	88,424	106,040	861,469
Less expected credit losses	19,178	5,130	20,928	45,236
Net carrying amount	647,827	83,294	85,112	816,233
Assets acquired for leasing				
Grade 8-10 impaired	-	-	40,342	40,342
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,602	28,576	-	57,178
Grade 7 Watch list	3,337	849	-	4,186
<u>Past due comprises:</u>				
Up to 30 days	7,377	955	-	8,332
30-60 days	5,347	295	-	5,642
60-90 days	19,215	28,175	-	47,390
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	221,814	28,061	-	249,875
Grade 7 Watch list	26,244	3,440	-	29,684

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	279,997	60,926	40,342	381,265
Less expected credit losses	1,446	1,127	7,995	10,568
Net carrying amount	278,551	59,799	32,347	370,697
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	3,493	3,493
Grade 1-6 Low-Fair Risk	1,299,047	45,210	-	1,344,257
Gross carrying amount	1,299,047	45,210	3,493	1,347,750
Less: expected credit losses	1,738	870	3,493	6,101
Net carrying amount	1,297,309	44,340	-	1,341,649
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	1,928	1,928
Grade 1-6 Low-Fair Risk	136,532	6,968	-	143,500
Grade 7 Watch list	-	284	-	284
Gross carrying amount (note 37)	136,532	7,252	1,928	145,712
Less: expected credit losses	411	13	202	626
Net carrying amount	136,121	7,239	1,726	145,086
Total net carrying amount	3,052,929	194,672	119,185	3,366,786

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38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions				
Grade 1 -6 Low-Fair Risk	547,684	-	-	547,684
Gross carrying amount	547,684	-	-	547,684
Less expected credit losses	(1,109)	-	-	(1,109)
Net carrying amount	546,575	-	-	546,575
Financing facilities				
Grade 8 -10 Impaired	-	5,126	193,454	198,580
Past due but not impaired				
Grade 1-6 Low-Fair Risk	89,188	18,011	149	107,348
Grade 7 Watch list	24	18,215	16	18,255
<u>Past due comprises:</u>				
Up to 30 days	79,706	10,735	48	90,489
30-60 days	48	4,928	109	5,085
60-90 days	9,458	20,563	8	30,029
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	666,548	32,141	1,683	700,372
Grade 7 Watch list	231	4,721	3	4,955
Gross carrying amount	755,991	78,214	195,305	1,029,510
Less expected credit losses	-10,153	-7,487	-81,525	-99,165
Net carrying amount	745,838	70,727	113,780	930,345
Assets acquired for leasing				
Grade 1-6 Low-Fair Risk	-	-	93,202	93,202
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,549	19,896	2,040	55,485
Grade 7 Watch list	-	8,679	-	8,679
<u>Past due comprises:</u>				
Up to 30 days	29,761	19,793	279	49,833
30-60 days	3,788	6,920	1,761	12,469
60-90 days	-	1,862	-	1,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Commitments and financial guarantees				
<i>Grade 8 -10 Impaired</i>	-	15,500	4,406	19,906
<i>Grade 1-6 Low-Fair Risk</i>	230,915	5,077	-	235,992
<i>Grade 7 Watch list</i>	-	32	-	32
Gross carrying amount (note 37)	230,915	20,609	4,406	255,930
Less: expected credit losses	-464	-133	-202	-799
Net carrying amount	230,451	20,476	4,204	255,131
Total net carrying amount	2,915,487	128,516	206,337	3,250,340

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- Downgrade in risk rating according to the approved ECL policy;
- Facilities restructured during previous twelve months;
- Qualitative indicators; and
- Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

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38 FINANCIAL RISK MANAGEMENT (continued)**Corporate exposures**

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)***Determining whether credit risk has increased significantly***

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. For the purpose of calculating ECL for the year ended 31 December 2020, the Bank has applied the backstop of 74 days as against 30 days, in line with the CBB concessionary measures.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2020 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. For the purpose of calculating ECL on the commercial bank's financial assets and assets acquired for leasing for the year ended 31 December 2020, the Group has applied the 3 months as against 12 months, in order to assess consistent good payment behaviour of customer this is in line with the CBB concessionary measures.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

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38 FINANCIAL RISK MANAGEMENT (continued)**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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

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

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38 FINANCIAL RISK MANAGEMENT (continued)

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
2020				
Balance at 1 January 2019	14,395	2,775	98,082	115,252
Transfer to 12-month ECL	3,793	(2,597)	(1,196)	-
Transfer to lifetime ECL non- credit-impaired	(1,049)	6,585	(5,536)	-
Transfer to lifetime ECL credit- impaired	(2,629)	(3,100)	5,729	-
Net re-measurement of loss allowance	8,552	2,728	6,080	17,360
Charge for the period	(716)	-	(54,055)	(54,771)
Balance at 31 December	22,346	6,391	49,104	77,841

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

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2020
2020				
Balances with banks	15	-	-	15
Treasury portfolio	1,109	120	4,994	6,223
Financing assets	19,289	5,130	20,931	45,350
Other financial receivables	1,522	1,128	10,977	13,627
Proprietary investments	-	-	12,000	12,000
Financing commitments and financial guarantees	411	13	202	626
Balance at 31 December	22,346	6,391	49,104	77,841

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
2019				
Balance at 1 January 2019	14,776	10,392	49,843	75,011
Transfer to 12-month ECL	3,549	(2,966)	(583)	-
Transfer to lifetime ECL non- credit-impaired	(1,326)	1,602	(276)	-
Transfer to lifetime ECL credit- impaired	(2,286)	(2,273)	4,559	-
Net re-measurement of loss allowance	(63)	(3,637)	3,700	-
Charge for the period	(255)	(343)	40,839	40,241
Balance at 31 December	14,395	2,775	98,082	115,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)

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

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
2019				
Balances with banks	8	-	-	8
Treasury portfolio	1,138	-	3,493	4,631
Financing assets	10,525	8,484	88,700	107,709
Other financial receivables	2,260	(5,842)	5,687	2,105
Financing commitments and financial guarantees	464	133	202	799
Balance at 31 December	14,395	2,775	98,082	115,252

Renegotiated facilities

During the year, facilities of US\$ 52,191 thousands (2019: USD 100,576 thousand) were renegotiated, out of which US\$ 16,064 thousand (2019: US\$ 2,907 thousand) are classified as neither past due nor impaired as of 31 December 2020. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US\$ 221,782 thousand (2019: US\$ 440,406 thousand) only instalments of US\$ 112,878 thousand (2019: US\$ 97,149 thousand) are past due as at 31 December 2020.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to US\$ 29,204 (2019: Nil thousand) which were fully impaired. The Bank has recovered US\$ 1,666 thousand from a financing facility written off in previous years (2018: US\$ 2,557 thousand).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

US\$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)
Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in notes 33 (a) and (b).

	31 December 2020			31 December 2019		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	45,141	31,401	76,542	53,531	86,111	139,642
Other	3,082	-	3,082	5,008	-	5,008
<u>Against past due but not impaired</u>						
Property	61,987	60,894	122,881	93,952	63,525	157,477
Other	1,666	-	1,666	3,069	-	3,069
<u>Against neither past due nor impaired</u>						
Property	373,642	278,973	652,615	256,578	237,881	494,459
Other	45,987	-	45,987	24,615	-	24,615
Total	531,505	371,268	902,773	436,753	387,517	824,270

The average collateral coverage ratio on secured facilities is 149.71% as at 31 December 2020 (31 December 2019: 130.5%).

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38 FINANCIAL RISK MANAGEMENT (continued)

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

Concentration by Sector	31 December 2020			31 December 2019		
	Financing assets	Assets acquired for leasing	Total	Financing assets	Assets acquired for leasing	Total
Banking and finance	11,725	-	11,725	20,841	-	20,841
Real estate	351,829	303,748	655,577	220,675	309,164	529,839
Construction	150,194	-	150,194	135,379	-	135,379
Trading	129,844	-	129,844	151,788	-	151,788
Manufacturing	38,772	-	38,772	37,016	-	37,016
Others	248,207	32,947	281,154	364,646	33,268	397,914
Total carrying amount	930,571	336,695	1,267,266	930,345	342,432	1,272,777

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The effect of COVID-19 on the liquidity and funding risk profile of the banking system is evolving and is subject to ongoing monitoring and evaluation.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB from March 2020 to 30 June 2021. This payment holiday is expected to delay expected contractual cash inflows of the Group. However, the management will take appropriate steps to mitigate its impact on the liquidity position.

The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in the banking sector including, concessionary repos at zero percent, reduction of cash reserve ratio from 5% to 3%; and reduction in LCR and NSFR ratio from 100% to 80%;

In response to COVID-19 outbreak, the Group continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress.

As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2020 have been disclosed below.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

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38 FINANCIAL RISK MANAGEMENT (continued)

The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

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

- concessionary repo to eligible banks at zero percent;
- reduction of cash reserve ratio from 5% to 3%; and
- reduction in LCR and NSFR ratio from 100% to 80%.

In response to COVID-19 outbreak, the Group invoked its liquidity contingency plan and continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2020 have been disclosed below.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

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38 FINANCIAL RISK MANAGEMENT (continued)

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2020							
Financial liabilities							
Clients' funds	103,517	-	-	27,418	-	130,935	130,935
Placements from financial, non-financial institutions and individuals	972,171	565,735	544,618	358,306	84,380	2,525,210	2,418,000
Customer current accounts	38,477	14,374	15,607	17,836	54,462	140,756	140,756
Term financing	308,917	65,516	168,124	324,314	328,747	1,195,618	1,089,077
Payables and accruals	81,145	25,548	288,748	69,597	-	465,038	465,038
Total liabilities	1,504,227	671,173	1,017,097	797,471	467,589	4,457,557	4,243,806
Equity of investment account holders							
Commitment and contingencies	762,918	194,080	285,764	193,745	199,499	1,636,006	1,156,993
	21,171	15,601	25,133	65,444	18,363	145,712	145,712

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2019							
Financial liabilities							
Clients' funds	55,931	-	-	14,926	-	70,857	70,858
Placements from financial, non-financial institutions and individuals	1,061,149	579,770	469,679	386,881	4,859	2,502,338	2,447,249
Customer current accounts	40,746	15,000	16,288	18,615	56,838	147,487	147,487
Term financing	47,744	31,377	206,902	19,899	21,212	327,134	301,411
Payables and accruals	36,729	44,519	30,894	343,395	11,315	466,852	466,852
Total liabilities	1,242,299	670,666	723,763	783,716	94,224	3,514,668	3,433,857
Equity of investment account holders							
Commitment and contingencies	186,358	236,726	345,896	236,624	254,350	1,259,954	1,218,545
	87,000	46,645	15,801	105,415	270	255,131	255,131

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38 FINANCIAL RISK MANAGEMENT (continued)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter-bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2020	2019
At 31 December	36.35%	33.31%
Average for the year	35.62%	33.94%
Maximum for the year	36.35%	34.63%
Minimum for the year	34.48%	33.31%

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Until 31 December 2021, the Bank is required to maintain LCR greater than 80%. As of 31 December 2020, the Bank had LCR ratio of 240%.

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Until 31 December 2021, the Bank is required to maintain NSFR ratio greater than 80%. As of 31 December 2020, the Bank had NSFR ratio of 97%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

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

31 December 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	880,830	60,209	26,401	374,068	497,038	1,838,546
Financing assets	129,080	59,849	133,727	457,629	486,981	1,267,266
Total assets	1,009,910	120,058	160,128	831,697	984,019	3,105,812
Liabilities						
Client's fund	103,517	-	-	27,418	-	130,935
Placements from financial institutions, non-financial institutions and individuals	1,001,195	634,641	491,597	214,101	76,466	2,418,000
Term financing	307,241	53,340	143,357	271,774	313,365	1,089,077
Total liabilities	1,411,953	687,981	634,954	513,293	389,831	3,638,012
Equity of investment account holders	283,905	194,080	285,764	193,745	199,499	1,156,993
Profit rate sensitivity gap	(685,948)	(762,003)	(760,590)	124,659	394,689	(1,689,193)

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38 FINANCIAL RISK MANAGEMENT (continued)

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	1,272,777
Total assets	1,058,529	158,806	365,945	686,671	591,487	2,861,438
Liabilities						
Client's fund	55,931	-	-	14,927	-	70,858
Placements from financial institutions, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	2,447,249
Term financing	47,649	30,888	164,059	45,424	13,391	301,411
Total liabilities	1,105,579	503,539	572,675	611,868	25,857	2,819,518
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	1,218,545
Profit rate sensitivity gap	(227,300)	(573,675)	(541,252)	(154,041)	319,643	(1,176,625)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	2020	2019
At 31 December	±16,892	±11,766
Average for the year	±15,584	±10,940
Maximum for the year	±16,892	±11,766
Minimum for the year	±15,593	±10,388

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2020	2019
Placements with financial institutions	3.68%	3.27%
Financing assets	6.59%	6.71%
Debt type investments	6.57%	6.85%
Placements from financial institutions, other entities and individuals	4.38%	4.02%
Term financing	6.80%	6.71%
Equity of investment account holders	3.55%	1.83%

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38 FINANCIAL RISK MANAGEMENT (continued)

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2020 US\$ '000 Equivalent	2019 US\$ '000 Equivalent
Sterling Pounds	1,449	9,511
Euro	(2,654)	(674)
Australian Dollars	13,528	12,223
Kuwaiti Dinar	39,887	41,867
Jordanian Dinar	6	6
Egyptian Pound	-	22,458
Moroccan Dirham	150,263	150,263
Tunisian Dinar	292,333	309,800
Indian Rupee	306,555	306,004
Other GCC Currencies (*)	(1,380,099)	(1,679,101)

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

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

	2020 US\$ '000 Equivalent	2019 US\$ '000 Equivalent
Sterling Pounds	±72	±476
Euros	±133	±34
Australian dollar	±676	±611
Kuwaiti dinar	±1,994	±2,093
Egyptian Pound	±0.32	±1,123
Jordanian Dinar	-	±0.32
Moroccan Dirham	±7,513	±7,513
Tunisian Dinar	±14,617	±15,490
Indian rupee	±15,328	±15,300

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

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38 FINANCIAL RISK MANAGEMENT (continued)**d) Operational risk**

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

During 2020, the Group did not have any significant issues relating to operational risks.

39 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

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

Tier 1 capital: includes CET1 and AT1.

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

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

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39 CAPITAL MANAGEMENT (continued)**Tier 2 capital**

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

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

To combined the effect of Covid 19, the CBB has allowed the Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The Bank's regulatory capital position was as follows:

	31 December 2020	31 December 2019
CET 1 Capital before regulatory adjustments	1,025,835	1,078,079
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	1,025,835	1,078,079
T 2 Capital adjustments	76,062	36,008
Regulatory Capital	1,115,945	1,122,871
Risk weighted exposure:		
Credit Risk Weighted Assets	7,647,064	7,776,802
Market Risk Weighted Assets	72,038	79,231
Operational Risk Weighted Assets	552,821	474,052
Total Regulatory Risk Weighted Assets	8,271,923	8,330,085
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	8,271,918	8,330,080
Capital Adequacy Ratio	13.49%	13.49%
Tier 1 Capital Adequacy Ratio	12.57%	13.06%

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Minimum required by CBB	12.50%	12.50%
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39 CAPITAL MANAGEMENT (continued)

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

40 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or total owners' equity except to extent disclosed in notes 4 (a) and 12.

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

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

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

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

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

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

- 6) The CBB mandated 6-month payment holiday required the retail banking subsidiary of the Group to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- 7) The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received various forms of financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures.
- 8) The mandated 6 months payments holiday also included the requirement to suspend minimum payments and service fees on credit card balances and reduction in transaction related charges, this resulted in a significant decline in the Group's fees income from its retail banking operations.
- 9) The strain caused by COVID-19 on the local economy resulted in a slow-down in the sale of new asset management products and booking of new corporate financing assets by the Group. During the nine months ended 31 December 2020, placements of AuM were lower by 19.0% and financing assets bookings were lower by 30.8% than the same period of the previous year.

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- a. Decreased consumer spending caused by the economic slow-down in the booking of new consumer financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday. The Group's liquidity ratios and regulatory CAR were impacted but it continues to meet the revised regulatory requirement. The consolidated CAR, LCR and NSFR as of 31 December 2020 was 13.81%, 240% and 97% respectively.
- b. The stressed economic situation resulted in the Bank recognizing incremental ECL on its financing exposures.
- c. The overall economic effect of the pandemic was also reflected in the displacement and volatility in global debt and capital markets in YTD 2020 due to which the group had to recognize valuation losses on its Sukuk and investment portfolios.

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the period, the Bank achieved a net profit of USD 45.1 million, which is lower than USD 66.0 million in the same period of the previous year, registering a drop of 31.7%.

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

	Net Impact recognized in the Group's consolidated income statement	Net Impact on the Group's consolidated financial position	Net Impact recognized in the Group's consolidated owners' equity
Average reduction of cash reserve	-	22,828	-
Concessionary repo at 0%	-	129,676	-
Modification loss	-	(25,292)	(25,292)
Investment portfolio decline	(19,193)	(31,576)	(20,643)
Modification loss amortization	17,475	17,475	-
Incremental ECL provisions	(1,547)	(1,547)	-
Government grants	-	-	4,953
Lower fee income (retail banking)	(830)	-	-

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

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