Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Table of contents **Page**

Independent auditors' report to the shareholders	**1-5**
Consolidated statement of financial position	**6**
Consolidated income statement	**7**
Consolidated statement of changes in equity	**8**
Consolidated statement of cash flows	**9**
Notes to the consolidated financial statements	**10-66**
Unreviewed supplementary disclosures	**1-3**

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Al Salam Bank-Bahrain B.S.C.
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Al Salam Bank-Bahrain 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 equity, cash flows, 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, its cash flows, 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, 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 and finance lease assets
(Refer to accounting policy in Note 2.5 (d), use of estimates and judgments in Note 2.4 and management of credit risk in Note 32.2).

Description	How the matter was addressed in our audit
We focused on this area because: ▪ of the significance of financing and finance lease assets representing 57% of total assets; ▪ impairment of financing assets and assets acquired for leasing involves: ➢ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;	Our procedures, amongst others, included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, our business understanding and industry practice. • Confirming our understanding of management's processes, systems and controls implemented, including controls over ECL model development. ***Control testing*** We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process incorporating consideration of the economic

Description	How the matter was addressed in our audit
➢ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and ➢ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses; ▪ 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; and ▪ Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programs and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.	disruption caused by COVID-19. Key aspects of our control testing involved the following: • Performing detailed credit risk assessment for a sample of performing and non-performing financing contracts to test controls over credit rating and its monitoring process; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the ECL models; • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates; • Testing controls over the modelling process, including governance over model monitoring, validation and approval; • Testing key controls relating to selection and implementation of material economic variables; and • Testing controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays including selection of economic scenarios and the probability weights applied to them. ***Tests of details*** Key aspects of our testing involved: ▪ Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used; ▪ Re-performing key aspects of the Group's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; ▪ Re-performing key elements of the Group's model calculations and assessing performance results for accuracy; and ▪ Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. ***Use of specialists*** For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include: • We involved our information technology specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the impairment models; • We involved our credit risk specialists in: o evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used); o re-performing the calculation of certain components of the ECL model (including the staging criteria); o evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weighing applied to them; and o evaluating the overall reasonableness of the management economic forecast by comparing it to external market data

Description	How the matter was addressed in our audit
	and our understanding of the underlying sector and macroeconomic trends including the impact of COVID-19. ***Disclosures*** ▪ We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing and finance lease assets by reference to the requirements of relevant accounting standards.

Valuation of unquoted equity investments
Refer to accounting policy in Note 2.5 (k), use of estimates and judgments in Note 2.4 and Note 42

Description	How the matter was addressed in our audit
Non-trading investments include investment in unquoted equity securities that are carried at their fair values. We considered this as a key audit area we focused on because the valuation of unquoted equity securities (level 3 financial instruments) 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.	Our procedures, amongst others, included: ▪ Comparing the key underlying financial data inputs to external sources, investee company financial and management information, as applicable; ▪ Assessing the qualification and experience of the independent valuers by reading the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and ▪ With the involvement of our own valuation specialists, we performed the following testing: ○ evaluating the appropriateness of the valuation methodology used by the Group and its appointed experts, where applicable and compared with observed industry practice; and ○ evaluating the reasonableness of key input and assumptions used by using our knowledge of the industries in which the investees operate and industry norms; and ▪ Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.

Valuation of investment properties
Refer to accounting policy in Note 2.5 (m), use of estimates and judgments in Note 2.4 and Note 12

Description	How the scope of our audit addressed the matter
We considered this as a key audit area we focused on because of: ▪ the uncertainty prevalent in the property market; and ▪ application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates.	Our procedures, amongst others, included: ▪ With the involvement of our real estate valuation specialists, who by reference to their knowledge of the industry and available historical data: ○ evaluated the appropriateness of the valuation methodology used by the independent property valuer appointed by the Group; and ○ challenged the inputs and assumptions used in the valuation; ▪ Assessing the qualification and experience of the independent property valuers by reading the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and ▪ evaluating the adequacy of the Group's disclosures related to valuation of investment properties 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 board of directors' report and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the 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 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.

Auditors' responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ASIFIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ASIFIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

Report on other regulatory requirements

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

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

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

KPMG

KPMG Fakhroo
Partner Registration No. 137
10 February 2021

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Note	***2020*** ***BD '000***	*2019* *BD '000* *(Restated)*
ASSETS			
Cash and balances with banks and Central Bank	4	**288,266**	219,456
Sovereign Sukuk	5	**393,108**	345,305
Placements with financial institutions	6	**37,965**	114,803
Corporate Sukuk	7	**16,395**	22,162
Financing assets	8	**814,449**	685,756
Finance lease assets	9	**469,363**	389,742
Non-trading investments	11	**98,034**	108,991
Investment properties	12	**67,586**	72,774
Development properties	13	**2,943**	2,943
Investment in associates	14	**12,036**	10,640
Other assets	15	**35,237**	44,260
Goodwill	16	**25,971**	25,971
TOTAL ASSETS		**2,261,353**	2,042,803
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	6	**116,883**	211,459
Customers' current accounts		**363,970**	289,456
Murabaha term financing	17	**221,671**	145,590
Other liabilities	18	**52,282**	41,481
TOTAL LIABILITIES		**754,806**	687,986
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	19	**264,784**	210,887
Wakala and Mudaraba from customers	19	**960,596**	823,856
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		**1,225,380**	1,034,743
OWNERS' EQUITY			
Share capital	20	**230,450**	221,586
Treasury stock	20	**(7,530)**	(6,758)
Reserves		**57,846**	104,547
Total owners' equity		**280,766**	319,375
Non-controlling interest		**401**	699
TOTAL EQUITY		**281,167**	**320,074**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		**2,261,353**	2,042,803

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2020

	Note	***2020*** ***BD '000***	*2019* *BD '000* *(Restated)*
OPERATING INCOME			
Finance income	23	**74,863**	59,712
Income from Sukuk		**19,481**	17,066
(Loss) / Income from non-trading investments	24	**(8,964)**	2,633
Loss from properties	25	**(1,825)**	(1,442)
Fees and commission, net	26	**7,406**	7,639
Share of profit from associates	14	**1,953**	1,209
Other income	27	**3,665**	4,889
Total operating income		**96,579**	91,706
Finance expense on placements from financial institutions		**(4,265)**	(4,171)
Finance expense on Murabaha term financing		**(5,559)**	(5,583)
Return on equity of investment accountholders before Group's share as a Mudarib and Wakala		**(60,186)**	(50,271)
Group's share as a Mudarib		**925**	1,002
Group's Wakala fee		**29,926**	20,844
Share of profit of investment accountholders	19	**(29,335)**	(28,425)
Net operating income		**57,420**	53,527
OPERATING EXPENSES			
Staff cost	28.1	**14,759**	15,394
Premises cost		**2,293**	2,269
Depreciation		**1,882**	1,599
Other operating expenses	28.2	**11,091**	10,525
Total operating expenses		**30,025**	29,787
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**27,395**	23,740
Impairment charge for financing, net	10	**(17,136)**	(2,531)
Impairment charge for investment and others	10.1	**(1,141)**	(79)
NET PROFIT FOR THE YEAR		**9,118**	21,130
ATTRIBUTABLE TO:			
- Shareholders of the Bank		**9,142**	21,093
- Non-controlling interest		**(24)**	37
		9,118	21,130
Basic and diluted earnings per share (fils)	22	**4.3**	9.7

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

Amounts in BD '000s

	Attributable to shareholders of the Bank											
			Reserves									
	Share capital	***Treasury stock***	***Share premium***	***Statutory reserve***	***Accumulated loss / Retained earnings***	***Investment fair value reserve***	***Real estate fair value reserve***	***Foreign exchange translation reserve***	***Total reserves***	***Total owners' Equity***	***Non-controlling interest***	***Total Equity***
Balance as of 1 January 2020	**221,586**	**(6,758)**	**12,209**	**21,107**	**42,608**	**8,257**	**23,589**	**(3,223)**	**104,547**	**319,375**	**699**	**320,074**
Net profit for the year	**-**	**-**	**-**	**-**	**9,142**	**-**	**-**	**-**	**9,142**	**9,142**	**(24)**	**9,118**
Net changes in fair value	**-**	**-**	**-**	**-**	**-**	**-**	**(241)**	**-**	**(241)**	**(241)**	**-**	**(241)**
Movement in fair value of Sukuks	**-**	**-**	**-**	**-**	**-**	**1,587**	**-**	**-**	**1,587**	**1,587**	**-**	**1,587**
Foreign currency re-translation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(561)**	**(561)**	**(561)**	**-**	**(561)**
Total recognised income and expense	**-**	**-**	**-**	**-**	**9,142**	**1,587**	**(241)**	**(561)**	**9,927**	**9,927**	**(24)**	**9,903**
Bonus shares issued	**8,864**	**-**	**-**	**-**	**(8,864)**	**-**	**-**	**-**	**(8,864)**	**-**	**-**	**-**
Cash dividend for the year 2019	**-**	**-**	**-**	**-**	**(8,551)**	**-**	**-**	**-**	**(8,551)**	**(8,551)**	**-**	**(8,551)**
Modification loss (note 2.2)	**-**	**-**	**-**	**-**	**(24,768)**	**-**	**-**	**-**	**(24,768)**	**(24,768)**	**-**	**(24,768)**
Subsidy from government (note 2.2)	**-**	**-**	**-**	**-**	**2,143**	**-**	**-**	**-**	**2,143**	**2,143**	**-**	**2,143**
Purchase of treasury stock	**-**	**(772)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(772)**	**-**	**(772)**
Movements in non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(274)**	**(274)**
Transactions with non-controlling interest (note 20.2)	**-**	**-**	**-**	**-**	**(16,588)**	**-**	**-**	**-**	**(16,588)**	**(16,588)**	**-**	**(16,588)**
Transfer to statutory reserve	**-**	**-**	**-**	**671**	**(671)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2020	**230,450**	**(7,530)**	**12,209**	**21,778**	**(5,549)**	**9,844**	**23,348**	**(3,784)**	**57,846**	**280,766**	**401**	**281,167**
Balance as of 1 January 2019	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822
Impact of adopting FAS 33	-	-	-	-	(3,631)	-	-	-	(3,631)	(3,631)	-	(3,631)
Balance as at 1 January 2019 (restated)	214,093	(3,855)	12,209	18,998	38,470	199	23,589	(3,195)	90,270	300,508	683	301,191
Net profit for the year	-	-	-	-	21,093	-	-	-	21,093	21,093	37	21,130
Movement in fair value of Sukuks	-	-	-	-	-	8,268	-	-	8,268	8,268	-	8,268
Foreign currency re-translation	-	-	-	-	-	(210)	-	(28)	(238)	(238)	-	(238)
Total recognised income and expense	-	-	-	-	21,093	8,058	-	(28)	29,123	29,123	37	29,160
Bonus shares issued	7,493	-	-	-	(7,493)	-	-	-	(7,493)	-	-	-
Cash dividend for the year 2018	-	-	-	-	(7,353)	-	-	-	(7,353)	(7,353)	-	(7,353)
Purchase of treasury stock	-	(2,903)	-	-	-	-	-	-	-	(2,903)	-	(2,903)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(21)	(21)
Transfer to statutory reserve	-	-	-	2,109	(2,109)	-	-	-	-	-	-	-
Balance at 31 December 2019	221,586	(6,758)	12,209	21,107	42,608	8,257	23,589	(3,223)	104,547	319,375	699	320,074

The attached notes 1 to 45 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	2020 ***BD '000***	*2019* *BD '000* *(Restated)*
OPERATING ACTIVITIES		
Net profit for the year	**9,118**	21,130
Adjustments:		
Depreciation	**1,882**	1,599
Amortisation of premium on Sukuk - net	**-**	286
Loss from non-trading investments and properties	**10,616**	(1,191)
Net impairment charge	**18,277**	2,610
Impact of modification loss and government subsidies, net	**(23,170)**	-
Share of profit from associates	**(1,953)**	(1,209)
Operating income before changes in operating assets and liabilities	**14,770**	23,225
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	**10,093**	(5,938)
Balances with other banks **	**(9,955)**	-
Financing assets and finance lease assets	**(224,612)**	(250,630)
Other assets	**(6,835)**	778
Placements from financial institutions	**(94,576)**	177,637
Customers' current accounts	**74,514**	37,614
Other liabilities	**14,912**	(2,362)
Equity of investment accountholders	**190,637**	118,684
Net cash (used in) / from operating activities	**(31,052)**	99,008
INVESTING ACTIVITIES		
Sovereign Sukuk	**(46,440)**	12,942
Corporate Sukuk	**5,743**	(12,631)
Non-trading investments and properties	**4,147**	(371)
Investment in associates	**-**	6,303
Purchase of premises and equipment	**(2,304)**	(1,649)
Net cash (used in) / from investing activities	**(38,854)**	4,594
FINANCING ACTIVITIES		
Murabaha term financing	**76,081**	(9,953)
Dividends paid	**(12,993)**	(7,777)
Purchase of treasury stock	**(772)**	(2,903)
Net movements in non-controlling interest	**(274)**	(21)
Net cash from / (used in) financing activities	**62,042**	(20,654)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(7,864)**	82,948
Cash and cash equivalents at 1 January	**299,509**	216,561
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**291,645**	299,509
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	**82,286**	83,500
Balances with other banks **	**171,253**	101,107
Placements with financial institutions with original maturities of less than 90 days	**38,106**	114,902
	291,645	299,509

* Cash and cash equivalents as at 31 December 2020 is gross of the expected credit loss of BD 217 thousands (2019: BD 192 thousands)

** Balances with other banks is net of restricted cash of BD 9,955 thousands which is not available for day to day operations.

The attached notes 1 to 45 form part of these consolidated financial statements.

1 REPORTING ENTITY

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding 2020	% holding 2019
ASB Seychelles	Seychelles	Provide Banking services	**70%**	70%
ASB Biodiesel	Hong Kong	Production of Biodiesel	**36%**	36%

The Bank and its principal banking subsidiary operates through ten branches in the Kingdom of Bahrain and one branch in Seychelles respectively and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The economic interest in ASB Biodiesel is higher than the % holding due to existence of other class of equity and financing provided by the Bank.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 10 February 2021.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements of the Group are prepared on a historical cost basis, except for investment in sovereign and corporate sukuk, non-trading investments, investments properties and certain hedging instruments, which are carried at fair value.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest thousand [BD '000], except where otherwise indicated.

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

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Refer to note 2.2 for further details; and

(b) 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 the 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 recorded in equity as a result of (a) above, and the excess amount to be recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS. Refer to note 2.2 for further details.

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

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION AND PRESENTATION (continued)

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

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with FAS as issued by AAOIFI. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively and impact of adoption of new standards (note 2.6), all other accounting policies remain the same and have been consistently applied in this consolidated financial statement. The retrospective application of the change in accounting policies on adoption of FAS as modified by CBB did not result in any change to the financial information reported for the comparative year.

2.2 COVID-19 IMPACT

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 economic slowdown with uncertainties in the economic environment. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns.The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc.

Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group and its clients are expected to get some benefits from these Packages that will help them sustain the impact of the crisis.

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

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

As of 31 December 2020, the Bank is compliant with the required regulatory capital adequacy ratio, net stable funding ratio and liquidity coverage ratios.

IMPACT OF COVID-19 CONCESSIONARY MEASURES

1) Modification of financial assets

During the current year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19 (refer note 2.1), the one-off modification losses amounting to BD 24,768 thousands arising from the 6-month payment holiday provided to financing customers without charging additional profit has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holiday on financing exposures amounting to BD 896,279 thousands as part of its support to impacted customers.

2) Government assistance and subsidies

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

As per the regulatory directive, financial assistance amounting to BD 2,143 thousands representing specified reimbursement of a portion of staff costs and waiver of fees, levies, utility charges and cost of Repo funding received from the government and regulator, in response to its COVID-19 support measures, has been recognized directly in equity.

2 ACCOUNTING POLICIES (continued)

2.2 COVID-19 IMPACT (continued)

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the year and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process. In particular for assets, where underlying is long term real estate infrastructure projects, management has considered long term measures and likely recoveries. This may not significantly impact the underlying drivers of fair valuation of such assets.

Carrying value of the non-trading investment portfolio and investment properties, has reported a fair value loss of 8.1% and 2.4% respectively as at 31 December 2020 due to the ongoing volatility in the global and regional markets.

2.3 BASIS OF CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method when the acquired set of activities meets the definition of a business. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see 2.5 (q)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Investments acquired that do not meet the definition of business combination are recorded as assets acquisitions e.g. financial assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

2 ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION (continued)

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020. The financial statements of the subsidiaries are prepared for the same reporting year except for one subsidiary. All subsidiaries are using consistent accounting policies of the Bank.

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 the voting rights in the 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 financing or investment transaction and usually voting rights are not 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 finance 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 financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 37.

(iii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group.

(iv) Loss of control

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates 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 associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Foreign currency

(a) 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 Bahraini Dinars, which is the Bank's functional and presentation currency.

2 ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION (continued)

(b) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement as part of fair value changes.

(c) Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.5 (d) and 32.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of the cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for three years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 16 for further details.

Impairment of fair value through equity investments

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Fair value of unquoted equity
The Group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and 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. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Valuation of investments in private equity and joint ventures in real estate measured at fair value through profit and loss involve judgment and is normally based on one of the following:

- valuation by independent external valuers for underlying properties / projects;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

Estimating fair value of investment property and net realisable value of development property
Investment property are carried at their fair values. 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 Group appoints experienced external valuers to determine the market value of the investment and development properties at the balance sheet date. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. 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 / forecasted 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.

The 31 December 2020 valuation contains a 'material valuation uncertainty' clause due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021.

The Group calibrates the valuation techniques yearly and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Judgments

Going concern
The management has made an assessment of the Group's ability to continue on a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Control over 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 directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. 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.

Investment classification

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.

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield. The impact on investment classification on adoption of FAS 33 has been disclosed in note 2.6.

Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the consolidated statement of changes in equity is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

In the current uncertain and extra-ordinary market conditions, for the purpose of determination of what constitutes significant or prolonged decline in fair value of investments, the management takes into account the following additional factors:

- Their intention relating to the respective holding years of such investments i.e. for trading purposes, or with intention for strategic investment , or for long-term dividends and capital gains etc.;

- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition as a result of COVID-19;

- Forecasts of expected recovery of market values within the expected holding years; and/ or

- Forecasts of the expected recovery of the core business of the investee entity within the expected holding years and consequential cash flows to the institution.

Expected Credit Loss (ECL)

Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL are significant areas that require use of management judgements (refer note 32.2).

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, placements with financial institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion, non-trading investments in equity securities, derivatives used for risk management and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts, murabaha term financing and other payables.

Except for non-trading investments and derivatives used for risk management instruments, all financial assets and financial liabilities are carried at amortised cost.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

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

b) Trade and settlement date accounting

The Group recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

c) Derecognition

Financial assets 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

d) Impairment assessment

Impairment of financial assets and commitments

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets and assets acquired for leasing

At each reporting date, the Group assesses whether financial assets carried at amortised cost and finance lease assets are credit impaired. A financial asset and finance lease assets 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 a financial asset and finance lease asset is credit-impaired includes the following observable data:

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

Write-offs

Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-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.

Presentation of allowance for credit losses in the consolidated statement of financial position

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;

- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and

- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

e) Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions (excluding restricted balances) and placements with financial institutions with original maturities of 90 days or less when acquired.

f) Financing assets

Financing assets comprise of Sharia'a complaint financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba contracts and credit card based receivables. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing assets

If the terms of the financing asset are modified then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original financing asset are deemed to have expired. In this case, the original financing asset is derecognised and a new financing asset is recognised at fair value plus any eligible transaction cost.

If the modification of a financing asset measured at amortized cost does not result in the derecognition of the financing asset then the Group first recalculates the gross carrying amount of the financing asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

The above policy is applied for all reporting periods except for contracts that were subject CBB directives on COVID-19 related concessionary measures (refer note 2.2)

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

All Sharia compliant contracts are interpreted for accounting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to reflect the single economic outcome and purpose of the contracts.

f-i) Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

f-ii) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

f-iii) Musharaka

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

g) Finance lease assets

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement with the customers whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / years, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease years and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependent on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the income statement.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Modification of finance lease assets

If the terms of the finance lease assets are modified then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original finance lease assets are deemed to have expired. In this case, the original finance lease assets is derecognised and a new finance lease assets is recognised at fair value plus any eligible transaction cost.

If the modification of a finance lease assets measured at amortized cost does not result in the derecognition of the finance lease assets then the Group first recalculates the gross carrying amount of the finance lease assets using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

h) Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial instititions in the form of Commodity Murabaha receivables and Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

i) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed as debt-type securities are classified as investments carried at fair value through equity. Any change in fair value of the Sukuks will be recognized as a movement in the statement of changes in equity under fair value reserve. On de-recognition of Sukuks due to disposal, the balance in the fair value reserve will be recycled to the consolidated statement of income.

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.5 (k).

Liabilities under conversion:

These are remeasured at amortised cost.

k) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Subsequent to initial recognition, equity-type investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising form a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the year 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 equity and presented in a separate fair value reserve within equity. 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 equity is transferred to the income statement.

l) Investments in associates and joint ventures

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (note 2.5 (k)) are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

m) Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

n) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimates costs of completion and the estimated costs necessary to make the sale.

o) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is changed on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease year

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "assets held-for-sale" and "liabilities relating to assets classified as held-for-sale" respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

q) Goodwill

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

r) Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the consolidated statement of financial position when there is a religious or legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or intends to realise the asset and settle the liability simultaneously.

s) Customers' current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Bank. The transaction are measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Equity of investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Group to invest the accountholder's funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Group in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. Incase of Wakala contracts, the Bank does not acts as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

v) Employees' end-of-service 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.

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, 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 income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, 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.

w) Revenue recognition

Financing assets

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on effective yield basis over the contract term. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

Dividend

Dividend income is recognised when the Group's right to receive the dividend is established.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance lease assets

Finance lease income is recognised on a time-proportionate basis over the lease term. Income related to non-performing finance lease is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the year of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.
- Other fee income: This is recognised when services are rendered.

x) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

y) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position. These include assets under management and custodial assets.

z) Dividend on ordinary shares

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

aa) 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, when a payment under the guarantee has become probable.

ab) Treasury stock

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

ac) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ad) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure of financial facilities that are in default. Repossessed properties that are held for immediate sale, are measured at the lower of the carrying value on closure and fair value less cost to sell. Other repossessed properties are classified as investment property.

ae) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

2.6 STANDARDS ISSUED AND EFFECTIVE

Early adoption of new standards in current year

i. FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar)

The Group has early adopted FAS 31 as issued by AAOIFI on 1 January 2020, before its effective date of 1 January 2021.

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar) in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al- Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

The Group uses wakala structure to raises funds from interbank market and from customers, and these were reported as liabilities under placements from financial institutions and placements from non-financial institutions and customers, 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 mudaraba arrangement. This comingled pool of funds is invested in a common pool of assets of in the manner which the Group deems appropriate without laying down restrictions as to where, how and 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 accountholders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment accountholders.

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. However as the comingled pool arrangement has been in existence for all years , the Bank decided to apply the standard retrospectively, thereby reclassifying all transactions outstanding as of the year end and the corresponding previous year end. The adoption of this standard has resulted in change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 19).

ii. FAS 33 Investment in sukuks, shares and similar instruments

The Group has early adopted FAS 33 as issued by AAOIFI on 1 January 2020, before its effective date of 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.

2 ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED AND EFFECTIVE (continued)

The standard classifies investments into equity type, debt-type and other investment instruments. Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

Investments in equity instruments must be at fair value and those classified as fair value through equity will be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The standard has been adopted effective 1 January 2020 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 years, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, except for remeasurement of certain assets from amortised cost to its fair value, the adoption of FAS 33 had no significant impact on any amounts previously reported in the consolidated financial statement for the year ended 31 December 2019 and the annual audited 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 current year and impact of change in reclassification.

1) Changes in accounting policies

Categorization and classification

FAS 33 contains 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 investment in:

(a) equity-type instruments;

(b) debt-type instruments, including:

(i) monetary debt-type instruments; and

(ii) non-monetary debt-type instruments; and

(c) 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 (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

I. the Bank's business model for managing the investments; and

II. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

2 ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED AND EFFECTIVE (continued)

2) 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:

1 Jan 2020	*Original classification under FAS 25*	*New classification under FAS 33*	*Original carrying amount under FAS 25*	*New carrying amount under FAS 33*	*Difference recognized in investment fair value reserve*
			BD '000	*BD '000*	*BD '000*
Sovereign Sukuk	Amortised cost	FVTE	335,382	339,737	4,355
Corporate Sukuk	Amortised cost	FVTE	21,703	21,984	281

1 Jan 2019	*Original classification under FAS 25*	*New classification under FAS 33*	*Original carrying amount under FAS 25*	*New carrying amount under FAS 33*	*Difference recognized in retained earnings*
			BD '000	*BD '000*	*BD '000*
Sovereign Sukuk	Amortised cost	FVTE	348,273	344,425	(3,848)
Corporate Sukuk	Amortised cost	FVTE	9,173	9,390	217

2.7 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

(i) 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 into 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 years beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of this standard.

(ii) FAS 34 Financial reporting for Sukuk-holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders.

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

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

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

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

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

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

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

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2020			
	At fair value through profit or loss BD '000	***At fair value through equity BD '000***	***At amortised cost / others BD '000***	***Total BD '000***
ASSETS				
Cash and balances with banks and Central Bank	**-**	**-**	**288,266**	**288,266**
Sovereign Sukuk	**-**	**393,108**	**-**	**393,108**
Placements with financial institutions	**-**	**-**	**37,965**	**37,965**
Corporate Sukuk	**-**	**16,395**	**-**	**16,395**
Financing assets	**-**	**-**	**814,449**	**814,449**
Finance lease assets	**-**	**-**	**469,363**	**469,363**
Non-trading investments	**97,684**	**350**	**-**	**98,034**
Investment properties	**-**	**67,586**	**-**	**67,586**
Development properties	**-**	**-**	**2,943**	**2,943**
Investment in associates	**-**	**-**	**12,036**	**12,036**
Other assets	**-**	**900**	**34,337**	**35,237**
Goodwill	**-**	**-**	**25,971**	**25,971**
	97,684	**478,339**	**1,685,330**	**2,261,353**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	**-**	**-**	**116,883**	**116,883**
Customers' current accounts	**-**	**-**	**363,970**	**363,970**
Murabaha term financing	**-**	**-**	**221,671**	**221,671**
Other liabilities	**-**	**-**	**52,282**	**52,282**
Equity of investment accountholders	**-**	**-**	**1,225,380**	**1,225,380**
	-	**-**	**1,980,186**	**1,980,186**

	2019			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	219,456	219,456
Sovereign Sukuk	-	345,305	-	345,305
Placements with financial institutions	-	-	114,803	114,803
Corporate Sukuk	-	22,162	-	22,162
Financing assets	-	-	685,756	685,756
Finance lease assets	-	-	389,742	389,742
Non-trading investments	107,438	1,553	-	108,991
Investment properties	-	72,774	-	72,774
Development properties	-	-	2,943	2,943
Investment in associates	-	-	10,640	10,640
Other assets	-	964	43,296	44,260
Goodwill	-	-	25,971	25,971
	107,438	442,758	1,492,607	2,042,803
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	211,459	211,459
Customers' current accounts	-	-	289,456	289,456
Murabaha term financing	-	-	145,590	145,590
Other liabilities	-	-	41,481	41,481
Equity of investment accountholders	-	-	1,034,743	1,034,743
	-	-	1,722,729	1,722,729

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2020	*2019*
	BD '000	*BD '000*
Mandatory reserve with Central Bank*	**24,848**	34,942
Cash and other balances with Central Bank	**82,286**	83,500
Balances with other banks**	**181,132**	101,014
	288,266	219,456

* This balance is not available for use in the day-to-day operations of the Group.
** This balance is net of BD 76 thousands (2019: BD 93 thousands) amount of allowance for credit losses.

5 SOVEREIGN SUKUK

This includes BD 271,361 thousands (2019 BD 181,549 thousands) of sukuk which are pledged against Murabaha term financing of BD 221,671 thousands (2019: BD 128,625 thousands).

6 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements to and from financial institution in the form of Murabaha and Wakala contracts.

	2020	*2019*
	BD '000	*BD '000*
Placements with financial institutions		
Wakala asset	**27,432**	56,254
Commodity Murabaha asset	**10,674**	58,648
Allowance for credit losses	**(141)**	(99)
	37,965	114,803
Placements from financial institutions		
Commodity Murabaha liability	**116,883**	211,459
	116,883	211,459

7 CORPORATE SUKUK

	2020	*2019*
	BD '000	*BD '000*
Investment grade (AAA - BBB+)	**3,980**	1,530
Non-investment grade (< BBB-)	**-**	7,424
Un-rated Sukuk	**12,446**	13,214
Allowance for credit losses	**(31)**	(6)
	16,395	22,162

Corporate sukuk portfolio include BD 3,977 thousands (2019: BD 8,509 thousands) of sukuk which are pledged against Murabaha term financing of BD 221,671 thousands (2019: BD 128,625 thousands).

8 FINANCING ASSETS

	2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Murabaha financing	**346,904**	**10,375**	**43,913**	**401,192**
Mudaraba financing	**375,803**	**29,782**	**4,852**	**410,437**
Musharaka financing	**32,262**	**65**	**278**	**32,605**
Credit cards	**2,749**	**157**	**566**	**3,472**
Total financing assets	**757,718**	**40,379**	**49,609**	**847,706**
Allowance for credit losses (note 10)	**(10,184)**	**(5,499)**	**(17,574)**	**(33,257)**
	747,534	**34,880**	**32,035**	**814,449**

8 FINANCING ASSETS (continued)

	2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Murabaha financing	241,026	20,128	31,965	293,119
Mudaraba financing	340,567	32,127	7,323	380,017
Musharaka financing	30,407	64	421	30,892
Credit cards	3,015	168	639	3,822
Total financing assets	615,015	52,487	40,348	707,850
Allowance for credit losses (note 10)	(5,180)	(7,118)	(9,796)	(22,094)
	609,835	45,369	30,552	685,756

9 FINANCE LEASE ASSETS

This represents net investment in assets leased (land and buildings) under a finance lease arrangement with customers of the Bank. Lease documentations states that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all the obligations under the lease agreement.

	2020	*2019*
	BD '000	*BD '000*
Finance lease assets	**476,137**	394,184
Allowance for impairment	**(6,774)**	(4,442)
	469,363	389,742

Movements in finance lease assets are as follows:

	2020	*2019*
	BD '000	*BD '000*
At 1 January	**389,742**	256,892
Additions during the year - net	**141,285**	99,886
Finance lease assets depreciation	**(40,994)**	(33,169)
Allowance for impairment during the year, net	**(2,332)**	2,039
Settlements/adjustments during the year	**(18,338)**	64,094
At 31 December	**469,363**	389,742

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	2020	*2019*
	BD '000	*BD '000*
Due within one year	**59,939**	60,690
Due in one to five years	**154,565**	119,062
Due after five years	**254,859**	209,990
	469,363	389,742

The accumulated depreciation on finance lease assets amounted to BD 54,988 thousands (2019: BD 95,982 thousands).

	2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Finance lease assets	**445,656**	**20,594**	**9,887**	**476,137**
Allowance for impairment (note 10)	**(3,355)**	**(350)**	**(3,069)**	**(6,774)**
	442,301	**20,244**	**6,818**	**469,363**

9 FINANCE LEASE ASSETS (continued)

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Finance lease assets	322,987	58,296	12,901	394,184
Allowance for impairment (note 10)	(1,444)	(169)	(2,829)	(4,442)
	321,543	58,127	10,072	389,742

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at the beginning of the year	**7,191**	**7,295**	**19,042**	**33,528**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	**1,464**	**(1,128)**	**(336)**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(317)**	**810**	**(493)**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**(49)**	**(1,815)**	**1,864**	**-**
Net remeasurement of loss allowance	**6,257**	**935**	**10,439**	**17,631**
Recoveries / write-backs	**-**	**(62)**	**(433)**	**(495)**
Allowance for credit losses	**7,355**	**(1,260)**	**11,041**	**17,136**
Exchange adjustments and other movements	**-**	**-**	**(125)**	**(125)**
Amounts charged off during the year	**-**	**-**	**(3,239)**	**(3,239)**
Balance at the end of the year	**14,546**	**6,035**	**26,719**	**47,300**

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Cash and balances with banks and Central Bank	**76**	**-**	**-**	**76**
Sovereign Sukuk	**248**	**-**	**-**	**248**
Placements with financial institutions	**141**	**-**	**-**	**141**
Corporate Sukuk	**31**	**-**	**-**	**31**
Financing assets	**10,184**	**5,499**	**17,574**	**33,257**
Finance lease assets	**3,355**	**350**	**3,069**	**6,774**
Loans and advances to customers				
- Assets under conversion (note 15)	**17**	**145**	**3,602**	**3,764**
Other receivables	**45**	**-**	**2,181**	**2,226**
Financing commitments and financial guarantee contracts	**449**	**41**	**293**	**783**
	14,546	**6,035**	**26,719**	**47,300**

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Balance at the beginning of the year	5,593	5,385	29,746	40,724
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,042	(667)	(375)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(754)	2,812	(2,058)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(29)	(580)	609	-
Net remeasurement of loss allowance	1,811	644	3,440	5,895
Recoveries / write-backs	(472)	(299)	(2,593)	(3,364)
Allowance for credit losses	1,598	1,910	(977)	2,531
Exchange adjustments and other movements	-	-	(214)	(214)
Amounts charged off during the year	-	-	(9,620)	(9,620)
Elimination on consolidation	-	-	107	107
Balance at the end of the year	7,191	7,295	19,042	33,528

	2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Cash and balances with banks and Central Bank	93	-	-	93
Sovereign Sukuk	24	-	-	24
Placements with financial institutions	99	-	-	99
Corporate Sukuk	3	3	-	6
Financing assets	5,180	7,118	9,796	22,094
Finance lease assets	1,444	169	2,829	4,442
Loans and advances to customers				
- Assets under conversion	80	-	4,008	4,088
- Other receivables	45	-	2,182	2,227
Financing commitments and financial	223	5	227	455
	7,191	7,295	19,042	33,528

10.1 Movements in impairment allowances for equity investments and others

	2020	*2019*
	BD '000	*BD '000*
Balance at the beginning of the year	**3,209**	3,130
Impairment during the year	**1,141**	79
Balance at the end of the year	**4,350**	3,209

11 NON-TRADING INVESTMENTS

	2020	*2019*
	BD '000	*BD '000*
At fair value through profit or loss:		
Equity securities	**90,209**	97,380
Funds	**7,475**	10,058
At fair value through equity	**350**	1,553
Balance at the end of the year	**98,034**	108,991

11 NON-TRADING INVESTMENTS (continued)

The Group has 40% stake (2019: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), a company incorporated in Bahrain and engaged in the business of property development. The investment is being fair valued through profit or loss using the fair value scope exemption of FAS 24.As part of restructuring net assets of Manara will be novated to Bareeq.

For investments in hospitality sector, sensitivity analysis has been performed on occupancy rate and discount factor by increasing or decreasing it by 5% and 1% respectively. This will not have any major impact in the income statement. For other investments primarily with underlying real estate assets, any increase or decrease in value of properties by 5% will impact the income statement in either scenario by BD 4 million.

12 INVESTMENT PROPERTIES

	2020	*2019*
	BD '000	*BD '000*
Land	**64,466**	67,749
Buildings	**3,120**	5,025
	67,586	72,774

The movements in fair value of investment properties classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2020	*2019*
	BD '000	*BD '000*
At 1 January	**72,774**	74,261
Fair value changes through income statement	**(1,750)**	(1,239)
Fair value changes through equity	**(241)**	-
Additions during the year*	**902**	6,960
Disposals during the year	**(4,033)**	(7,034)
Others	**(66)**	(174)
At 31 December	**67,586**	72,774

* Additions of investment properties during the year resulted from the Bank obtaining possession of collateral held as securities against financing.

For sensitivity analysis of the investment properties, an increase or decrease of 5% in value of properties per square feet will impact income statement in either scenario by BD 750 thousands.

13 DEVELOPMENT PROPERTIES

Development properties represent properties acquired and held through investment vehicles exclusively for development and sale in the United Kingdom. The carrying amount include land price and related construction costs.

14 INVESTMENT IN ASSOCIATES

The Group has a 14.42% (2019: 14.42%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank exercises significant influence on ASBA.

The Group has a 20.94% (2019: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya on August 2006, licensed by the Central Bank of Kenya.

The Group’s interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA:

	2020	*2019*
	BD '000	*BD '000*
Associates' statement of financial position:		
Total assets	**463,738**	413,272
Total liabilities	**409,843**	353,299
Net assets	**53,895**	59,973

14 INVESTMENT IN ASSOCIATES (continued)

Total revenue	**21,960**	29,431
Total expenses	**13,208**	16,787
Net profit for the year	**8,752**	12,644
Group's share of associates' net profit	**1,823**	1,107

The following table illustrates summarised financial information of Group's investments in GAB:

	2020 ***BD '000***	*2019* *BD '000*
Associates' statement of financial position:		
Total assets	**129,946**	130,607
Total liabilities	**112,664**	113,372
Net assets	**17,282**	17,235
Total revenue	**9,867**	10,038
Total expenses	**8,586**	9,417
Net profit for the year	**1,281**	621
Group's share of associates' net profit	**130**	102

15 OTHER ASSETS

	2020 ***BD '000***	*2019* *BD '000*
Assets under conversion (a)		
Loans and advances to customers	**6,434**	7,181
Non-trading investments - fair value through equity (b)	**900**	964
Non-trading investments - debt	**8**	21
	7,342	8,166
Other receivables and advances	**24,635**	12,478
Prepayments	**1,299**	924
Premises and equipment	**1,961**	22,692
	35,237	44,260

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Income derived from these assets are transferred to charity payable and as such are not recognised in the consolidated financial statements. During the year under audit, Shari'a prohibited income amounting to BD 209 thousands have been transferred to charity payable, under "Accounts payable and accruals" of note 18.

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2020 ***BD '000***	*2019* *BD '000*
At 1 January	**964**	1,041
Additions during the year	**1**	2
Write down during the year	**(65)**	(79)
At 31 December	**900**	964

15 OTHER ASSETS (continued)

Loans and advances to customer - Assets under conversion

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Loans and advances to customers	**1,806**	**485**	**7,907**	**10,198**
Allowance for credit losses	**(17)**	**(145)**	**(3,602)**	**(3,764)**
	1,789	**340**	**4,305**	**6,434**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Loans and advances to customers	1,701	384	9,184	11,269
Allowance for credit losses	(80)	-	(4,008)	(4,088)
	1,621	384	5,176	7,181

16 GOODWILL

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousands (2019: BD 25,971 thousands) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors and adjusted to the requirements of IFRS extrapolated for three years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 14% is applied to the estimated cash flows.

The banks assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance to IAS 36 (‘impairment of non-financial assets'). As of 31 December 2020, there are no indication of impairment of the CGU associated with the goodwill.

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase of discount rate by 1% and a reduction of earnings by 0.5%, the recoverable amount of goodwill is greater than the carrying value in the sensitivity analysis and did not result in any impairment.

17 MURABAHA TERM FINANCING

These represent short-term to long-term financings with various financials institutions that are collateralised by corporate and sovereign sukuk of total carrying value BD 275,338 thousands (2019: BD 190,058 thousands).

18 OTHER LIABILITIES

	2020	*2019*
	BD '000	*BD '000*
Accounts payable and accruals (a)	**48,767**	28,692
Dividend payable	**1,139**	5,581
Project payables	**69**	60
Liabilities under conversion	**-**	5,229
End of service benefits and other employee related accruals	**1,524**	1,464
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**783**	455
	52,282	41,481

(a) This includes payable towards settlement of borrowing of subsidiary (refer note 20.2).

19 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders comprise:

	2020	*2019*
	BD '000	*BD '000*
Wakala from financial institutions	**264,784**	210,887
Wakala from customers	**714,465**	721,380
	979,249	932,267
Mudaraba from customers	**246,131**	102,476
	1,225,380	1,034,743

The Group utilizes the funds from EIAH to finance assets.
Asset in which EIAH funds are invested:

	2020	*2019*
	BD '000	*BD '000*
Asset		
Mandatory reserve with Central Bank	**24,848**	34,026
Cash and other balances with Central Bank	**82,286**	83,803
Placements with financial institutions	**38,106**	76,660
Financing assets	**757,718**	656,985
Finance lease assets	**322,422**	183,269
	1,225,380	1,034,743

Equity of investment accountholders' fund is commingled with Group's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and 85% is retained by the Group as Mudarib share. The Group did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 2.75% (2019: 3.02%).

20 SHARE CAPITAL

	2020	*2019*
	BD '000	*BD '000*
Authorised:		
2,500,000,000 ordinary shares (2019: 2,500,000,000 shares) of BD 0.100 each	**250,000**	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,304,497,853 (2019: 2,215,863,320)	**230,450**	221,586

Total number of treasury stock outstanding as of 31 December 2020 was 81,304,080 shares (2019: 72,694,133 shares).

20 SHARE CAPITAL (continued)

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding share as of 31 December 2020 is as follows:

Investor Name	Nationality	No. of Shares	% of the outstanding shares
Bank Muscat (S.A.O.G.)	Omani	339,598,596	14.74
First Energy Bank B.S.C Closed	Bahraini	144,651,042	6.28
Overseas Investment S.P.C.	Bahraini	138,611,666	6.01

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2020 is presented below:

Categories	No.of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	915,278,199	22,738	39.72
1% up to less than 5%	766,358,350	12	33.25
5% up to less than 10%	283,262,708	2	12.29
10% up to less than 20%	339,598,596	1	14.74
Total	**2,304,497,853**	**22,753**	**100**

20.1 Proposed appropriation

The Board of Directors proposed dividend of 5 fils per share or 5% (2019: 8 fils or 8%) of the paid up capital to be paid by issue of bonus shares (1 share for every 20 shares held). This amounts to BD 11,523 thousands (2019: 17,727 thousands).

20.2 Transactions with non-controlling interest

During the year, an indirect subsidiary of the Bank, ASB Biodiesel Hong Kong Limited ("ASBHK), with operations in Hongkong, went through a debt restructuring where the external senior lenders converted their debt to a new class of equity in ASB Biodiesel 1 being the sole shareholder of ASBHK. The Banks net equity investment in ASB Biodiesel 1 and financing due from ASBHK was already fully impaired in prior years, however, the Bank retained control through its ownership of management shares in ASB Biodiesel 1 and variability associated with its participation as a lender and equity holder. To manage the associated risks for the Bank, the Board of Directors approved purchase of the new class of equity from the non-controlling shareholders for USD 45 million.

The consideration paid in excess of the share of net asset of the NCI has been reflected as a change in attribution of equity between the parent and the NCI in the statement of changes in equity (against retained earnings) in line with the policy of treating transactions with NCI as transaction between equity holders of the group. Any exit proceed from sale of the underlying plant and operations would fully vest to the benefit of the Group. However, the current economic environment makes it difficult to attribute any significant value for these operations.

21 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and approval of the CBB.

22 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Group.

	2020	*2019*
Net profit attributable to Shareholders of the Bank (BD '000)	**9,142**	21,093
Weighted average number of shares (thousands)	**2,149,540**	2,164,037
Basic and diluted earnings per share (fils)	**4.3**	9.7

23 FINANCE INCOME

	2020 ***BD '000***	*2019* *BD '000*
Murabaha financing	**18,033**	14,866
Mudaraba financing	**27,960**	21,342
Finance lease income, net	**24,608**	18,585
Musharaka	**2,858**	1,713
Placements with financial institutions	**1,404**	3,206
	74,863	59,712

24 (LOSS) / INCOME FROM NON-TRADING INVESTMENTS

	2020 ***BD '000***	*2019* *BD '000*
(Loss) / gain on sale of investments	**(252)**	196
Fair value changes on investments	**(8,866)**	2,145
Dividend income	**154**	292
	(8,964)	2,633

25 LOSS FROM PROPERTIES

	2020 ***BD '000***	*2019* *BD '000*
Loss on sale of investment properties	**(75)**	(302)
Fair value loss on investment properties	**(1,750)**	(1,140)
	(1,825)	(1,442)

26 FEES AND COMMISSION, NET

	2020 ***BD '000***	*2019* *BD '000*
Transaction related fees and income	**2,843**	2,258
Arrangement fees	**1,959**	1,555
LC and LG commission	**867**	1,463
Credit and debit card income	**733**	974
Others	**1,004**	1,389
	7,406	7,639

27 OTHER INCOME

	2020	*2019*
	BD '000	*BD '000*
Recoveries from pre-acqusition provisions	**1,392**	2,491
Foreign exchange gains	**377**	299
Others	**1,896**	2,099
	3,665	4,889

28.1 STAFF COST

	2020	*2019*
	BD '000	*BD '000*
Salaries and short term benefits	**13,617**	14,169
Employees' social insurance expenses	**1,047**	1,156
Other staff expenses	**95**	69
	14,759	15,394

28.2 OTHER OPERATING EXPENSES

	2020	*2019*
	BD '000	*BD '000*
Business related expenses	**3,208**	3,163
Information Technology expenses	**1,783**	1,335
Professional expenses	**1,634**	1,591
Board of directors related expenes	**1,058**	1,019
Other expenses	**3,408**	3,417
	11,091	10,525

29 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 31 December 2020 and 31 December 2019 were as follows:

	2020				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Assets:					
Cash and balances with banks and Central Bank	-	**194**	**-**	-	**194**
Corporate Sukuk	-	-	**3,977**	**-**	**3,977**
Financing assets	**18,330**	**6,460**	**6,797**	**1,107**	**32,694**
Non trading investments	**79,715**	-	**1,574**	-	**81,289**
Investment in associates	**12,036**	-	-	-	**12,036**
Other assets	**7,996**	-	-	-	**7,996**
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	**23,455**	**-**	-	**23,455**
Customers' current accounts	**2,588**	**2,984**	**3,175**	**496**	**9,243**
Equity of investment accountholders	**9,286**	**31,672**	**59,367**	**2,041**	**102,366**
Other liabilities	**13**	**-**	**30**	**5**	**48**
Contingent liabilities and commitments	**9,117**	**119**	**101**	**-**	**9,337**

29 RELATED PARTY TRANSACTIONS (continued)

	2019				
	Associates, and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
Corporate Sukuk	-	-	4,799	-	4,799
Financing assets	10,057	2	17,256	1,159	28,474
Non-trading investments	88,814	-	2,187	-	91,001
Investment in associates	10,640	-	-	-	10,640
Other assets	2,938	-	-	-	2,938
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	92,894	-	-	92,894
Customers' current accounts	1,517	14,712	1,602	317	18,148
Equity of investment accountholders	943	12,921	14,693	2,279	30,836
Other liabilities	-	-	-	15	15
Contingent liabilities and commitments	-	553	101	-	654

Income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2020				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Income:					
Finance income	**1,070**	**89**	**313**	**18**	**1,490**
Income from sukuk	**-**	**-**	**123**	**-**	**123**
Loss from non-trading investments	**(8,989)**	-	**(612)**	-	**(9,601)**
Share of profit from associates	**1,953**	-	-	-	**1,953**
Expenses:					
Finance expense on placements from financial institutions	-	**1,858**	-	-	**1,858**
Share of profit on equity of investment accountholders	**86**	**125**	**1,313**	**61**	**1,585**
Other operating expenses	-	-	**1,058**	-	**1,058**

	2019				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Income:					
Finance income	696	37	1,130	18	1,881
Income from sukuk	-	-	127	-	127
Income from non-trading investments	1,911	-	(71)	-	1,840
Share of profit from associates	1,209	-	-	-	1,209
Expenses:					
Finance expense on placements from financial institutions	-	2,338	-	-	2,338
Finance expense on placements from customers	26	29	480	62	597
Share of profit on equity of investment accountholders	-	2	1	1	4
Other operating expenses	-	-	1,019	-	1,019

29 RELATED PARTY TRANSACTIONS (continued)

Board of Directors' remuneration for the year 2020 amounted to BD 670 thousands (2019: BD 787 thousands).

Sharia Supervisory Boards' remuneration for the year 2020 amounted to BD 28 thousands (2019: BD 72 thousands).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2020 includes salaries and other short-term benefits of BD 2,769 thousands (2019: BD 2,851 thousands).

30 CONTINGENT LIABILITIES AND COMMITMENTS

	2020	*2019*
	BD '000	*BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**34,575**	20,860
Letters of credit	**9,190**	9,223
Acceptances	**855**	808
	44,620	30,891
Irrevocable unutilised commitments		
Unutilised financing commitments	**55,051**	55,230
Unutilised non-funded commitments	**9,097**	9,396
	64,148	64,626

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2020	*2019*
	BD '000	*BD '000*
Within 1 year	**1,343**	1,238
After one year but not more than five years	**1,668**	746
	3,011	1,984

31 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions for general management of its balance sheet to manage its exposures to foreign currency risk. The fair values of these instruments at 31 December 2020 and 31 December 2019 were as follows:

	2020		*2019*	
	BD '000		*BD '000*	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
FX Wa'ad instruments				
USD long position	**9,797**	**9,966**	3,979	4,071
USD short position	**(27,191)**	**(25,349)**	(4,966)	(5,058)
EUR long position	**27,191**	**25,349**	-	-
EUR short position	**(6,027)**	**(6,195)**	-	-
BHD long position	**-**	**-**	987	987
BHD short position	**(3,770)**	**(3,771)**	-	-

32 RISK MANAGEMENT

32.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, information security risk and market risk. It is also subject to early settlement risk.

The Group's risk function is independent of lines of business and the Group Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Risk Committee

Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group's financial position in terms of ICAAP, Stress Testing, Step-in Risk, Structure, Distribution, Risk and Return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Operational Risk Committee

The Operational Risk Committee establishes the Bank's Operational Risk Policies which must be consistent with the corporate values and strategy of the Bank. The Committee shall be responsible for the design, implementation and supervision of the Operational Risk framework of the Bank.

Information Security Committee

Information Security Committee is an advisory committee appointed by the Management Executive Committee of the Bank to develop, review and execute a comprehensive Information Security Management System for the Bank. The Committee will regularly review the information security risk exposure of the Bank.

Audit and Risk Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors. The Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

32 RISK MANAGEMENT (continued)

32.1 Introduction (continued)

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems

The Group's risk management policies aim to identify, measure, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee, Risk Management Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise when a number of counterparties are engaged in similar business 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. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

32.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. 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 customer. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2020 BD '000	*Gross maximum exposure 2019 BD '000*
ASSETS		
Balances with other banks	**181,132**	101,014
Placements with financial institutions	**37,965**	114,803
Corporate Sukuk	**16,395**	22,162
Financing assets and finance lease assets	**1,283,812**	1,075,498
Non-trading investments-debt	**8**	21
Financing contracts under other assets	**6,434**	7,181
Total	**1,525,746**	1,320,679
Contingent liabilities and commitments	**107,985**	95,062
Total credit risk exposure	**1,633,731**	1,415,741

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Credit card receivables, Corporate Sukuk and finance lease contracts. Murabaha contracts cover financing of land, buildings, commodities, motor vehicles and others non-financial assets. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabalmal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good credit grade, 5 to 7 represents a satisfactory credit grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency (S&P, Moody's, Fitch & Capital Intelligence) are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

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

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential SICR on a qualitative basis.

Measurement of ECL

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 financial asset.

The key parameters into the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Definition of default

The Group considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the customer is past due more than 90 days on any credit obligation to the Group. In assessing whether a customer is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

PDs estimates are estimated at a certain date, which are calculated based on the Bank's default experience, and assessed using rating tools tailored to the segment of counterparties and exposures. These estimations are based on internally compiled data comprising both quantitative and qualitative factors. In case of lack of default history, market data may also be used to derive the PD for selected segment of counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs credit risk estimation models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time.

Incorporation of forward - looking information

The Group uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from the expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analyzing the portfolio and impact. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Incorporating forward-looking information requires continuous assessment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed yearly.

Loss Given Default

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, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

Exposure At Default

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 and forward-looking forecasts.

Significant Increase in Credit Risk

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

When determining whether the risk of default on financial contracts has increased significantly since initial recognition, 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 expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade 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 4 and 5.

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

During the year, in accordance with CBB instructions the Group has granted payment holidays to its eligible/impacted customers by deferring up to ten months instalments. These deferrals are considered as market-wide short-term liquidity relief to address borrower cash flow issues and not necessarily indicative of deterioration in credit risk. The Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk. However, the Group has made risk based assessments on the affected portfolio to determine a range of possible outcomes for its ECL determination process.

Management overlays are applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on 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 to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

The Group believes that the extension of payment holidays due to COVID-19 related concerssionary measures of CBB does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL.

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off year, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or the CCF considered for capital charge.

The Bank applies regulatory CCF as defined by the Central Bank of Bahrain.

Expected credit Losses

The economic uncertainties caused by COVID-19, and the volatility in oil prices impacting the Middle East economic forecasts have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 31 December 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

The following table summarizes the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs and highlights significant changes during the current year.

Key model inputs	Change in estimates
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Oil prices.
Probability weighted outcomes	Probability weights updated to increase weightage to downturn scenarios - Base 65, Stressed 25, Improved 10 (31 December 2019: 60:20:20)
Unfunded exposure	Increment in CCFs by 25% as compared to December 2019 to reflect change in draw down behavior of customers.
Loss Given Default	Unsecured LGD increased to 65% from 60% Collateral haircuts increased by 10% for secured exposures.

The Group has also stressed financing exposures with regards to specific industries which are expected to be most impacted due to Covid-19 and considered for ECL in its probability weighted scenarios. However, the staging of these exposures reported in the tables below reflect their account position on the reporting date. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to Covid-19.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Any changes made to ECL to estimate the overall impact of Covid-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different sectors, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**211,392**	-	-	**211,392**
Satisfactory (R5-R7)	**7,922**	-	-	**7,922**
Allowance for credit losses	**(217)**	-	-	**(217)**
	219,097	**-**	**-**	**219,097**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	216,009	-	-	216,009
Allowance for credit losses	(192)	-	-	(192)
	215,817	-	-	215,817

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**16,426**	-	-	**16,426**
Allowance for credit losses	**(31)**	-	-	**(31)**
	16,395	**-**	**-**	**16,395**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	14,603	3,410	-	18,013
Satisfactory (R5-R7)	4,155	-	-	4,155
Allowance for credit losses	(3)	(3)	-	(6)
	18,755	3,407	-	22,162

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

ii) Financing assets and receivable from finance lease assets

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**1,122,092**	**43,207**	**14,483**	**1,179,782**
Satisfactory (R5-R7)	**81,282**	**17,486**	**29,939**	**128,707**
Default (D8-D10)	**-**	**280**	**15,074**	**15,354**
Allowance for credit losses and impairment	**(13,539)**	**(5,849)**	**(20,643)**	**(40,031)**
	1,189,835	**55,124**	**38,853**	**1,283,812**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	888,814	83,893	1,931	974,638
Satisfactory (R5-R7)	49,188	26,890	32,036	108,114
Default (D8-D10)	-	-	19,282	19,282
Allowance for credit losses and impairment	(6,624)	(7,287)	(12,625)	(26,536)
	931,378	103,496	40,624	1,075,498

iii) Non trading investments - debt-type

	2020			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**8**	**-**	**-**	**8**
	8	**-**	**-**	**8**

	2019			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	21	-	-	21
	21	-	-	21

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

iv) Financial contracts under other assets

	2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**1,132**	**-**	**30**	**1,162**
Satisfactory (R5-R7)	**674**	**485**	**-**	**1,159**
Default (D8-D10)	**-**	**-**	**7,877**	**7,877**
Allowance for credit losses	**(17)**	**(145)**	**(3,602)**	**(3,764)**
	1,789	**340**	**4,305**	**6,434**

	2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Good (R1-R4)	1,254	32	110	1,396
Satisfactory (R5-R7)	447	352	38	837
Default (D8-D10)	-	-	9,036	9,036
Allowance for credit losses	(80)	-	(4,008)	(4,088)
	1,621	384	5,176	7,181

v) Financing commitments and financial guarantee contracts

	2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Good (R1-R4)	**89,774**	**1,985**	**-**	**91,759**
Satisfactory (R5-R7)	**11,201**	**3,437**	**-**	**14,638**
Default (D8-D10)	**-**	**-**	**2,371**	**2,371**
Allowance for credit losses	**(449)**	**(41)**	**(293)**	**(783)**
	100,526	**5,381**	**2,078**	**107,985**

	2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Good (R1-R4)	81,398	3,439	-	84,837
Satisfactory (R5-R7)	6,438	1,450	305	8,193
Default (D8-D10)	-	-	2,487	2,487
Allowance for credit losses	(228)	(5)	(222)	(455)
	87,608	4,884	2,570	95,062

32 RISK MANAGEMENT (continued)
32.2 Credit risk (continued)

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 30 except capital commitments.

During the year BD 46,896 thousands (2019: BD 66,940 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy
The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that he can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written off financing facilities amounting to BD 3,239 thousands (2019: BD 9,620 thousands) which were fully impaired.

Collateral held and other credit enhancements
The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	*Principal type of collateral held*	***2020*** ***BD '000***	*2019* *BD '000*
Financing assets to corporates	Cash, Property, Machinery, Shares and Sukuk	**858,600**	464,824
Financing assets to retail customers	Cash, Property, Shares and Sukuk	**624,881**	301,792

FTV ratio
Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2020 ***BD '000***	*2019* *BD '000*
Less than 50%	**743,349**	262,466
51-70%	**268,433**	7,690
71-90%	**256,249**	320,172
91-100%	**100,457**	69,664
More than 100%	**114,993**	106,624

Key drivers of credit risk and credit losses
Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as "counterparties"). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:
• Delayed fulfilment of a payment obligation
• Partial loss of the credit exposure
• Complete loss of the credit exposure

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

The various types of credit risk are defined as follows:
- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

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 included the key indicators for Bahrain such as the oil price, net lending , population, GDP growth and government expenditure.

32.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2020, legal suits amounting to BD 2,379 thousands (2019: BD 385 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

32.4 Operational risk management

In response to COVID 19 outbreak, there were various changes in the working model, interaction with customers, 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 potential risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has also enhanced its monitoring processes to identify operational risks in the revised working pattern.

The BCP was thoroughly tested during this year, as the Bank implemented measures like working from the BCP Site and from home. These measures were implemented in time and performed satisfactorily. The work from home set-up was thoroughly reviewed prior to its commissioning to ensure that the information security risks associated with it are thoroughly addressed and mitigated.

As of 31 December 2020, the Group did not have any significant issues relating to operational risks.

33 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business 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. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

33 CONCENTRATIONS (continued)

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2020			2019		
	Assets	**Liabilities and equity of investment account holders**	**Contingent liabilities and Commitments**	Assets	Liabilities, and equity of investment account holders	Contingent liabilities and Commitments
	BD '000	**BD '000**	**BD '000**	BD '000	BD '000	BD '000
Geographic region						
GCC	**2,104,951**	**1,720,695**	**101,105**	1,864,096	1,500,645	88,895
Arab World	**30,578**	**82,175**	**6,920**	19,781	82,865	5,857
Europe	**31,482**	**105,984**	**-**	69,832	72,015	25
Asia Pacific	**12,194**	**44,059**	**743**	24,638	45,544	740
North America	**61,608**	**3,449**	**-**	40,944	3,631	-
Others	**20,540**	**23,824**	**-**	23,512	18,029	-
	2,261,353	**1,980,186**	**108,768**	2,042,803	1,722,729	95,517

	2020			2019		
	Assets	**Liabilities and equity of investment account holders**	**Contingent liabilities and Commitments**	Assets	Liabilities, and equity of investment account holders	Contingent liabilities and Commitments
	BD '000	**BD '000**	**BD '000**	BD '000	BD '000	BD '000
Industry sector						
Government and public sector	**513,933**	**165,716**	**1,015**	424,960	168,098	2,977
Banks and financial institutions	**535,514**	**663,899**	**18,510**	516,566	642,339	8,136
Real estate	**360,618**	**157,207**	**20,257**	345,064	97,693	7,535
Trading and manufacturing	**268,417**	**282,882**	**53,487**	299,079	257,794	66,834
Aviation	**-**	**-**	**-**	1,203	-	-
Individuals	**506,080**	**570,893**	**7,501**	383,164	441,606	5,376
Others	**76,791**	**139,589**	**7,998**	72,767	115,199	4,659
	2,261,353	**1,980,186**	**108,768**	2,042,803	1,722,729	95,517

34 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

34.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

34 MARKET RISK (continued)

34.1 Equity price risk (continued)

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2020			
	10% increase		***10% decrease***	
	Effect on net profit BD '000	***Effect on equity BD '000***	***Effect on net profit BD '000***	***Effect on equity BD '000***
Quoted:	**416**	**-**	**(416)**	**-**
Unquoted	**9,352**	**125**	**(9,352)**	**(125)**

	2019			
	10% increase		*10% decrease*	
	Effect on net profit BD '000	*Effect on equity BD '000*	*Effect on net profit BD '000*	*Effect on equity BD '000*
Quoted:	358	-	(358)	-
Unquoted	10,386	252	(10,386)	(252)

34.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2020			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
Bahraini dinars	**0.10**	**447**	**(0.10)**	**(447)**
US dollars	**0.10**	**242**	**(0.10)**	**242**

	2019			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	0.10	311	(0.10)	(311)
US dollars	0.10	341	(0.10)	(341)

34 MARKET RISK (continued)

34.2 Profit return risk (continued)

Profit rate benchmark reform (PBOR)

LIBOR is a benchmark rate at which banks estimate they can finance money to other banks on an unsecured basis. LIBOR was published for five different currencies and for seven different maturities. After 2021 it will not be mandatory for banks to publish LIBOR as per the Financial Conduct Authority, regulator of LIBOR. Alternatively, a Secured overnight funding rate (SOFR) will be published which will be a risk free rate and the profit rate for various currencies will be reviewed by the respective currencies regulators. The Group has contracts which are at variable profit rates based on LIBOR. The Group is still in the process of assessing the impact of transition to the risk free rate for its financing portfolio.

34.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a yearly basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2020 and 2019.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	Long (short) 2020 BD '000	*Long (short) 2019 BD '000*
Sterling Pounds	**4,051**	4,427
Kenyan Shilings	**109**	2,115
Euro	**(10,496)**	(2,499)
Others	**(3,445)**	294

Standard scenarios that are considered include a 10% increase or decrease 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:

	Change in currency rate %	***Effect on profit 2020 BD '000***	*Change in currency rate %*	*Effect on profit 2019 BD '000*
Sterling Pounds	**10**	**405**	10	443
Kenyan Shilings	**10**	**11**	10	212
Euro	**10**	**(1,050)**	10	(250)
Others	**10**	**(345)**	10	29
Total		**(979)**		434

35 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2020 is 141.56% and the simple average of the daily consolidated LCRs of the last three months is 126.41%. The NSFR as at 31 December 2020 is 99.96%.

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures provided for a year of six months with effect from March 2020 that has an impact on the liquidity risk of the Group:

- Payment holiday for principal and profit for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent, amount at the discretion of CBB;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%;

The maturity profile of sovereign and corporate sukuk, placements with or from financial institutions, financing assets, finance lease assets and murabaha term financing has been presented using the contractual maturity year. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

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 years. 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 in Note 44 to the consolidated financial statement.

	2020				
	Up to 3 months BD '000	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
ASSETS					
Cash and balances with banks and Central Bank	**288,266**	**-**	**-**	**-**	**288,266**
Sovereign Sukuk	**18,035**	**39,157**	**268,005**	**67,911**	**393,108**
Placements with financial institutions	**32,670**	**5,295**	**-**	**-**	**37,965**
Corporate Sukuk	**1,285**	**8,974**	**6,136**	**-**	**16,395**
Financing assets	**119,917**	**185,121**	**398,566**	**110,845**	**814,449**
Finance lease assets	**31,293**	**28,646**	**154,565**	**254,859**	**469,363**
Non-trading investments	**-**	**-**	**-**	**98,034**	**98,034**
Investment properties	**-**	**-**	**-**	**67,586**	**67,586**
Development properties	**-**	**-**	**-**	**2,943**	**2,943**
Investment in associates	**-**	**-**	**-**	**12,036**	**12,036**
Other assets	**12,032**	**397**	**1,166**	**21,642**	**35,237**
Goodwill	**-**	**-**	**-**	**25,971**	**25,971**
	503,498	**267,590**	**828,438**	**661,827**	**2,261,353**

35 LIQUIDITY RISK (continued)

LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

Placements from financial institutions	**59,283**	**57,298**	**302**	**-**	**116,883**
Customers' current accounts	**363,970**	**-**	**-**	**-**	**363,970**
Murabaha term financing	**137,461**	**66,752**	**2,211**	**15,247**	**221,671**
Other liabilities	**41,404**	**68**	**4,673**	**6,137**	**52,282**
Equity of investment accountholders	**734,904**	**407,881**	**82,272**	**323**	**1,225,380**
	1,337,022	**531,999**	**89,458**	**21,707**	**1,980,186**

	2019				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and Central Bank	219,456	-	-	-	219,456
Sovereign Sukuk	5,162	20,574	165,233	154,336	345,305
Placements with financial institutions	113,534	1,269	-	-	114,803
Corporate Sukuk	10,893	3,982	7,287	-	22,162
Financing assets	53,724	192,604	337,739	101,689	685,756
Finance lease assets	41,145	19,545	119,062	209,990	389,742
Non-trading investments	-	-	108,991	-	108,991
Investment properties	-	-	72,774	-	72,774
Development properties	-	-	2,943	-	2,943
Investment in associates	-	-	10,640	-	10,640
Other assets	13,500	2,480	1,562	26,718	44,260
Goodwill	-	-	-	25,971	25,971
	457,414	240,454	826,231	518,704	2,042,803
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	147,155	64,304	-	-	211,459
Customers' current accounts	289,456	-	-	-	289,456
Murabaha term financing	52,615	43,886	33,842	15,247	145,590
Other liabilities	10,936	15,014	9,805	5,726	41,481
Equity of investment accountholders	534,201	414,460	86,082	-	1,034,743
	1,034,363	537,664	129,729	20,973	1,722,729

35 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted payment obligation:

	2020					
	On demand BD '000	***Up to 3 months BD '000***	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	**-**	**59,512**	**58,207**	**327**	**-**	**118,046**
Customers' current accounts	**363,970**	**-**	**-**	**-**	**-**	**363,970**
Equity of investment accountholders	**246,131**	**489,823**	**416,664**	**88,801**	**428**	**1,241,847**
Murabaha term financing	**-**	**139,085**	**68,223**	**3,733**	**15,761**	**226,802**
Contingent liabilities and commitments	**-**	**26,959**	**45,616**	**18,003**	**21,201**	**111,779**
Other financial liabilities	**12,353**	**16,965**	**-**	**-**	**-**	**29,318**
	622,454	**732,344**	**588,710**	**110,864**	**37,390**	**2,091,762**

	2019					
	On demand BD '000	*Up to 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	147,729	65,850	-	-	213,579
Customers' current accounts	289,456	-	-	-	-	289,456
Murabaha term financing	-	53,020	44,983	36,409	16,103	150,515
Equity of investment accountholders	102,476	432,716	422,962	92,047	-	1,050,201
Contingent liabilities and commitments	-	49,146	41,414	6,928	13	97,501
Other financial liabilities	16,982	-	-	-	-	16,982
	408,914	682,611	575,209	135,384	16,116	1,818,234

36 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	2020				
	Banking ***BD '000***	***Treasury*** ***BD '000***	***Investments*** ***BD '000***	***Unallocated*** ***BD '000***	***Total*** ***BD '000***
Net income	**50,557**	**12,439**	**(5,576)**	**-**	**57,420**
Segment result	**7,369**	**9,477**	**(7,728)**	**-**	**9,118**
Segment assets	**1,314,749**	**751,880**	**192,012**	**2,712**	**2,261,353**
Segment liabilities, and equity	**1,311,031**	**660,947**	**7,469**	**281,906**	**2,261,353**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	2019				
	Banking *BD '000*	*Treasury* *BD '000*	*Investments* *BD '000*	*Unallocated* *BD '000*	*Total* *BD '000*
Net income	37,522	13,435	2,570	-	53,527
Segment result	13,750	8,847	(1,467)	-	21,130
Segment assets	1,111,107	727,260	201,962	2,474	2,042,803
Segment liabilities, and equity	1,098,663	622,810	1,256	320,074	2,042,803

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

37 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 158,458 thousands (2019: BD 162,077 thousands). These assets are held in a fiduciary capacity, measured at initial subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transations as per terms and instructions from their customers.

38 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently issue annual report on Bank's compliance following the review of the financial statements.

39 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 209 thousands (2019: BD 399 thousands). These include income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions after deducting actual recovery expenses of these funds.

40 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 920 thousands (2019: 395 thousands) out of which BD 745 thousands (2019: BD 204 thousands) was paid from Sharia prohibited income pool.

41 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2020 has been determined by the Shari'a supervisory board as 2.3 fils (2019: 2.3 fils) per share. Under FAS 9, Zakah payble for the year ended 2020 was calculated at 2.32% of the Zakah base of BD 187,369 thousands (2019: BD 194,116 thousands) which was determined on the Net Invested Funds method.

42 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the consolidated statement of financial position:

31 December 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Sovereign Sukuk	**67,704**	**325,404**	**-**	**393,108**
Corporate Sukuk	**1,866**	**3,978**	**10,551**	**16,395**
Financial assets at fair value through profit or loss	**4,162**	**3,313**	**90,209**	**97,684**
Financial assets at fair value through equity	**-**	**-**	**350**	**350**
	73,732	**332,695**	**101,110**	**507,537**

31 December 2019 (Restated)	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Sovereign Sukuk	200,951	144,354	-	345,305
Corporate Sukuk	10,842	-	11,320	22,162
Financial assets at fair value through profit or loss	3,578	6,480	97,380	107,438
Financial assets at fair value through equity	-	-	1,553	1,553
	215,371	150,834	110,253	476,458

1 January 2019 (Restated)	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Sovereign Sukuk	355,026	-	-	355,026
Corporate Sukuk	9,459	-	-	9,459
	364,485	-	-	364,485

During the current year, due to changes in market conditions for certain investment securities, quoted prices in active markets and adequate trading volumes were no longer available for these securities at or closer to the measurement date. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities, with a carrying amount of BD 176 million, were transferred from Level 1 to Level 2 of the fair value hierarchy.

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	31 December 2020	*31 December 2019*
	BD '000	*BD '000*
At 1 January	**98,933**	98,650
Fair value changes	**(10,434)**	(2,008)
Repayments during the year	**(231)**	(294)
Additions during the year	**2,291**	2,585
At end of the year	**90,559**	98,933

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	31 December 2020	*31 December 2019*
	BD '000	*BD '000*
At 1 January	**11,320**	**-**
Additions during the year	**13,411**	11,320
Fair value changes	**(3,426)**	**-**
Disposals during the year	**(10,754)**	**-**
	10,551	11,320

42 FAIR VALUE HIERARCHY (continued)

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2020 and 31 December 2019 due to their short term nature.

43 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Bank are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A yearly contribution as mandated by the CBB is paid by the Bank under this scheme.

44 REGULATORY RATIOS

1) Liquidity Coverage Ratio (LCR)

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 year. 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. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 31 December 2020 and 31 December 2019, is as follows:

	Total weighted value BD'000	
	31 December 2020	31 December 2019
Stock of HQLA	**195,494**	267,049
Net cashflows	**157,730**	122,135
LCR %	**126.41%**	230.14%
Minimum required by CBB	**80%**	100%

2) Capital Adequacy Ratio

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

44 REGULATORY RATIOS (continued)

2) Capital Adequacy Ratio (continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	As at	
BD'000	**31 December 2020**	31 December 2019
CET 1 Capital before regulatory adjustments	**277,655**	291,230
Less: regulatory adjustments	**25,971**	25,971
CET 1 Capital after regulatory adjustments	**251,684**	265,259
AT 1 Capital	**26**	17
T 2 Capital adjustments	**35,745**	15,533
Regulatory Capital	**287,455**	304,421
Risk weighted exposure:		
Credit Risk Weighted Assets	**988,982**	1,329,714
Market Risk Weighted Assets	**250**	3,108
Operational Risk Weighted Assets	**97,200**	100,785
Total Regulatory Risk Weighted Assets	**1,086,432**	1,433,607
Total Adjusted Risk Weighted Exposures	**1,086,432**	1,433,607
Capital Adequacy Ratio	**26.46%**	21.23%
Tier 1 Capital Adequacy Ratio	**23.17%**	18.50%
Minimum required by CBB	**12.50%**	12.50%

As of 31 December 2020, aggregate of modification loss of BD 24,768 thousands has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for two years ending 31 December 2020 and 31 December 2021, thereafter this amount will be proportionately deducted from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

3) Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon.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.

The Net Stable Ratio ("NSFR") is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit has been reduced to 80% until December 2021, to contain the financial repercussions of COVID-19.

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	**255,056**	**-**	**-**	**35,745**	**290,801**
Retail deposits and deposits from small business customers:					
Less stable deposits	**-**	**442,336**	**125,503**	**66,951**	**578,006**
Wholesale funding:					
Other wholesale funding	**-**	**1,032,384**	**189,353**	**58,126**	**374,683**
Other liabilities:					
All other liabilities not included in the above categories	**-**	**64,101**	**-**	**-**	**-**
Total ASF	**255,056**	**1,538,821**	**314,856**	**160,822**	**1,243,490**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	**-**	**-**	**-**	**-**	**17,604**
Deposits held at other financial					
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	**-**	**245,585**	**416**	**4,911**	**41,956**
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	**-**	**225,592**	**133,368**	**740,303**	**775,213**
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	**-**	**-**	**-**	**167,627**	**108,958**
Performing residential mortgages, of which:	**-**	**-**	**-**	**131,367**	**85,388**
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	**-**	**-**	**-**	**131,367**	**85,388**
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	**-**	**7,386**	**6,567**	**780**	**7,640**
Other assets:					
All other assets not included in the above categories	**292,513**	**3,980**	**-**	**24,007**	**308,941**
OBS items	**-**	**145,464**	**-**	**-**	**7,273**
Total RSF	**292,513**	**628,007**	**140,351**	**901,368**	**1,244,015**
NSFR (%)	**-**	**-**	**-**	**-**	**99.96%**

44 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (continued)

The NSFR (as a percentage) as at 31 December 2019 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	291,239	-	-	38,995	330,234
Retail deposits and deposits from small business customers:					
Less stable deposits	-	383,983	107,506	59,104	501,444
Wholesale funding:					
Other wholesale funding	-	872,778	138,161	96,385	405,825
Other liabilities:					
All other liabilities not included in the above categories	-	44,451	-	-	-
Total ASF	291,239	1,301,212	245,667	194,484	1,237,503
Required Stable Funding (RSF):					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	221,009	3,161	5,918	40,650
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	177,553	134,751	714,111	732,316
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	154,150	100,197
Performing residential mortgages, of which:	-	-	-	8,305	5,398
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	8,305	5,398
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	5,073	-	942	3,337
Other assets:					
All other assets not included in the above categories	284,141	9,282	-	80,342	369,124
OBS items	-	100,483	-	-	5,024
Total RSF	284,141	508,327	137,912	808,676	1,152,512
NSFR (%)	-	-	-	-	105.8%

45 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation and restated on adoption of FAS 31 and FAS 33 (refer note 2.6). Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

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

In line with the Central Bank of Bahrain ("CBB") directions per circular OG/259/2020 of 14 July 2020 that aims to maintain transparency amidst the current financial implications of Coronavirus (COVID-19) outbreak, the Bank has provided additional supplementary information on the impact of COVID 19 on its financial statements and the results of its operations.

On 11 March 2020, the COVID-19 outbreak was declared as a pandemic by the World Health Organization ("WHO") and has rapidly evolved globally. This has resulted in an economic slowdown with uncertainties in the economic environment across the globe. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities all over the world have taken various steps to contain the spread of COVID-19 including implementation of travel restrictions as well as lockdown and quarantine measures. The pandemic as well as the resulting measures have had a significant knock-on impact on Al Salam Bank and its principal subsidiaries (collectively the "Group") and its associates. 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 CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements. These measures included the following:

· Payment holiday of 6 months to eligible and approved customers.

· Concessionary repo to eligible banks at zero percent.

· Reduction of cash reserve ratio from 5% to 3%.

· Reduction of liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") from 100% to 80%.

· Capital relief by allowing the aggregate of modification loss and incremental expected credit losses ("ECL") from March to December 2020 to be added back to Tier 1 capital for the two financial years ending 31 December 2020 and 31 December 2021 and deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforesaid measures have resulted in the following effects on the Group:

· The CBB mandated 6-month payment holidays requires impacted banks to recognize a one off modification loss directly in equity. The modification loss has been calculated as 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 the modification.

· The mandated 6 month payments holiday included the requirement to suspend minimum payments, service fees and outstanding credit card balances. In addition, COVID-19 also resulted in lower transaction volumes and related fees. This resulted in a significant decline in the Group's fee income.

· The Government of the Kingdom of Bahrain have announced various economic stimulus program ("packages") to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges as well as zero cost funding received from the Government and/or the regulators in response to its COVID-19 support measures. This has been recognized directly in the Group's equity as per the instructions of the CBB.

· The Group also maintained a lower cash reserve due to reduction in cash reserve ratio to 3%.

· Due to the stressed liquidity scenario in the market, the Bank also had to incur higher funding costs for sourcing new deposits and foreign exchange.

· During the year ended 31 December 2020, growth rate of financing assets booked were 19% higher than previous year. In addition, the stressed economic situation resulted in an incremental ECL provision on its exposures during the year of 2020. Decreased consumer spending caused by the economic slowdown resulted in increase in balances on demand held by the Group.

· The Group continues to meet the regulatory requirement of capital adequacy ratio ("CAR"), LCR and NSFR. The consolidated CAR, LCR and NSFR as at 31 December 2020 stands at 26.46%, 141.56%, 99.96% respectively.

The CBB subsequently announced second and third deferrals of instalments of financing effective September 2020 for a period of four months, and January 2021 for a period of six months. These deferments allowed the Banks to charge profit, and as such, did not result in any additional modification losses to the Group.

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 year, the Bank achieved a net profit of BD 9.12 million, which is lower than BD 21.13 million of the previous year, registering a drop of 57%.

A summary of the financial impact of the above effects is as follows:

	Net impact on the Group		
Amounts in BD '000	**Consolidated Income statement**	**Consolidated financial position**	**Consolidated Owners equity**
Modification loss	-	-	(24,768)
Modification loss amortization	24,768	24,768	-
Lower Credit card fee	(282)	-	-
Government grants	-	-	2,143
Concessionary repo @ 0%	-	121,613	-
Average reduction of cash reserve	-	172,143	-
Stressed liquidity	(371)	-	-
ECL attributable to COVID -19	(6,630)	(6,630)	-

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

The information provided in this supplementary disclosure should not be considered as an indication for the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above assessment is as at the date of preparation of this information and only considers significant areas of impact. Circumstances may change which will result in this information being 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 audit by external auditors.